SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1996

OR

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

Commission file number 1-11840

THE ALLSTATE CORPORATION
(Exact name of registrant as specified in its charter)

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

2775 Sanders Road, Northbrook, Illinois 60062
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share (the "Common Stock")	New York Stock Exchange Chicago Stock Exchange
6.76% Exchangeable Notes Due April 15, 1998	New York Stock Exchange
7.95% Cumulative Quarterly Income Preferred Securities, Series A (issued by a wholly-owned trust of the Registrant)	New York Stock Exchange

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

On January 31, 1997, Registrant had 440,934,165 shares of Common Stock outstanding. Of these, 371,691,259 shares, having an aggregate market value (based on the closing price of these shares as reported in a summary of composite transactions in The Wall Street Journal for stocks listed on the New York Stock Exchange on January 31, 1997) of approximately $24.39 billion, were owned by stockholders other than directors and executive officers of the Registrant, The Savings and Profit Sharing Fund of Allstate Employees and any person believed by the Registrant to beneficially own five percent or more of Registrant's outstanding common shares.

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

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

Documents Incorporated By Reference

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

Parts I and II of this Form 10-K incorporate by reference certain information from the Registrant's 1996 Annual Report to Stockholders ("1996 Annual Report"). Part III of this Form 10-K incorporates by reference certain information from the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on May 20, 1997 (the "1997 Proxy Statement").

Part I

Item 1. Business

The Allstate Corporation (the "Company") was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company ("AIC"). The Company's business is conducted through AIC and AIC's subsidiaries (collectively, including the Company, "Allstate"). Allstate is engaged, principally in the United States and Canada, in the property-liability insurance and life insurance and annuity businesses. Established in 1931 by Sears, Roebuck and Co. ("Sears"), Allstate is the country's second largest property-liability insurer on the basis of 1995 statutory premiums written and is a major life insurer. Allstate's life insurance and annuity operations are conducted through Allstate Life Insurance Company ("ALIC"), a wholly-owned subsidiary of AIC, and through various ALIC subsidiaries (collectively, "Allstate Life").

AIC's primary business is the sale of private passenger automobile and homeowners insurance through its personal property and casualty unit, and in 1995 it maintained estimated national market shares in these lines of approximately 12.2% and 11.8%, respectively. In order to focus on its core strengths, during the second half of 1996 AIC sold (i) Northbrook Holdings, Inc. and its wholly-owned subsidiaries (collectively, "Northbrook"), which wrote commercial insurance through independent agents, (ii) its U.S.-based reinsurance operations for policies written after 1984, and (iii) its London-based reinsurance operations. As a result of these sales, Allstate's property-liability operations consist of two principal areas of business: personal property and casualty ("PP&C") and discontinued lines and coverages ("Discontinued Lines and Coverages"). PP&C, which has historically included only the Company's personal property and casualty business, now includes the ongoing commercial business written through the Allstate agent distribution channel. Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos, and mass tort losses and other commercial business in run-off, and the historical results of the mortgage pool business and the businesses sold in 1996. Allstate markets its products through a variety of distribution channels, with the core of its property-liability distribution system being a broad-based network of approximately 14,800 full-time Allstate employee agents (including life specialists) and non-employee exclusive agents in the United States and Canada.

Allstate Life sells life insurance, annuity and group pension products. Allstate Life distributes its products through Allstate agents (including life specialists), banks, independent agents, brokers, Dean Witter Reynolds, Inc. ("Dean Witter") and direct response marketing.

Information regarding revenues, operating profit or loss and identifiable assets attributable to each of the Company's identifiable business segments is contained in note 15 of the Notes to Consolidated Financial Statements at pages 86-88 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

RECENT DEVELOPMENTS

On November 12, 1996, the Company announced an expansion of its stock repurchase program by an amount not to exceed $750,000,000 through the end of 1997, and announced that its subsidiary trusts intended to issue up to $750,000,000 of trust preferred securities.

On November 25, 1996, Allstate Financing I, a wholly-owned trust of the Company, issued $550,000,000 of 7.95% Cumulative Quarterly Income Preferred Securities, Series A (the "QUIPS"). The QUIPS are guaranteed by the Company and mature on December 31, 2026, subject to the Company's option to extend the maturity to December 31, 2045. Allstate Financing I issued all of its common securities to the Company for $17,010,325 in cash. On November 27, 1996, Allstate Financing II, a wholly-owned trust of the Company, issued $200,000,000 of 7.83% Capital Securities (the "Capital Securities"). The Capital Securities are guaranteed by the Company and mature on December 31, 2045. Allstate Financing II issued all of its common securities to the Company for $6,186,000 in cash. The net proceeds of both offerings were loaned to the Company, which issued subordinated debentures to the trusts bearing interest rates and maturity schedules sufficient to enable the trusts to meet their payment obligations to the security holders. The Company plans to use the proceeds of both offerings for general corporate purposes, including the Company's stock repurchase program.

On December 2, 1996, the California Earthquake Authority ("CEA") commenced operations. The CEA will issue insurance policies providing coverage for earthquake damage resulting from the movement of the earth as existing policies issued by participating insurers, including Allstate, expire. See "California Earthquakes" in the Management's Discussion and Analysis of Financial Condition and Results of Operations at pages 37- 38 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof.

RISK FACTORS AFFECTING ALLSTATE

In addition to the normal risks of business, Allstate is subject to significant risk factors, including those applicable to it as a regulated insurance company, such as: (i) the inherent uncertainty in the process of establishing property-liability loss reserves, particularly reserves for the cost of environmental, asbestos and mass tort claims, and the fact that ultimate losses could materially exceed established loss reserves and have a material adverse effect on results of operations and financial condition; (ii) the fact that Allstate has experienced, and can be expected in the future to experience, catastrophe losses which could have a material adverse impact on its financial condition, results of operations and cash flow; (iii) the inherent uncertainty in the process of establishing property-liability loss reserves due to the change in loss payment patterns caused by new claims settlement practices; (iv) the need for Allstate's insurance company subsidiaries to maintain appropriate levels of statutory capital and surplus, particularly in light of continuing scrutiny by rating organizations and state insurance regulatory authorities, and to maintain acceptable financial strength or claims-paying ability ratings; (v) the extensive regulation and supervision to which Allstate's insurance subsidiaries are subject, various regulatory initiatives that may affect Allstate, and regulatory and other legal actions involving Allstate; (vi) the Company's primary reliance, as a holding company, on dividends from AIC to meet debt payment obligations, and regulatory restrictions on AIC's ability to pay such dividends; (vii) the adverse impact which increases in interest rates could have on the value of Allstate's investment portfolio and on the attractiveness of certain Allstate Life products; (viii) the need to adjust the effective duration of the assets and liabilities of Allstate Life's operations in order to meet the anticipated cash flow requirements of its policyholder obligations; and (ix) the uncertainty involved in estimating the availability of reinsurance and the collectibility of reinsurance recoverables.

ALLSTATE STRATEGY

Allstate's strategy is to focus on the profitable growth of its private passenger automobile and homeowners insurance markets; to increase cross-sales of its life insurance and annuity products to its automobile and homeowners customer base through its agency force and to expand through the addition of new distribution channels; to manage its catastrophe exposure; and to exploit opportunities in the international markets by enhancing the operational capabilities of its current foreign ventures and by commencing new ventures in selected foreign markets. This strategy is designed to capitalize on: (1) the strength of the Allstate name, (2) Allstate's network of full-time agents, (3) Allstate's auto insurance capabilities, and (4) additional distribution channels available to Allstate.

Allstate continues to pursue a strategy of growth in the segments of markets which management believes will be profitable while limiting growth in other markets. Allstate separates the voluntary personal auto insurance business into two categories for underwriting purposes according to insurance risks: the standard market and the non-standard market, and has determined its growth strategy accordingly. Allstate is also pursuing a segmented growth strategy to market its standard auto and homeowners insurance by geographic area. Allstate is attempting to grow its standard auto business more rapidly in areas where the regulatory climate is more conducive to attractive returns, and to reduce or limit its homeowners exposure in areas where the risk of loss from catastrophes is unacceptable in light of the returns provided. Allstate has developed its segmented growth strategy with the assistance of proprietary databases, which consist of marketing and other characteristics of various types of risks in the standard automobile insurance market and the homeowners insurance market. As a result, Allstate has identified over 180 local markets in various categories ranging from markets in which it wishes to pursue aggressive growth for standard auto and homeowners business to markets in which it wishes to reduce its exposure. Allstate's process of designating geographic areas as growth and limited growth is dynamic and may be revised as changes occur in the legal, regulatory and economic environments in various areas, as catastrophe exposure is reduced and as new products are introduced. Less than 6.0% of the United States population reside in areas designated by Allstate as limited growth markets for standard auto insurance, and approximately 20.0% of the population reside in areas designated as limited or reduced markets for homeowners insurance.

The non-standard auto insurance market consists of insurance of persons with no prior driving experience, or with a prior history of accidents or violations, or owning high performance cars with high repair and replacement costs or having other special needs. Allstate has achieved the leading market share in this market. This has been a market in which Allstate has competed successfully by capitalizing on an established distribution system, technology and claims capabilities and by tailoring pricing and products to reach a broader market. In May 1996 Allstate announced that it had reached agreement with All Nation Insurance Co. to acquire the contracts of approximately 1,650 independent agencies which sell non-standard auto insurance, and in September 1996 Allstate announced that it had assumed the independent agent non-standard auto business operations of Colonial Insurance Company of California, which includes contracts with approximately 3,200 independent agencies. This business has been assigned to Allstate's Deerbrook Insurance Company ("Deerbrook") subsidiary, which offers non-standard automobile insurance through independent agents. Allstate plans to continue to develop opportunities in this market.

Allstate Life has been successful in growing its business through the development of new products, the establishment of new marketing arrangements, and through the expanded marketing use of Allstate's database of existing property-liability customers. Allstate Life's insurance and annuity products also are marketed through Allstate agents (including life specialists), independent agents, brokers, Dean Witter, banks and direct response marketing. Specialized brokers are used to distribute group pension and structured settlement products not offered by Allstate's agency force.

Allstate's agency force of approximately 14,100 full-time agents is at the core of its PP&C distribution system. Allstate also uses over 2,500 independent agents to market insurance to individuals, mostly in rural markets not served by Allstate agents, and over 5,500 independent agents appointed by Deerbrook to market non-standard auto business. Allstate Life also has a direct response marketing program which principally targets customers of credit card issuers who prefer to purchase, through the mail or telephone, selected products not offered by Allstate's agency force.

Allstate made substantial efforts in 1996 in the management of its capital resources through reduction of catastrophe risk exposure. During 1996 it took steps to reduce its exposure to hurricane risk in Florida and to earthquake risk in California (See "Catastrophe Management," "Florida Hurricanes" and "California Earthquakes" at pages 36-38 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof). Allstate continues to seek alternative sources for catastrophe reinsurance. During 1996 Allstate repositioned its investment portfolio in order to lower its risk profile by reducing the percentage of the portfolio in equity investments and by reducing the duration of the fixed income portion of the portfolio. In addition, as noted under "Recent Developments" above, Allstate has announced its intention to spend up to $750,000,000 in repurchases of its common stock by December 31,1997.

In November 1996, Allstate commenced the sale of private passenger auto insurance in Germany through direct marketing. Allstate has also identified other foreign areas as attractive markets for property-liability or life insurance, and plans to pursue international opportunities as an avenue to grow both its revenues and profitability. Allstate believes that it will take a number of years before its new international strategies contribute significantly to its financial results.

Allstate may also pursue selective acquisitions, partnerships, business expansions, business start-ups, and divestitures, both in the United States and internationally in the pursuit of its business strategy.

PROPERTY-LIABILITY INSURANCE

Allstate's property-liability insurance business consists of PP&C and Discontinued Lines and Coverages. PP&C, which accounted for $18.0 billion (or 76%) of Allstate's 1996 statutory written premiums, writes primarily private passenger automobile and homeowners insurance policies in 49 states, the District of Columbia, Puerto Rico and in Canada. Operating in approximately 10,500 locations, Allstate agents produce more than 95% of PP&C's annual statutory written premiums, with the balance generated by independent agents largely in locations not currently served by Allstate agents. Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and mass tort losses and other commercial insurance business in run-off, and the historical results of the mortgage pool business and businesses sold in 1996.

PERSONAL PROPERTY AND CASUALTY - Principally engaged in private passenger automobile and homeowners insurance, PP&C accounted for approximately 97% of Allstate's total property-liability premiums, as determined under statutory accounting practices. Allstate was the country's second largest personal property and casualty insurer for both private passenger automobile and homeowners insurance in 1995. Although private passenger automobile and homeowners insurance account for the majority of its business, PP&C also writes coverages for product lines such as motorcycles, motor homes, renters, condominium, residential and landlord, comprehensive personal liability, fire, personal umbrella, recreational vehicle, mobile home, and boat owners. PP&C also operates the Allstate Motor Club, an organization whose purpose is to aid its members with travel plans and emergency road service.

The Company separates the voluntary personal auto insurance business into two basic categories according to insurance risk; the standard market and the non-standard market. The standard market consists of drivers who are perceived to have low to average risk of loss expectancy. Allstate's growth in the standard market was impacted by the Company's segmented growth strategy. Allstate plans to increase its agency force, expand its advertising program and offer new pricing structures in an attempt to increase its growth in the standard automobile market in 1997.

Allstate's growth in the non-standard market continues to be strong, having exceeded 27% year-to-year over the period January 1, 1994 to December 31, 1996. Allstate had a countrywide market share of approximately 15% of the non-standard market in 1995. Allstate's presence in this market, as well as the standard market allows Allstate agents to offer insurance products to the vast majority of drivers who apply for insurance. The non-standard market consists of drivers who have higher-than-average risk profiles due to their driving records, lack of prior insurance or the types of cars they own. PP&C has a refined price structure and policy features which address the special needs of drivers in the non-standard market. These policies are written at higher than standard rates. Allstate writes policies covering these risks principally through AIC's subsidiary, Allstate Indemnity Company. Deerbrook also writes non-standard insurance through independent agencies. Allstate expects that while its growth in the non-standard market will continue, its rate of growth in this market will decline as the market matures.

As a condition of its license to do business in each state, Allstate, like all other automobile insurers, is required to write or share the cost of private passenger automobile insurance for higher risk individuals who would otherwise be unable to obtain such insurance. The "involuntary" market, called the "shared market," is governed by the applicable laws and regulations of each state, and policies written in this market are generally written at higher than standard rates. Allstate has generally experienced losses in its participation in the shared market.

PP&C, in addition to writing insurance for standard homes, also insures high value homes and non-standard homes, such as those with increased exposure given their distance from fire protection services, and also insures risks in the renters and condominium markets. In an attempt to improve the profitability of its homeowners and other property business, in 1996 Allstate reorganized and refocused the senior management of its property insurance operation, has acted to reduce its catastrophe exposure and has implemented underwriting standards, where permitted, for new business. These underwriting standards include home inspections and an analysis of potential insureds' prior loss history and financial stability. Allstate has targeted the homeowners insurance business as a market with substantial profitable growth opportunities for the Company.

Allstate, like its major competitors, does not rely on rating bureaus in establishing prices for its personal property and casualty products. Instead Allstate uses its proprietary database, which contains many years of its own extensive underwriting and pricing experience. Accordingly, subject to applicable state regulations, different prices are derived according to numerous variables which apply to each specific risk, including, in the case of private passenger automobile insurance, factors relating to the automobile (such as its age, make and model) as well as factors relating to the insured (such as previous driving record). In management's opinion, the extensive use and analysis of this database, rather than rating bureaus, provides PP&C with the basis for its market segmentation strategy to price risks accordingly. PP&C is updating its nationwide profiles of the types of business it intends to pursue and has standardized, subject to applicable state regulations, its underwriting guidelines for standard auto nationwide in order to assure consistent treatment of each type of customer profile.

Allstate has attempted to reduce its PP&C claims costs through centralized claims administration, specialization and additional training of claims personnel, and intensive and early investigation and attempted settlement of claims. The Company has focused on claims involving alleged personal injury in connection with collisions involving relatively minor impact. Commencing in 1996, the Company began the testing and training phase of redesigned claims settlement processes for automobile physical damage claims.

As is true for the property-liability industry in general, because of underwriting and policy issuance costs and commissions, first-year costs attributable to PP&C's products are generally higher than for subsequent years. Accordingly, customer retention is an important factor in the profitability of PP&C's products, since policies that remain in force generally become more profitable over time. Allstate customer retention rates in 1996 were approximately the same as 1995.

The personal lines private passenger auto and homeowners businesses are highly competitive. As of December 31, 1995 over 1,400 insurance companies were in the market, with five groups of companies (State Farm, Allstate, Farmers, Nationwide and USAA) writing approximately 46.7% of the private passenger automobile premiums written and approximately 47.6% of the homeowners premiums written in the United States. State Farm maintains the leading share in the automobile and homeowners market and had approximately 21.6% of the automobile market and 23.5% of the homeowners market in 1995. Together, State Farm and Allstate had approximately one-third of each market in 1995.

AIC competes principally on the basis of its name recognition, scope of distribution system, customer service, use of technology, product features and breadth of product offerings and price. Additionally, extensive use of its database to develop proprietary information gives AIC the ability to segment its market and appropriately price risks.

Approximately $41 billion of industry personal lines premiums are generated by independent agencies, and the remaining $85 billion of premiums are generated by insurers placing their products directly with the consumer through employee agents, independent contractor exclusive agents, direct response and mail order. Allstate believes its full-time agency force of independent contractor exclusive agents and employee agents provides it with an advantage in distributing PP&C products. However, some competitors, operating with solely exclusive agents who are independent contractors or distributing through direct response or mail order marketing, or operating with non-exclusive independent agents have also been able to operate effective distribution systems.

The great majority of Allstate's 14,800 agents (including life specialists) are employee agents. In future years, Allstate expects that the percentage of its agents who are independent contractor exclusive agents will increase substantially. In 1990, Allstate instituted an exclusive agent contract under which persons are hired for an 18 month period during which they are trained as agents. Upon completion of the period, Allstate offers contracts to some of the trainees to serve as independent contractors who are exclusive agents for Allstate. Each person hired since 1990 for eventual consideration as an Allstate agent has been hired on this basis. In addition, employee agents who were hired prior to 1990 have been permitted to convert to independent contractor exclusive agent status. During 1996 Allstate required the conversion of its California employee agents to independent contractor exclusive agent status because of a California law which might have required Allstate to increase the amounts of reimbursements for California employee agent expenses to unacceptable levels. At December 31, 1996, Exclusive Agents, including agents in training to become Exclusive Agents, represented approximately 30% of Allstate agents.

CATASTROPHE EXPOSURE

Catastrophes are an inherent risk of the property-liability insurance business which have contributed, and will continue to contribute, to material year-to-year fluctuations in Allstate's results of operations and financial position. The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. The Company has experienced two severe catastrophes in the last five years resulting in losses of $2.33 billion relating to Hurricane Andrew (net of reinsurance) and $1.72 billion relating to the Northridge earthquake. While management believes the Company's catastrophe management strategies, described below, will greatly reduce the probability of severe losses from catastrophes in the future, the Company continues to be exposed to similar or greater catastrophes (see "Risk Factors" and "Forward-Looking Statements" in this Form 10-K).

A "catastrophe" is defined by Allstate as an event that produces pre-tax losses before reinsurance in excess of $1 million involving multiple first party policyholders. Catastrophes are caused by various events, including hurricanes, earthquakes, tornadoes, wind and hail storms, and fires. Although catastrophes can cause losses in a variety of property-liability lines, homeowners insurance has in the past generated the vast majority of catastrophe-related claims. For Allstate, major areas of potential losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Allstate's major areas of exposure to potential losses due to earthquakes include population centers in and around Los Angeles and San Francisco. Other areas in the United States in which Allstate is exposed to potential losses from earthquakes include areas in the central United States affected by the New Madrid fault system in the midwest and areas in and around Seattle, Washington.

Although Allstate, consistent with industry practice, prices risks in light of anticipated catastrophe exposure, the incidence and severity of catastrophes is unpredictable. Due to the current unavailability of reinsurance at rates acceptable to it, Allstate has limited amounts of reinsurance in place to lower its exposure to losses from catastrophes affecting its property-liability business at this time, other than the $400 million of reinsurance in Florida described below. However, Allstate continues to evaluate the reinsurance market for appropriate coverage at acceptable rates and continues to pursue other business strategies to lower its exposure to catastrophe losses.

Allstate has initiated strategies to limit, over time, subject to the requirements of insurance laws and regulations and as limited by competitive considerations, its insurance exposures in certain regions prone to catastrophe occurrences. These strategies include limits on new business production, limitations on certain policy coverages, increases in deductibles, policy brokering and participation in catastrophe pools. In addition, Allstate has requested and received rate increases in certain regions prone to catastrophes. While management believes that its initiatives have reduced or will reduce Allstate's exposure to catastrophes in certain geographic regions over time, the extent of such reduction is uncertain and is constrained by state insurance laws and regulations. For example, some states, such as Florida and New York, limit the ability of insurers to non-renew policies. California requires that earthquake coverage be offered upon policy renewal every second year. The states in which Allstate faces its highest exposure -- California, Florida and New York - - -- require rates to be approved by the regulator, thereby making it more difficult to obtain adequate rates that reflect the catastrophe exposure. Finally, all states have shared market mechanisms that provide insurance to persons who are unable to obtain it in the voluntary market. Allstate's ability to reduce its exposure to catastrophes may be offset by any increase in the exposure through such shared market mechanisms. See "Regulation - Shared Markets" below.

Allstate has used catastrophe simulation models in attempting to estimate the probability and the levels of losses which may result from catastrophes (Allstate also uses these models to assist its decisions concerning pricing, underwriting and reinsuring risks in areas of catastrophe exposure). These models are subject to uncertainties due to continual updating and revision to reflect the most currently available information on climatology and seismology, building codes, and policy demographics. Allstate believes that improvements in the amount and types of information contained in these models have improved its estimations of catastrophe exposures, as well as its ability to estimate losses in the earlier stages of development. However, use of the models has not enabled Allstate to predict the level of losses associated with a specific catastrophe in the past, and the predictive value of such models with regard to future catastrophes is subject to challenge. Nevertheless, the Company believes that full implementation of the actions described below with respect to Florida and California will reduce by April 30, 1998, the probability of its maximum loss from any single hurricane in Florida or any single earthquake in California of exceeding $1 billion to 1% or less, based on catastrophe simulation models and data available to the Company.

The series of actions taken in Florida include increased deductibles, various coverage changes and a 24.9% statewide homeowners policies premium increase (accompanied by a moratorium on further rate increases by the Company until January 1, 1999, except for recoupment of residual property market assessments), the sale of renewal rights for up to 137,000 homeowner policies to an unrelated insurance company, the formation of a wholly-owned subsidiary to hold, sell and service the Company's approximately 675,000 remaining Florida property policies as such policies come up for renewal, and the transfers, commencing April 16, 1997, of the wind damage portion of approximately 50,000 to 60,000 property policies to the Florida Windstorm Underwriting Association, a state pooling mechanism. In addition, Allstate has obtained an excess reinsurance contract with an unaffiliated reinsurer providing up to $400 million of reinsurance per occurrence, up to an aggregate of $800 million, on Florida property policies for catastrophe losses in excess of $1 billion. The reinsurance protection extends to December 31, 1999. Effective with Florida property policies up for renewal on and after September 16, 1996, the Company discontinued its hurricane exposure non-renewal program.

In December 1996 the CEA, a privately financed, publicly-managed state agency created to provide coverage for earthquake damage resulting from earth movements, commenced operations. Companies selling homeowners insurance in California are required to offer earthquake insurance either directly or through their participation in the CEA. Allstate chose to participate in the CEA and recorded $150 million for the initial assessment and related expenses in the third quarter of 1996. Allstate may be required to pay additional assessments to the CEA during the first 12 years of the CEA's operation, contingent on the capital level and aggregate losses recorded by the CEA. Under the CEA legislation currently in effect, Allstate believes that these contingent assessments will not exceed $700 million, based on its current share of the California homeowners market. Commencing in January 1997, the earthquake coverage provided by Allstate will be transferred to the CEA as Allstate's policies come up for renewal.

Allstate continues to support passage of legislation in Congress such as the Homeowner's Insurance Availability Act which could, if enacted, lessen the impact to Allstate of catastrophic natural disasters such as hurricanes and earthquakes. Allstate is a founding member of a newly-formed coalition whose members include property insurers and insurance agents. This group is promoting a measure that would provide federal reinsurance to state disaster plans. The Company is unable to determine whether, or in what form, such proposed legislation will be enacted or what the effect on the Company will be.

DISCONTINUED LINES AND COVERAGES

Allstate wrote excess and surplus lines coverages from 1972 to 1985 through its subsidiary, Northbrook Excess and Surplus Insurance Company ("NESCO"). NESCO wrote professional liability coverages for architects, engineers, lawyers, and physicians, principally on claims-made coverage forms. It also wrote substantial umbrella and excess liability coverages on an occurrence basis, including medical and other products liability coverages, for major United States corporations. In 1985, NESCO was merged into AIC with AIC assuming all of the assets and liabilities of NESCO. Since the early 1980's, Allstate has experienced significant increases in losses for years prior to 1980 arising out of NESCO's umbrella and excess liability coverage for large corporations. Since the late 1980's, most of these losses have related to environmental damages or asbestos-related damages or mass-tort settlements. AIC, as NESCO's successor, has been involved, and continues to be involved, in coverage litigation with NESCO insureds.

In addition to NESCO's activities, during the late 1960's and through the early 1980's Allstate's reinsurance business unit wrote treaty and facultative reinsurance covering general liability primary policies, including policies for major producers of asbestos products. During approximately the same period, Allstate's reinsurance business unit wrote reinsurance coverage on liability policies with major United States corporations that have since become involved in environmental and asbestos damage claims. Such companies may have been involved with hazardous wastes in a variety of ways including as manufacturers, haulers, dump site owners, or through a combination of these activities. Allstate's reinsurance business unit has been involved and continues to be involved in coverage litigation and arbitration with ceding companies and their insureds involving liability for environmental and asbestos damages claims. In 1986, Allstate ceased writing business with ceding companies which tended to insure larger corporations with potential environmental and/or asbestos damage exposures, and its underwriting focus was redirected toward smaller, more regionalized insurers who focus on property and casualty coverages and who have underwriting standards that are considered prudent by Allstate. Also in 1986, the general liability policy form used by Allstate 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 asbestos exclusions. Most general liability policies issued prior to 1987 contain annual aggregate limits for products liability coverage, and policies issued after 1986 also have an annual aggregate limit as to all coverages. Allstate's experience to date is that these policy form changes have effectively limited its exposure to environmental and asbestos claim risks assumed, as well as primary commercial coverages written, for most policies written in 1986 and all policies written after 1986.

Allstate's environmental and asbestos exposures are primarily limited to policies written in periods prior to 1986 with the preponderance of the losses emanating from policies written in the 1970's. New environmental and asbestos claims, however, continue to be reported. Allstate has established substantial reserves for the environmental and asbestos damage claims, and in October 1996 announced that it had increased such reserves by $318 million, including $60 million for mass tort exposures. Mass tort exposure primarily relate to products liability claims, such as those for medical devices and other products, and general liabilities. However, there are significant inherent uncertainties in estimating the ultimate cost of these claims, as discussed below. Further information regarding the foregoing is contained in "Property-Liability Claims and Claims Expense Reserves" at pages 42-45 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof. For information regarding Superfund proposed legislation, see"Regulatory Initiatives and Proposed Legislation" below.

On July 31, 1996 Allstate sold to St. Paul Fire & Marine Insurance Company the commercial lines insurance business it operated through its Northbrook subsidiaries, retaining certain commercial business in run-off. Under the agreement, Allstate could be required to pay to St. Paul 50% of any deficiency in excess of $25 million which should develop in the Northbrook companies closing reserves by the fourth anniversary of closing, but not more than $100 million. If an excess in closing reserves should develop at such fourth anniversary, Allstate would be entitled to receive 50% of such excess, but not more than $50 million.

On September 16, 1996 Allstate sold its domestic reinsurance operations to SCOR U.S. Corporation, and on November 15, 1996 sold its wholly-owned subsidiary Allstate Reinsurance Company, Ltd. ("ARCO") a company with foreign reinsurance operations, to QBE Insurance Group Limited ("QBE"). In connection with the latter sale, Allstate agreed to reimburse QBE for 80% of any adverse development in ARCO's reserves as of December 31, 1995, and QBE agreed to reimburse Allstate for 70% of any favorable development in such reserves, such reimbursements to be settled annually. Also, the parties are to review the development of 1996 underwriting results for contracts in place at November 15, 1996, and are to settle annually to the extent that the combined ratio for such contracts exceeds or is less than 110%.

On October 8, 1996, the Company announced that it had increased by $87 million the provision for future losses provided for the run-off of the mortgage pool business, which had been retained in 1995 when the Company sold 70% of The PMI Group, Inc. The increase in the provision was due primarily to revised loss trend analysis based on continued weakness in economic conditions, including real estate prices and unemployment, in Southern California. These and other factors are considered in the periodic revaluation of the provision for future losses in this business.

PROPERTY-LIABILITY INSURANCE CLAIMS AND CLAIMS EXPENSE RESERVES

Allstate establishes property-liability loss reserves to cover its estimated ultimate liability for losses and loss adjustment expenses with respect to reported claims and claims incurred but not yet reported as of the end of each accounting period. In accordance with applicable insurance laws and regulations and generally accepted accounting principles ("GAAP"), no reserves are established until a loss occurs, including a loss from a catastrophe. Underwriting results of the property-liability operations are significantly influenced by estimates of property-liability claims and claims expense reserves (see note 6 of the Notes to Consolidated Financial Statements at pages 74-77 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof). These reserves are an accumulation of the estimated amounts necessary to settle all outstanding claims, including claims which are incurred but not reported, as of the reporting date. The reserve estimates are based on known facts and on interpretations of circumstances, including Allstate's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes. The effects of inflation are implicitly considered in the reserving process. The establishment of reserves, including reserves for catastrophes, is an inherently uncertain process and the ultimate cost may vary materially from the recorded amounts. Allstate regularly updates its reserve estimates as new facts become known and further events occur which may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determined to be needed.

Establishing net loss reserves for environmental, asbestos and mass tort claims is subject to uncertainties that are 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, unresolved legal issues regarding policy coverage, availability of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether environmental, asbestos, and mass tort losses are, or were ever intended to be covered, are complex. 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 insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future. See note 6 of the Notes to Consolidated Financial Statements at pages 74-77 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

On October 8, 1996 Allstate announced that it had strengthened its net loss reserves for Discontinued Lines and Coverages by a total of $405 million, based on the results of a study the Company had conducted of its environmental liabilities as well as a comprehensive internal assessment of its asbestos and other contractual liabilities related to other discontinued lines and coverages. The Company increased its asbestos net loss reserves by $72 million, its environmental net loss reserves by $172 million, its net loss reserves for mass tort exposure and general liability by $60 million, and its reserves for future insolvencies of reinsurers by $14 million. The October 8, 1996 announcement also reflected an increase of $87 million in Allstate's provision for future losses for the run-off of the mortgage pool business.

The following tables are summary reconciliations of the beginning and ending property-liability insurance claims and claims expense reserve, 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 on page 58 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof. 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 on page 57 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

Gross
($ in millions)

	Year Ended December 31, 1996	1995	1994
Gross reserve for property-liability claims and claims expense, beginning of year	$ 17,687	$ 16,763	$ 15,521
Incurred claims and claims expense			
Provision attributable to the current year	15,186	14,530	15,455
Decrease in provision attributable to prior years	(338)	(235)	(634)
Total claims and claims expense	14,848	14,295	14,821
Claim payments			
Claims and claims expense attributable to current year	8,073	8,490	8,898
Claims and claims expense attributable to prior years	5,711	4,881	4,681
Claims and claims expense attributable to disposition of operations	1,369	-	-
Total payments	15,153	13,371	13,579
Gross reserve for property-liability claims and claims expense, end of year	17,382	17,687	16,763
Less: ARCO reserve balances not subject to development (1)	-	361	349
Gross reserve for property-liability claims and claims expense, end of year as shown on 10-K loss reserve development table	$ 17,382	$ 17,326	$ 16,414

(1) ARCO was sold in 1996. In 1995 and 1994, loss development information for ARCO (AIC's indirectly owned British reinsurance subsidiary) was not available on a comparable basis. This information was not material ($97.7 million in gross claims and claims expense in 1995 and $85.8 million in 1995 gross payments) and was treated as attributable to current year.

Net
($ in millions)

	Year Ended December 31,		
	1996	1995	1994
Net reserve for property-liability claims and claims expense, beginning of year	$ 16,156	$ 15,406	$ 14,119
Incurred claims and claims expense			
Provision attributable to the current year	14,823	14,113	15,241
Decrease in provision attributable to prior years	(336)	(425)	(712)
Total claims and claims expense	14,487	13,688	14,529
Claim payments			
Claims and claims expense attributable to current year	7,522	8,190	8,770
Claims and claims expense attributable to prior years	5,787	4,748	4,472
Claims and claims expense attributable to disposition of operations	1,736	-	-
Total payments	15,045	12,938	13,242
Net reserve for property-liability claims and claims expense, end of year	15,598	16,156	15,406
Less: ARCO reserve balances not subject to development (1)	-	320	290
Net reserve for property-liability claims and claims expense, end of year as shown on 10-K loss reserve development table (2)	$ 15,598	$ 15,836	$ 15,116

(1) ARCO was sold in 1996. In 1995 and 1994, loss development information for ARCO (AIC's indirectly owned British reinsurance subsidiary) was not available on a comparable basis. This information was not material ($76.5 million in claims and claims expense in 1995 and $45.7 million in 1995 payments) and was treated as attributable to current year.

(2) Reserves for claims and claim expense are net of reinsurance of $1.78 billion, $1.49 billion and $1.30 billion, at December 31, 1996, 1995 and 1994, respectively.

The year-end 1996 gross reserves of $17.38 billion for property-liability insurance claims and claims expense, as determined under GAAP, were $1.96 billion more than the reserve balance of $15.42 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal difference is the reinsurance recoverable from third parties totaling $1.78 billion that reduces reserves for statutory reporting and is recorded as an asset for GAAP reporting. Additional differences are caused by the reserves of the Canadian subsidiary which is not included in the combined United States statutory statement.

The loss reserve development table below illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of various calendar years. The first section shows the reserves as originally reported at the end of 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 or not the original reserve was adequate or inadequate 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. This presentation appears for all periods in which the income recognition provisions of Statement of Financial Accounting Standards No. 113 have been applied.

The loss reserve development 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.

Loss Reserve Development

($ in millions)

	December 31, (1)										
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Gross Reserves for Property-liability Insurance Claims	$7,603	$8,793	$10,035	$10,962	$12,117	$13,136	$14,902	$15,209	$16,414	$17,326	$17,382
Deduct: Reinsurance Recoverables	1,053	1,076	1,180	1,066	1,028	1,066	1,419	1,338	1,298	1,490	1,784
Net Reserve for Property-liability Insurance Claims and Claims Expense	6,550	7,717	8,855	9,896	11,089	12,070	13,483	13,871	15,116	15,836	15,598
Paid (cumulative) as of:											
One year later	2,658	3,074	3,516	4,295	4,558	4,550	4,955	4,472	4,748	5,787	
Two years later	3,990	4,586	5,279	6,338	6,723	6,688	7,068	6,519	7,749		
Three years later	4,833	5,564	6,433	7,584	8,010	7,935	8,283	8,273			
Four years later	5,397	6,242	7,161	8,338	8,778	8,694	9,430				
Five years later	5,802	6,694	7,611	8,824	9,279	9,508					
Six years later	6,096	6,975	7,927	9,180	9,883						
Seven years later	6,288	7,201	8,189	9,651							
Eight years later	6,469	7,407	8,560								
Nine years later	6,662	7,701									
Ten years later	6,908										
Reserve Reestimated as of:											
End of year	6,550	7,717	8,855	9,896	11,089	12,070	13,483	13,871	15,116	15,836	15,598
One year later	6,790	7,824	8,891	10,312	11,367	11,990	13,081	13,159	14,691	15,500	
Two years later	6,905	7,862	9,006	10,617	11,576	11,909	12,745	12,890	14,295		
Three years later	6,987	7,979	9,323	10,990	11,680	11,905	12,735	12,832			
Four years later	7,095	8,298	9,686	11,105	11,777	12,010	12,877				
Five years later	7,390	8,687	9,817	11,245	11,954	12,322					
Six years later	7,791	8,830	9,974	11,447	12,378						
Seven years later	7,948	9,002	10,212	11,962							
Eight years later	8,095	9,265	10,762								
Nine years later	8,402	9,826									
Ten years later	8,940										
Initial net reserve in excess of (less than) reestimated reserve:											
Amount	($2,390)	($2,109)	($1,907)	($2,066)	($1,289)	($252)	$606	$1,039	$821	$336	
Percent	(36.5)	(27.3)	(21.5)	(20.9)	(11.6)	(2.1)	4.5	7.5	5.4	2.1	
Gross Reestimated Liability-Latest							$14,644	$14,456	$15,788	$16,988	
Reestimated Recoverable-Latest							1,767	1,624	1,493	1,488	
Net Reestimated Liability-Latest							12,877	12,832	14,295	15,500	
Gross Cumulative Excess (Deficiency)							$258	$753	$626	$338	

(1) For 1990 through 1995, this loss reserve development table excludes ARCO claims and claims expense, due to the unavailability of loss reserve development information for these claims on a comparable basis. ARCO was sold in 1996.

As the table above illustrates, Allstate's net reserve for property-liability insurance claims and claims expense at the end of 1995 developed favorably in 1996 by $336 million, compared to favorable development of the gross reserves of $338 million. Net reserve development in 1995 and 1994 was more favorable than favorable gross reserve development in these years. This relationship was due to the fact that Allstate's principal property-liability lines, such as private passenger auto and homeowners, are not significantly affected by reinsurance, whereas Discontinued Lines and Coverages, involve a higher level of ceded reinsurance protection. The more favorable development in the net reserves in 1995 and 1994 was due to higher anticipated reinsurance cessions on increased reserve reestimates for Discontinued Lines and Coverages. In 1996, following completion of a comprehensive review of available reinsurance for Discontinued Lines and Coverages, the Company strengthened ceded loss reserves. This strengthening offset the favorable effect of higher reinsurance cessions related to increased reestimates of gross reserves for Discontinued Lines and Coverages. See "Property-Liability Claims and Claims Expense Reserves" on pages 42-46 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof. For further discussion of the Company's reinsurance programs, see "Property-Liability Reinsurance Ceded" on pages 45-46 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof.

The subsequent reduction in the net reserves established at December 31, 1995, 1994 and 1993 shown in the foregoing table reflects favorable severity trends that the Company has experienced, as more fully discussed below. The principal cause for the initial reserves established at the end of 1991, and all previous years reflected in the table, needing to be increased over the time frame in the above table is the cumulative adverse reserve development on environmental and asbestos claims, virtually all of which relates to 1984 and prior years. There are significant uncertainties in estimating the amount of Allstate's environmental, asbestos damage and mass tort claims. Among the complications are a lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, and complex unresolved legal issues regarding policy coverage and the extent and timing of any such contractual liability. Courts have reached different and sometimes inconsistent conclusions as to when the loss occurred and what policies provide coverage; what claims are covered; whether there is an insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether clean-up costs represent insured property damage. These issues are not likely to be resolved in the near future. As a result of these issues, the ultimate cost of these claims may generate losses that vary materially from the amount currently reserved.

During 1996, Allstate conducted a comprehensive reevalution of Discontinued Lines and Coverages net loss reserves. As the industry has gained experience evaluating environmental exposures some actuarial firms have developed meaningful techniques and databases to estimate environmental liabilities. Allstate gained access to complex databases developed by outside experts to estimate the cost of liabilities for environmental claims. The databases contained lists of known potentially responsible parties ("PRP"), National Priority List ("NPL") sites, and the Environmental Protection Agency's estimate of clean-up costs. Allstate's policy files were compared to the databases, and factors to estimate growth of NPL sites, state sites, third party claims, natural resource damage, probability of coverage, and PRP's being named at future sites were applied to determine an estimate of the Company's potential environmental loss. The Company also refined its own estimation techniques, which were tested and validated by outside actuaries, to estimate environmental and asbestos losses. Allstate used a combination of these resources, along with an extensive internal review of its current claim exposures to estimate environmental and asbestos reserves. The Company also performed an in-depth analysis of its reinsurance recoverables and refined its process for estimating and identifying available reinsurance since some reinsurers have become insolvent or Allstate has commuted their agreements. In addition to environmental and asbestos exposures, the Discontinued Lines and Coverages loss reserve re-evaluation also included an assessment of current claims for mass tort exposures which primarily relate to products liability claims, such as those for medical devices and other products, and general liabilities. These studies and reevaluations resulted in Allstate's actions to increase reserves as described in "Property-Liability Claims and Claims Expense Reserves" at pages 42-46 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof. While the Company believes the improved actuarial techniques and databases described above have assisted in its ability to estimate environmental, asbestos and mass tort net loss reserves, these refinements may prove to be inadequate indicators of the extent of probable loss. See note 6 of the Notes to the Consolidated Financial Statements on pages 74-77 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

The following table is derived from the Loss Reserve Development table and summarizes the effect of reserve reestimates, net of reinsurance, on calendar year operations for the same ten-year period ended December 31, 1996. 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).

Effect of Net Reserve Reestimates on
Calendar Year Operations

($ IN MILLIONS)	CALENDAR YEARS										
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	TOTAL
BY ACCIDENT YEAR											
1986 & PRIOR	$240	$115	$82	$108	$295	$401	$157	$147	$307	$538	$2,390
1987		(8)	(44)	9	24	(12)	(14)	25	(44)	23	(41)
1988			(2)	(2)	(2)	(26)	(12)	(15)	(25)	(11)	(95)
1989				301	(12)	10	(16)	(17)	(36)	(35)	195
1990					(27)	(164)	(11)	(43)	(25)	(91)	(361)
1991						(289)	(185)	(101)	(72)	(112)	(759)
1992							(321)	(332)	(115)	(170)	(938)
1993								(376)	(259)	(200)	(835)
1994									(156)	(338)	(494)
1995										60	60
TOTAL	$240	$107	$36	$416	$278	$(80)	$(402)	$(712)	$(425)	$(336)	$(878)

Favorable calendar year reserve development in 1996, 1995 and 1994 was the result of favorable severity trends in each of the three years, which more than offset adverse development in Discontinued Lines and Coverages and increases to reserves for claim expense which occurred in 1996. Adverse development of accident year 1995 in 1996 was also due to previously mentioned increases to reserves for claims expense.

The favorable severity trend during this three-year period was largely due to lower than anticipated medical cost inflation for personal auto injury claims and improvements in the Company's claim settlement processes. The reduction in the anticipated medical cost inflation trend has emerged over time as actual claim settlements validated the effect of the steady decline in the rate of inflation. Although improvements in the Company's claim settlement process has contributed to favorable severity development of personal injury claims during the past three years, the new processes have caused an increase in the number of claims outstanding. The Company expects the rate of increase to continue to decline in 1997, however the number of outstanding claims may not be reduced to levels previously reported due to an increase in the time required to complete the new claim settlement processes. In addition, while the claim settlement process changes are believed to have contributed to favorable severity trends on closed claims, these changes introduce a greater degree of variability in reserve estimates for the remaining outstanding claims at December 31, 1996. Future reserve releases, if any, will depend on the continuation of the favorable loss trends. See "Risk Factors Affecting Allstate," above.

LIFE AND ANNUITY

Allstate Life markets a broad line of life insurance, annuity and group pension products countrywide, and accounted for approximately 22% of Allstate's 1996 statutory premiums. Life insurance includes traditional products such as whole life and term life insurance, as well as universal life, variable life and other interest-sensitive life products. Annuities include both deferred annuities, such as variable annuities and fixed rate single premium deferred annuities, and immediate annuities such as structured settlement annuities. Allstate Life's group pension products include guaranteed investment contracts and retirement annuities. In 1996, annuity premiums and deposits represented 57% of Allstate Life's total statutory premiums and deposits.

Allstate Life competes principally on the basis of its name recognition, scope of its distribution systems, customer service and focus, breadth of product offerings, product features, its financial strength, claims-paying ability ratings, and price, and with respect to variable life and annuity products, management and investment performance of, and various investment choices in, its Separate Account portfolio of funds.

Allstate Life reaches a broad market of potential insureds throughout the United States through a variety of distribution channels including Allstate agents, some of whom specialize in life insurance and annuity products, banks, independent agents, brokers and direct response marketing. Allstate Life markets individual and group life insurance, annuity and pension products through Allstate agents, banks, independent agents, brokers and direct response marketing. Products bearing the "Allstate Life Insurance Company" name are generally sold by Allstate agents, specialized brokers, and through direct marketing techniques, while other products, many of which are of similar types to those bearing the "Allstate Life Insurance Company" name, are distributed through independent insurance agents, brokers and banks. Allstate Life's products are written by various ALIC subsidiaries and are sold under various names in addition to "Allstate Life Insurance Company," including "Allstate Life Insurance Company of New York," "Northbrook Life Insurance Company,""Glenbrook Life and Annuity Company," "Lincoln Benefit Life Company" and "Surety Life Insurance Company." Life insurance in force was $186 billion at December 31, 1996 and $163 billion at December 31, 1995. As of December 31, 1996, Allstate Life had $33.6 billion of investments, including $5.6 billion of Separate Account assets.

Northbrook Life Insurance Company has a strategic alliance with Dean Witter for the marketing and distribution of Northbrook's life and annuity products through Dean Witter's broker sales force. Glenbrook Life and Annuity Company has also entered into marketing arrangements with banks for the sale of life and annuity products, including an arrangement in 1995 with the AIM mutual fund group under which AIM markets Glenbrook Life and Annuity Company variable annuities. Allstate Life is committed to broadening its bank distribution outlets in an effort to increase the sales of its annuity products, and to participate in the market for life insurance products sold through banks.

Although Allstate Life's management develops overall strategies and utilizes certain services shared with AIC such as investment, finance, information technology and legal services, the primary management of each distribution channel is largely decentralized. Accordingly, management of each distribution channel is primarily responsible for determining its own product mix and designing products or product features appropriate for its target market. Allstate Life believes that its range of distribution channels promotes flexibility, extends market reach, reduces dependency on any one distribution system, and allows Allstate Life to focus on distinct, generally non-overlapping markets. In 1996 Allstate Life implemented a redesign of the processes under which the sale of life insurance is made through Allstate's agency force, which it believes has contributed, and will continue to contribute, to greater sales of life insurance and annuities through this distribution channel. Sales of life insurance and annuity products through the Allstate agency force increased by almost 16% in 1996, following a 14% increase in sales in 1995. This was attributed to Allstate Life's ability to focus more of the agents' time on life insurance through sales management's commitment to life insurance and annuities and through initial efforts in redesigning the sales processes. Allstate Life continues to address the sales processes to further its goal of additional increases in sales.

The establishment of reserve and contractholder fund liabilities in recognition of Allstate's future benefit obligations under life and annuity policies and other Allstate Life products are discussed in note 2 of the Notes to the Consolidated Financial Statements on pages 62-65 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

The market for financial services, including the various types of life insurance and annuities sold by Allstate Life, is highly competitive. As of December 31, 1996, there were approximately 800 groups of life insurance companies in the United States, most of which offer one or more products similar to those offered by Allstate Life and many of which use similar marketing techniques. Based on information contained in statements filed with insurance departments, in 1995 approximately 50% of the life insurance and annuity premiums and deposits were sold by 15 groups of companies. Allstate Life ranked 19th based on life insurance and annuity premiums and deposits and based on statutory admitted assets. Banks and savings and loan associations in certain jurisdictions compete with Allstate Life in the sale of life insurance products. In addition, because certain life insurance and annuity products include a savings or investment component, competition also comes from brokerage firms, investment advisors and mutual funds as well as from banks and other financial institutions. Despite a large number of life company acquisitions in recent years, the life insurance and annuity market continues to be highly fragmented and competitive.

CAPITAL REQUIREMENTS

The capacity for Allstate's growth in premiums, like that of other insurance companies, is in part a function of its operating leverage. Operating leverage for property-liability insurance companies is measured by the ratio of net premiums written to statutory surplus. Ratios in excess of 3 to 1 are considered outside the usual range by insurance regulators and rating agencies. AIC's premium to surplus ratio declined to 1.6 to 1 at December 31, 1996 from 1.9 to 1 at December 31, 1995. The principal cause of the change was an increase in statutory surplus (i.e., the excess of assets permitted by Illinois to be taken into account over all liabilities) resulting from net income and gains on securities, including investments in affiliates and sales of businesses, on a statutory basis. Maintaining appropriate levels of statutory surplus is considered important by Allstate's management, state insurance regulatory authorities, and the agencies that rate insurers' claims-paying abilities and financial strength. In early 1996, A.M. Best upgraded Allstate's claims-paying ability rating to A from A-.

Failure to maintain certain levels of statutory capital and surplus could result in increased scrutiny or, in some cases, action taken by state regulatory authorities and/or rating agencies. Increased public and regulatory concerns regarding the financial stability of participants in the insurance industry have resulted in greater emphasis being placed by policyholders upon insurance company ratings and have created, particularly with respect to certain life insurance products, some measure of competitive advantage for insurance carriers with higher ratings. Failure to maintain claims-paying and financial strength ratings could negatively affect the Company's competitiveness.

The National Association of Insurance Commissioners ("NAIC") has adopted a standard for assessing the solvency of insurance companies, which is referred to as risk-based capital ("RBC"). The requirement consists of 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 RBC formula for life insurance companies establishes capital requirements relating to insurance risk, business risk, asset risk and interest rate risk. The RBC formula for property-liability companies includes asset and credit risk, but places more emphasis on underwriting factors for reserving and pricing. At December 31, 1996, RBC for each of Allstate's significant property-liability and life insurance companies exceeded the required capital levels. See "Capital Resources" on pages 50- 51 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof.

Allstate enters into certain intercompany insurance and reinsurance transactions for its property-liability and life and annuity operations. Allstate enters into these transactions in order to maintain underwriting control and spread insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All material intercompany transactions are eliminated in the Company's consolidated financial statements.

INVESTMENTS

Allstate follows a strategy to manage its exposure to market risk. Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. The Company's primary market risk exposures are to changes in interest rates and equity prices. The Company does not currently have material exposures to either commodity price or foreign currency exchange risk. However, currency risk exposures may increase in the future as the Company expands its international operations and investments in foreign stocks and bonds. The Company seeks to earn returns that enhance its ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long term capital growth for the Company. Accordingly, the Company's investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. The property-liability overall market risk management objective is to maximize total after-tax return on capital while considering the risks in the fixed income and equity markets such as duration, credit, liquidity and tax risks. In order to support competitive credited rates and earn stable profits, Allstate Life adheres to a basic philosophy of matching assets with related liabilities to limit interest rate risk, while maintaining adequate liquidity and a prudent and diversified level of credit risk.

During the second quarter of 1996, Allstate repositioned its property-liability portfolio, reducing the duration of its fixed income assets by decreasing the proportion of tax-exempt long-term securities and increasing its investment in intermediate-term taxable securities. Allstate also sold a portion of its equity portfolio and invested the proceeds in fixed income securities. The sales of Allstate's commercial insurance and reinsurance businesses in 1996 (see "Discontinued Lines and Coverages," above) have reduced the base of assets available for investment by Allstate by $1.6 billion.

At December 31, 1996, 100% of Allstate's fixed income securities and equity securities in its portfolio were designated as "available for sale" and carried in the Company's financial statements at fair value. While the Company generally holds its fixed income securities for the long term, management classifies these fixed income securities as available for sale to maximize the Company's flexibility in responding to changes in market conditions. Changes in the fair value of these securities, net of deferred income taxes and deferred acquisition costs and benefit reserve adjustments on certain life insurance products, are reflected as a separate component of shareholders' equity. For discussion of the composition of the Company's investment portfolio, see "Investments" on pages 52-56 of the 1996 Annual Report, incorporated herein by reference in response to Item 7 hereof, and Note 4 of the Notes to the Consolidated Financial Statements on pages 67-70 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

REGULATION

Allstate is subject to extensive regulation and supervision in the jurisdictions in which it does business. This regulation has a substantial effect on the business of Allstate, primarily on Allstate's personal lines property-liability business. This regulatory oversight includes, for example, matters relating to licensing and examination, rate setting, trade practices, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in shared markets and guaranty funds, reserve adequacy, insurer solvency, transactions with affiliates, the amount of dividends that may be paid, and restrictions on underwriting standards. For discussion of statutory financial information, see note 12 of the Notes to Consolidated Financial Statements on pages 82-83 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof; and for discussion of regulatory contingencies, see note 9 of the Notes to Consolidated Financial Statements on pages 79-80 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

LIMITATIONS ON DIVIDENDS BY INSURANCE SUBSIDIARIES - The Company is a legal entity separate and distinct from its subsidiaries. As a holding company with no other business operations, its primary sources of cash to meet its obligations, including principal and interest payments with respect to indebtedness, are dividends and other statutorily permitted payments from AIC. AIC, as a domiciliary of Illinois, is subject to the Illinois insurance laws and regulations. In Illinois, a domestic stock insurer may, without prior regulatory approval, pay ordinary dividends from statutory surplus which at the time of declaration is not less than the minimum required for the kind of insurance business that such company is authorized to conduct. Under the Illinois Insurance Code, AIC's surplus following any transaction with affiliates or dividends, including distributions to its shareholder or other security holders, must be reasonable in relation to AIC's outstanding liabilities and must be adequate to meet its financial needs. The Illinois Insurance Code allows "extraordinary dividends" to be paid after thirty days notice to the Illinois Insurance Department, unless disapproved or sooner approved during such thirty day period. "Extraordinary dividends" for these purposes are defined as any dividend or distribution which together with any other dividend or distribution made within the preceding 12 months exceeds the greater of (i) 10% of the insurance company's statutory surplus as of the preceding December 31, or (ii) its statutory net income for the year ended on the preceding December 31. The maximum amount of dividends that AIC can distribute during 1997 without prior approval of the Illinois Department of Insurance is $2.2 billion. If insurance regulators determine that payment of a dividend or any other payments to an affiliate (such as payments under a tax sharing agreement, payments for employee or other services, or payments pursuant to a surplus note) would, because of the financial condition of the paying insurance company or otherwise be hazardous to such insurance company's policyholders or creditors, the regulators may block such payments that would otherwise be permitted without prior approval.

HOLDING COMPANY REGULATION - The Company and AIC are currently insurance holding companies subject to regulation throughout jurisdictions in which Allstate's insurance subsidiaries do business. Certain of AIC's subsidiaries and companies in which AIC holds a minority equity interest are property-liability and life insurance companies organized under the respective insurance codes of California, Florida, Illinois, Nebraska, New York, Texas and Utah. The insurance codes in such states contain similar provisions (subject to certain variations) to the effect that the acquisition or change of "control" of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote or possession of proxies with respect to 10% or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. In Florida, regulatory approval must be obtained prior to the acquisition of 5% or more of the voting securities of a domestic stock insurer or of a controlling company. In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company admitted 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 admitted insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of 10% or more (5% in Florida) of the Company's common stock would generally require prior approval by the state insurance departments in California, Florida, Illinois, Nebraska, New York, Texas and Utah and would require the pre-acquisition notification in those states which have adopted pre-acquisition notification provisions and wherein Allstate's insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of the Company's common stock.

RATE REGULATION - Most states have insurance laws requiring that property-liability rate schedules, policy or coverage forms, and other information be filed with the state's regulatory authority. In many cases, such rates and/or policy forms must be approved prior to use. While they vary from state to state, the objectives of the rating laws are generally the same: a rate must be adequate, not excessive, and not unfairly discriminatory.

Property-liability insurers are generally unable to effect rate increases with respect to a coverage until sometime after the costs associated with such coverage have increased. The speed at which an insurer can change rates in response to the competition or to increasing costs depends, in part, on whether the rating laws are administered as (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, a rate must be approved by the regulator before it may be used by the insurer. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using the rates. Approximately one half of the states, including California and New York, have prior approval laws. States such as Florida, Illinois and Michigan have both use-and-file and file-and-use laws or regulations, depending upon the line of coverage. Under all three types of rating systems, the regulator has the authority to disapprove the rate subsequent to its filing.

State regulators have broad discretion in judging whether an insurer's rate or proposed rate is adequate, not excessive and not unfairly discriminatory. An insurer's ability to adjust its rates in response to competition or to increasing costs is often dependent on an insurer's ability to demonstrate to the regulator that its rates or proposed rates meet the objectives of the rate making laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to write, an insurer can manage its risk of loss by charging a price that matches the cost of providing the insurance. In those states that significantly restrict an insurer's ability to charge a price that matches the cost of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it writes. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to manage its profitability.

Changes in Allstate's claim settlement process which may have contributed to favorable severity trends on closed personal injury claims in 1994, 1995 and 1996, and to a slowing of loss payments and an increase in the number of outstanding claims, may require Allstate to actuarially adjust loss information used in its rate application process.

From time to time, the private passenger automobile insurance industry has come under pressure from state regulators, legislators and special interest groups to reduce, freeze or set rates at levels that do not, in Allstate's management's view, correspond with underlying costs. Some of this activity can result in legislation and/or regulations which adversely affect the profitability of Allstate's automobile insurance line of business in various states. Adverse legislative and regulatory activity constraining Allstate's ability to adequately price insurance coverage may occur in the future. Similar pressures have been experienced regarding rates for homeowners insurance, as regulators in catastrophe prone states struggle to identify an acceptable methodology to price for catastrophe exposure. The impact of the insurance regulation environment on Allstate's results of operations in the future is not predictable.

SHARED MARKETS - As a condition of its license to do business in various states, Allstate is required to participate in mandatory property-liability shared market mechanisms or pooling arrangements, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage voluntarily provided by private insurers. In addition, some states require automobile insurers to participate in reinsurance pools for claims that exceed a certain amount. Currently, there are no mandatory pooling mechanisms applicable to Allstate Life, except for guaranty fund assessments. The participation by Allstate in such shared markets or pooling mechanisms is generally in amounts related to the amount of Allstate's direct writings for the type of coverage written by the specific pooling mechanism in the applicable state. Allstate incurred an underwriting loss from participation in such mechanisms, mandatory pools and underwriting associations of $68 million, $134 million and $109 million in 1996, 1995 and 1994, respectively. The amount of future losses or assessments from the personal and commercial lines shared market mechanisms and pooling arrangements described above cannot be predicted with certainty. Although it is possible that future losses or assessments from such mechanisms and pooling arrangements could have a material adverse effect on results of operations, the Company does not expect future losses or assessments to have a material adverse effect on its financial condition or results of operations.

GUARANTY FUNDS - Failures of certain large insurers in recent years have increased solvency concerns of regulators. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Allstate's expenses with respect to such guaranty funds for the years 1996, 1995 and 1994 were $35 million, $26 million and $56 million, respectively.

INVESTMENT REGULATION - Allstate is subject to state laws and regulations that require diversification of its investment portfolio and limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non- admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. As of December 31, 1996, Allstate's investment portfolio complied with such laws and regulations in all material respects.

REGULATORY INITIATIVES AND PROPOSED LEGISLATION - The state insurance regulatory framework has during recent years come under increased federal scrutiny, and certain state legislatures have considered or enacted laws that alter and, in many cases, increase state authority to regulate insurance companies and insurance holding company systems. Further, the NAIC and state insurance regulators are re-examining existing laws and regulations, specifically focusing on insurance company investments, issues relating to the solvency of insurance companies, interpretations of existing laws and the development of new laws. In addition, Congress and certain federal agencies have investigated the condition of the insurance industry in the United States to determine whether to promulgate federal regulation. Allstate is unable to predict whether any state or federal legislation will be enacted to change the nature or scope of regulation of the insurance industry, or what effect any such legislation would have on the Company.

Environmental pollution clean-up is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to clean-up. The insurance industry is involved in extensive litigation regarding coverage issues. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration by "Potentially Responsible Parties" ("PRP's"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish a mechanism to pay for clean-up of waste sites if PRP's fail to do so, and to assign liability to PRP's. The extent of liability to be allocated to a PRP is dependent on a variety of factors. Further, the number of waste sites subject to clean-up is unknown. Very few sites have been subject to clean-up to date. The extent of clean-up necessary and the assignment of liability has not been established. The insurance industry, including Allstate, are disputing many such claims. Key coverage issues include whether Superfund response costs are considered damages under the policies, trigger of coverage, applicability of pollution exclusions, the potential for joint and several liability and definition of an occurrence. Similar 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 which have been, or may be, named as PRPs is uncertain. See "Discontinued Lines and Coverages", above. Superfund reform proposals have been introduced in Congress, including a proposal introduced in the current session, but none has been enacted at the date of this publication. There can be no assurance that any Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims.

Proposed federal legislation which would permit banks greater participation in the insurance business could, if enacted, present an increased level of competition for the sale of insurance products. In addition, while current federal income tax law permits the tax-deferred accumulation of earnings on the premiums paid by an annuity owner and holders of certain savings-oriented life insurance products, no assurance can be given that future tax law will continue to allow such tax deferrals. If such deferrals were not allowed, consumer demand for the affected products, including those sold by Allstate Life, would be substantially reduced. In addition, proposals to lower the federal income tax rates through a form of flat tax or otherwise could have, if enacted, a negative impact on the demand for such products.

GEOGRAPHIC DISTRIBUTION OF INSURANCE

Allstate, through a variety of companies, is authorized to sell property-liability and life insurance in all 50 states, the District of Columbia, Puerto Rico and Canada. To a limited extent, Allstate is engaged, through affiliates, in the insurance business in Germany, Japan and the Republic of Korea. The following tabulation reflects, in percentages, the principal geographic distribution of statutory premiums earned for the property-liability insurance business and statutory premiums for the life insurance business for the year ended December 31, 1996:

	NY	CA	FL	IL	PA	MI	NJ	MD	TX	GA	NC	OH	Total
Property-Liability	12.7	10.6	9.7	5.2	5.1	4.6	4.3	3.6	3.1	3.0	2.7	2.6	67.2

	CA	FL	NE	MA	TX	PA	IL	NJ	MI	NY	CO	OH	Total
Life	13.9	8.7	6.4	5.5	5.4	5.3	5.1	3.8	3.7	2.9	2.6	2.6	65.9

No other jurisdiction accounted for more than 2.6% of the statutory premiums for property-liability insurance or life insurance.

In 1991, Allstate announced its decision to withdraw from the property-liability market in New Jersey, but its application has been suspended until December 31, 1997 by agreement between Allstate and New Jersey insurance authorities. In the meantime, Allstate has continued to write insurance in New Jersey. Although it is licensed to do so, Allstate is not currently writing private passenger automobile or homeowners insurance in Massachusetts.

SEASONALITY

Although the insurance business generally is not seasonal, claims and claims expense for the property-liability insurance operations tend to be higher for periods of severe or inclement weather.

EMPLOYEES

At December 31, 1996, Allstate employed approximately 48,200 people.

SERVICE MARKS

The names "Allstate" and "Allstate Life," the slant "A" Allstate logo, the slogan "You're in Good Hands With Allstate" and the graphic "Good Hands" design logo which features cupped hands holding an automobile and a house, and the "Northbrook" logo design are used extensively in Allstate's businesses. Allstate's rights in the United States to the names "Allstate" and "Allstate Life," the Allstate and Northbrook logos, the "Good Hands" slogan and the "Good Hands" symbol continue so long as Allstate continues to exercise those rights. These service marks are the subject of numerous renewable United States and foreign service mark registrations. The Company believes that these service marks are material to the business of Allstate.

Executive Officers of the Registrant

The following tabulation sets forth the names of the executive officers of the Company, their current ages, the positions with Allstate held by them, and the dates of their first election as officers:

Executive Officers of the Registrant

The following tabulation sets forth the names of the executive officers of the Company, their current ages, the positions with Allstate held by them, and the dates of their first election as officers:

Name	Age	Position and Offices Held	Date First Elected Officer
Jerry D. Choate*	58	Chairman and Chief Executive Officer of the Company and AIC	1983
Joan M. Crockett	46	Senior Vice President of AIC	1994
Edward J. Dixon	53	Senior Vice President of AIC	1988
Robert W. Gary	58	Senior Vice President of AIC	1986
Steven L. Groot	47	Senior Vice President of AIC	1988
Edward M. Liddy	51	President and Chief Operating Officer of the Company and AIC	1994
Louis G. Lower, II	51	President of ALIC	1982
Michael J. McCabe	51	Senior Vice President of AIC	1980
Ronald D. McNeil	44	Senior Vice President of AIC	1994
Robert W. Pike	55	Vice President, Secretary and General Counsel of the Company; Senior Vice President, Secretary and General Counsel of AIC	1978
Francis W. Pollard	54	Senior Vice President and Chief Information Officer of AIC	1984
Casey J. Sylla	53	Senior Vice President and Chief Investment Officer of AIC	1995
Rita P. Wilson	50	Senior Vice President of AIC	1988
Thomas J. Wilson	39	Vice President and Chief Financial Officer of the Company; Senior Vice President and Chief Financial Officer of AIC	1995
Edward W. Young	56	Senior Vice President of AIC	1984

* Also a director of the Company

No family relationships exist among the above-named individuals.

Each of the officers named above was elected to serve in the office indicated until the first meeting of the Board of Directors following the annual meeting of stockholders in 1996 and until his or her successor is elected and qualified or until such officer resigns.

With the exception of officers E. Liddy, R. Wilson, T. Wilson, and C. Sylla, the above officers have held the positions set forth in the above tabulation for at least the last five years or have served Allstate in various executive or administrative capacities for at least that length of time. Prior to his election on August 10, 1994 to the position indicated above, Mr. Liddy served Sears in a financial officer capacity since April 1988, and was Sears Senior Vice President and Chief Financial Officer since February 1992. Prior to his election on January 1, 1995 to the position indicated above, T. Wilson served as Sears Vice President, Strategy and Analysis from 1993 until December 31, 1994, and prior to that served as a managing director for Dean Witter from 1986 to 1993. Prior to his election on July 5, 1995 to the position indicated above, Mr. Sylla served as a Senior Vice President for Northwestern Mutual Life Insurance Company from 1992 to 1995, and served as President of an investment management firm from 1989 to 1992. R Wilson was elected to her current position effective May 1, 1996. Prior to that, and since November 1994 she had served as Senior Vice President-Corporate Communications, for Ameritech Corporation. From September 1990 until November 1994 R. Wilson was Senior Vice President of Allstate Insurance Company.

Item 2. Properties

Allstate's home office complex is located in Northbrook, Illinois. The complex consists of 10 buildings of approximately 1.96 million square feet of office space on a 204.39 acre site.
The Northbrook complex serves as the headquarters for PP&C and ALIC.

Allstate's field business operations are conducted substantially from 17 offices located principally in metropolitan areas throughout the United States and Canada. Allstate also has approximately 250 claim service offices, sales facilities at approximately 10,500 locations, and approximately 650 automobile damage inspection locations, most of which are located at claim service offices and sales facilities.

Allstate's home office complex and most major offices are owned. Other facilities are leased, in almost all cases for terms of not more than five years. The Company believes its properties and facilities are adequate and suited to Allstate's current operations.

Item 3. Legal Proceedings

Various other legal and regulatory actions are currently pending that involve Allstate and specific aspects of its conduct of business. In the opinion of management, the ultimate liability, if any, in one or more of these actions, in excess of amounts currently reserved is not expected to have a material effect on results of operations, liquidity or capital resources. See note 9 to the Consolidated Financial Statements on pages 79-80 of the 1996 Annual Report, incorporated herein by reference in response to Item 8 hereof.

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

None

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

There were 218,987 record holders of the Company's common stock as of March 21, 1997. Other information concerning this Item 5 is incorporated by reference to "Shareholder Information" on the inside back cover of the 1996 Annual Report.

Item 6. Selected Financial Data

Incorporated by reference to "11-Year Summary of Selected Financial Data" on pages 32-33 of the 1996 Annual Report.

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

Incorporated by reference to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 34-56 of the 1996 Annual Report.

FORWARD-LOOKING STATEMENTS

The statements contained in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" portion of the 1996 Annual Report, which portion has been incorporated herein by reference in response to Item 7 hereof, that are not historical information are forward-looking statements that are based on management's estimates, assumptions and projections. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under The Securities Act of 1933 and The Securities Exchange Act of 1934 for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes several important factors that could cause the Company's actual results and experience with respect to forward-looking statements to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements:

1. Exposure to Catastrophe Losses - Management believes that the strategies implemented by the Company to manage its exposure to catastrophes will greatly reduce the probability of severe losses in the future, that the implementation of certain described actions taken in Florida will reduce the Company's exposure to losses from hurricanes in that state, and that the Company's exposure to earthquake losses in California has been significantly reduced due to the introduction of the mini-earthquake policy which has higher deductibles, eliminates coverage for most non- dwelling structures and limits personal contents coverage, and will be further reduced as a result of the creation of the CEA (see "Catastrophe Losses," "Catastrophe Management," "Florida Hurricanes" and "California Earthquakes" at pages 36-38 of the 1996 Annual Report and "Catastrophe Exposure" in this Form 10-K). These beliefs are based in part on the efficacy of the techniques and the accuracy of the data used by the Company to predict the probability of catastrophes and the extent of losses to the Company resulting from catastrophes. Catastrophes may occur in the future which indicate that such techniques do not accurately predict the Company's losses from catastrophes, and the probability and extent of such losses to the Company may differ materially from that which would have been predicted by such techniques and data.

Management's expectation that the operations of the CEA will significantly reduce Allstate's exposure to earthquake exposure in California in the future depends in part on the CEA functioning as planned. The Company could be exposed to the threat or reality of additional material assessments beyond the $700 million noted under "California Earthquakes" at pages 37- 38 of the 1996 Annual Report and "Catastrophe Exposure" in this Form 10-K if the California legislature should decide, in the future, to revise the formula and impose such additional assessments.

As noted under "Catastrophe Management" at pages 36-38 of the 1996 Annual Report and "Catastrophe Exposure" in this Form 10-K, there are areas of the United States, other than Florida and California, in which the Company remains exposed to the possibility of sustaining material losses from catastrophes due to hurricanes and earthquakes. These other areas of potential losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States; and other areas in the United States with exposure to potential earthquake losses include areas surrounding the New Madrid fault system in the Midwest and faults in and surrounding Seattle, Washington.

2. Personal Injury Severity Trends - The references to favorable personal injury severity trends which management believes may be due in part to the redesign of the Company's bodily injury claim processes (see "PP&C Underwriting Results" at pages 39-40 of the 1996 Annual Report and "Property-Liability Insurance Claims and Claims Expense Reserves" in this Form 10-K) reflect statistical data for the periods indicated. As additional statistical data for these periods becomes available as claims are settled, new estimates of average personal injury severities will be developed and may be materially higher or lower than the current estimates. Moreover, the recent favorable trends may be reversed in the future because of the increased costs of settlements and adverse judgments in cases which proceed to litigation. In the meantime, however, the current data of reduced personal injury severities may influence state insurance regulators to deny Allstate rate increases which could reduce the growth of the Company's revenues.

Management has stated (see "Property-Liability Claims and Claims Expense Reserves," at pages 42-46 of the 1996 Annual Report and "Property-Liability Insurance Claims and Claims Expense Reserves" in this Form 10-K) that although the redesign of the claims processes for personal injury claims has resulted in an increased number of claims outstanding, the rate of increase in such outstanding claims has declined and the Company believes the rate of increase will continue to decline in 1997. This supposition is based on statistical records of less than a year's duration and continuation of normal frequency trends. The statistics on outstanding personal injury claims in 1997 could indicate an acceleration of the rate of such claims pending which would increase the uncertainty associated with the statistical methods used to establish reserves.

3. Increase in Property-Liability Net Investment Income - Management expects that net investment income from its property-liability operations will increase in 1997, but not at as high a rate as the 7.9% increase in pretax net investment income in 1996 over 1995 (see "Net Investment Income and Realized Capital Gains," at pages 35-36 of the 1996 Annual Report). Any increase in net investment income will be highly dependent on the interest rate environment that exists in 1997.

4. Liquidity of Allstate Life Portfolio - Management believes that the assets in the Allstate Life portfolio are sufficiently liquid to meet future obligations to life insurance and annuity policyholders in various interest rate scenarios (see "Liquidity" at pages 51-52 of the 1996 Annual Report). However, an unexpected increase in surrenders and withdrawals, coupled with a significant increase in interest rates could make it difficult for Allstate Life to liquidate a sufficient portion of its portfolio to meet such obligations and also maintain its risk-based capital at acceptable levels.

5. Contingent Payment for Potential Deficiency in Northbrook Reserves - As stated in "Discontinued Lines and Coverages Underwriting Summary," at pages 41-42 of the 1996 Annual Report, the agreement under which Allstate sold the Northbrook companies to St. Paul in 1996 contains a provision which could require Allstate to pay St. Paul up to $100 million should Northbrook's reserves as of July 31, 1996 be determined, as of July 31, 2000, to have been understated. Management does not expect that it will be required to make a payment to St. Paul based on current trends, conditions and claim settlement processes. The establishment of appropriate reserves, including Northbrook's reserves, is an inherently uncertain process. Accordingly, the Company could be required to pay as much as $100 million to St. Paul when the July 31, 2000 calculation is agreed to, if the reserves should develop unfavorably.

6. Availability of Company's Line of Credit - The Company maintains a $1.50 billion, five-year revolving line of credit as a potential source of funds to meet short-term liquidity requirements. In order to borrow on the line of credit, AIC is required to maintain a specified statutory surplus level and the Allstate debt to equity ratio (as defined in the credit agreement) must not exceed a designated level. Under "Capital Resources" on pages 50-51 of the 1996 Annual Report, the Company's states that its management expects to continue to meet such borrowing requirements in the future. The ability of AIC and Allstate to meet these requirements is dependent upon the economic well-being of AIC. Should AIC sustain significant losses from catastrophes, its and Allstate's ability to continue to meet the credit agreement requirements would be lessened. Consequently, Allstate's

right to draw upon the line of credit could be diminished or eliminated during a period when it would be most in need of financial resources.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company, including the notes to such statements, and other information on pages 57-88 of the 1996 Annual Report are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Part III

Item 10. Directors and Executive Officers of the Registrant

Certain information regarding directors of the Company is incorporated herein by reference to the descriptions under "Election of Directors" in the 1997 Proxy Statement.

Information regarding executive officers of the Company is incorporated herein by reference to Item 1 of this Report under the caption "Executive Officers of the Registrant" in Part I hereof.

Item 11. Executive Compensation

Information regarding executive compensation is incorporated by reference to the material under the captions "Directors' Compensation and Benefits," "Executive Compensation," "Stock Options," "Pension Plans," and "Employment Contracts, Termination of Employment and Change-in-Control Arrangements" in the 1997 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the material under the headings "Security

Ownership of Directors and Executive Officers" and "Security Ownership of Certain Beneficial Owners" in the 1997 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is incorporated herein by reference to the material under the headings "Certain Relationships and Related Transactions" in the 1997 Proxy Statement.

Part IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1 and 2 An "Index to Financial Statements and Financial Statement Schedules" has been filed as a part of this Report beginning on page S-1 hereof.

(a) 3 Exhibits:

An "Exhibit Index" has been filed as a part of this Report beginning on page E-1 hereof and is incorporated herein by reference.

(b) Reports on Form 8-K:

Registrant filed a Current Report on Form 8-K dated October 8, 1996 (Items 5 and 7).

Registrant filed a Current Report on Form 8-K on December 6, 1996 (Item 7) to file exhibits in connection with the registration of Allstate Financing I.

Registrant filed a Current Report on Form 8-K on December 6, 1996 (Item 7) to file exhibits in connection with the registration of Allstate Financing II.

SIGNATURES

Pursuant to the Requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE ALLSTATE CORPORATION
(Registrant)

By: s/Samuel H. Pilch
Samuel H. Pilch
Controller
(Principal Accounting Officer)

March 25, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
s/ Jerry D. Choate Jerry D. Choate	Chairman and Chief Executive Officer and a Director (Principal Executive Officer)	March 25, 1997
s/ Thomas J. Wilson Thomas J. Wilson	Vice President and Chief Financial Officer (Principal Financial Officer)	March 25, 1997

Signature	Title		Date
s/James G. Andress James G. Andress	Director	)	
s/Warren L. Batts Warren L. Batts	Director	)	
Edward A. Brennan	Director	)	
s/James M. Denny James M. Denny	Director	)	
Christopher F. Edley	Director	)	March 25, 1997
s/Michael A. Miles Michael A. Miles	Director	)	
s/Nancy C. Reynolds Nancy C. Reynolds	Director	)	
s/Joshua I. Smith Joshua I. Smith	Director	)	
Mary Alice Taylor	Director	)	

THE ALLSTATE CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
YEAR ENDED DECEMBER 31, 1996

The following consolidated financial statements, notes thereto and related information of The Allstate Corporation are incorporated herein by reference to the Company's 1996 Annual Report.

The following additional financial statement schedules and independent auditors' report and consent are furnished herewith pursuant to the requirements of Form 10-K.

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or in notes thereto.

*   Refers to page number in Company's 1996 Annual Report.
** Incorporated by reference in Item 8 herein.
*** Incorporated by reference in Item 5 herein.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE I - SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 1996

($ in millions)

Type of Investment	Cost	Fair Value	Statement of Financial Position Carrying Value
Fixed Income Securities, Available for Sale			
Bonds:			
United States Government and government agencies and authorities	$ 3,101	$ 3,339	$ 3,339
States, municipalities and political subdivisions	13,705	14,493	14,493
Foreign governments	325	337	337
Public utilities	2,733	2,935	2,935
Convertibles and bonds with warrants attached	448	482	482
All other corporate bonds	16,225	16,832	16,832
Mortgage-backed securities	8,434	8,592	8,592
Redeemable preferred stocks	86	85	85
Total fixed income securities	45,057	$47,095	47,095
Equity securities:			
Common stocks:			
Public utilities	258	$ 326	326
Banks, trusts and insurance companies	249	433	433
Industrial, miscellaneous and all other	2,877	4,154	4,154
Nonredeemable preferred stocks	614	648	648
Total equity securities	3,998	$ 5,561	5,561
Mortgage loans on real estate	3,146		3,146
Real estate(1)	738		738
Policy loans	489		489
Other long-term investments	22		22
Short-term investments	1,278		1,278
Total investments	$ 54,728		$58,329

(1) Includes real estate acquired in satisfaction of debt of $286 million.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF OPERATIONS

($ in millions)

	Year Ended December 31, 1996	1995	1994
REVENUES			
Investment income, less investment expense	$ 10	$ 6	$ 1
EXPENSES			
Interest expense	71	65	59
Other operating expenses	8	8	3
	79	73	62
Loss from operations before income tax benefit and equity in net income of subsidiaries	(69)	(67)	(61)
Income tax benefit	(31)	(26)	(22)
Loss from operations before equity in net income of subsidiaries	(38)	(41)	(39)
Equity in net income of subsidiaries	2,113	1,945	523
Net income	$ 2,075	$ 1,904	$ 484

See accompanying notes to condensed financial information and notes to Consolidated Financial Statements incorporated herein by reference.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF FINANCIAL POSITION

($ in millions)	December 31, 1996	December 31, 1995
ASSETS		
Investment in subsidiaries	$14,777	$13,793
Short-term investments	582	39
Receivable from subsidiaries	152	-
Other assets	99	66
TOTAL ASSETS	$15,610	$13,898
LIABILITIES		
Short-term debt	$ 152	$ -
Long-term debt	1,207	1,207
Payable to subsidiaries	773	-
Other liabilities	26	11
TOTAL LIABILITIES	2,158	1,218
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value; 25 million shares authorized, none issued	-	-
Common stock, $.01 par value; 1.0 billion shares authorized; 450 million shares issued; 442 million and 448 million shares outstanding	5	5
Additional capital paid-in	3,133	3,134
Unrealized net capital gains	2,003	2,636
Unrealized foreign currency translation adjustments	21	20
Retained income	8,958	7,261
Deferred ESOP expense	(280)	(300)
Treasury stock, at cost (8.5 million and 2.5 million shares)	(388)	(76)
TOTAL SHAREHOLDERS' EQUITY	13,452	12,680
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$15,610	$13,898

See accompanying notes to condensed financial information and notes to Consolidated Financial Statements incorporated herein by reference.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS

($ in millions)

	Year Ended December 31,		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$2,075	$1,904	$ 484
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in net income of subsidiaries	(2,113)	(1,945)	(523)
Dividends received from subsidiaries	525	455	349
Changes in other operating assets and liabilities	(5)	11	6
Net cash provided by operating activities	482	425	316
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution to subsidiary	(23)	-	-
Change in short-term investments, net	(543)	(27)	24
Net cash (used in) provided by investing activities	(566)	(27)	24
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of short-term debt, net	152	-	-
Transfers to subsidiaries through intercompany loan agreement, net	(152)	-	-
Proceeds from issuance of long-term debt	-	357	-
Proceeds from borrowings from subsidiaries	773	-	-
Payment to Sears for transfer of ESOP	-	(327)	-
Dividends paid	(378)	(350)	(324)
Treasury stock purchases	(336)	(60)	(16)
Other	25	(18)	-
Net cash used in financing activities	84	(398)	(340)
Cash at end of year	$ -	$ -	$ -

See accompanying notes to condensed financial information and notes to Consolidated Financial Statements incorporated herein by reference.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES TO CONDENSED FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The financial statements of the registrant should be read in conjunction with the Consolidated Financial Statements and notes thereto included in The Allstate Corporation 1996 Annual Report to Shareholders.

2. DEBT

Long-term and short-term debt of the Registrant consists of the following:

($ in millions)	At December 31, 1996	At December 31, 1995
5.875% Notes, due 1998	$ 300	$ 300
6.75% Notes, due 2003	300	300
7.5% Debentures, due 2013	250	250
6.76% ACES, due 1998	357	357
Total Long-term debt	$1,207	$1,207
Short-term debt	152	-
Total debt	$1,359	$1,207

Information regarding the ACES is incorporated by reference to footnote 8 "Debt" on pages 78 and 79 of the 1996 Annual Report.

In early 1996, the Registrant commenced a commercial paper program to cover its short-term cash needs. The majority of the proceeds from the issuance of the commercial paper have been loaned to a subsidiary through an intercompany loan agreement and used for general corporate purposes.

The Registrant maintains a bank line credit of $1.5 billion which expires on December 20, 2001. The bank line provides for loans at a spread above prevailing referenced interest rates. The Registrant pays commitment fees in connection with the line of credit. As of December 31, 1996, no amounts were outstanding under the bank line of credit.

The Registrant paid $67 million, $61 million and $59 million of interest on debt in 1996, 1995 and 1994, respectively.

3. PAYABLE TO SUBSIDIARIES

In November 1996, the Registrant borrowed $750 million from its subsidiary trusts at a weighted-average interest rate of 7.92%. These borrowings consist of $550 million and $200 million of debentures which mature in 2026 and 2045, respectively, and are redeemable by the Registrant in whole or in part beginning in 2001 and 2006, respectively. The maturity of the $550 million debenture may be extended to 2045. The Registrant recorded $6 million of interest expense in 1996, related to these borrowings.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION

($ IN MILLIONS) SEGMENT	AT DECEMBER 31, DEFERRED POLICY ACQUISITION COSTS	RESERVES FOR CLAIMS, CLAIMS EXPENSE AND POLICY BENEFITS	UNEARNED PREMIUMS
1996			
Property-liability operations			
PP&C..................................	$ 777	$13,909	$ 6,070
Discontinued lines and coverages.......	-	3,473	2
Total property-liability operations..	777	17,382	6,072
Life operations..........................	1,837	26,407	102
Corporate and other eliminations.........	-	-	-
Total.............................	$ 2,614	$43,789	$ 6,174

($ IN MILLIONS) SEGMENT	FOR THE YEAR ENDED DECEMBER 31, PREMIUM REVENUE AND CONTRACT CHARGES	NET INVESTMENT INCOME (1)	CLAIMS, CLAIMS EXPENSE AND POLICY BENEFITS	AMORTIZATION OF POLICY ACQUISITION COSTS	OTHER OPERATING COSTS AND EXPENSES	PREMIUMS WRITTEN (EXCLUDING LIFE)
1996						
Property-liability operations						
PP&C..................................	$17,708	n/a	$13,574	$ 1,947	$ 1,771	$17,978
Discontinued lines and coverages.......	658	n/a	913	116	130	608
Total property-liability operations..	18,366	1,758	14,487	2,063	1,901	18,586
Life operations..........................	1,336	2,045	2,312	203	308	173
Corporate and other eliminations.........	-	10	-	-	(2)	-
Total.............................	$19,702	$ 3,813	$16,799	$ 2,266	$ 2,207	$18,759

(1) A single investment portfolio supports the Property-Liability segment.

($ IN MILLIONS) SEGMENT	AT DECEMBER 31, DEFERRED POLICY ACQUISITION COSTS	RESERVES FOR CLAIMS, CLAIMS EXPENSE AND POLICY BENEFITS	UNEARNED PREMIUMS
1995			
Property-liability operations			
PP&C..................................	$ 532	$12,841	$ 5,661
Discontinued lines and coverages......	72	4,846	469
Total property-liability operations..	604	17,687	6,130
Life operations..........................	1,400	25,217	58
Corporate and other eliminations.........	-	-	-

Total	$ 2,004	$42,904	$ 6,188

($ IN MILLIONS) SEGMENT	PREMIUM REVENUE AND CONTRACT CHARGES	NET INVESTMENT INCOME (1)	CLAIMS, CLAIMS EXPENSE AND POLICY BENEFITS	AMORTIZATION OF POLICY ACQUISITION COSTS	OTHER OPERATING COSTS AND EXPENSES	PREMIUMS WRITTEN (EXCLUDING LIFE)
	FOR THE YEAR ENDED DECEMBER 31,					
1995						
Property-liability operations						
PP&C	$16,524	n/a	$12,648	$ 1,768	$ 1,808	$16,941
Discontinued lines and coverages	1,016	n/a	1,040	191	148	1,024
Total property-liability operations	17,540	1,630	13,688	1,959	1,956	17,965
Life operations	1,368	1,992	2,381	184	290	180
Corporate and other eliminations	-	5	-	-	1	-
Total	$18,908	$ 3,627	$16,069	$ 2,143	$ 2,247	$18,145

(1) A single investment portfolio supports the Property-Liability segment.

($ IN MILLIONS) SEGMENT	DEFERRED POLICY ACQUISITION COSTS	RESERVES FOR CLAIMS, CLAIMS EXPENSE AND POLICY BENEFITS	UNEARNED PREMIUMS
	AT DECEMBER 31,		
1994			
Property-liability operations			
PP&C	$ 447	$12,120	$5,223
Discontinued lines and coverages	76	4,643	484
Total property-liability operations	523	16,763	5,707
Life operations	1,525	23,198	45
Corporate and other eliminations	-	-	-
Total	$2,048	$39,961	$5,752

(1) A single investment portfolio supports the Property-liability segment.

($ IN MILLIONS) SEGMENT	PREMIUM REVENUE AND CONTRACT CHARGES	NET INVESTMENT INCOME (1)	CLAIMS, CLAIMS EXPENSE AND POLICY BENEFITS	AMORTIZATION OF POLICY ACQUISITION COSTS	OTHER OPERATING COSTS AND EXPENSES	PREMIUMS WRITTEN (EXCLUDING LIFE)
	FOR THE YEAR ENDED DECEMBER 31,					
1994						
Property-liability operations						
PP&C	$15,452	n/a	$13,563	$ 1,661	$ 1,812	$15,635
Discontinued lines and coverages	1,061	n/a	966	175	205	1,104
Total property-liability operations	16,513	1,515	14,529	1,836	2,017	16,739
Life operations	1,053	1,827	2,031	169	190	170
Corporate and other eliminations	-	1	-	-	3	-
Total	$17,566	$3,343	$16,560	$ 2,005	$ 2,210	$16,909

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(1) A single investment portfolio supports the Property-liability segment.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE IV - REINSURANCE

($ IN MILLIONS)

	GROSS AMOUNT	CEDED TO OTHER COMPANIES	ASSUMED FROM OTHER COMPANIES	NET AMOUNT	PERCENT OF AMOUNT ASSUMED TO NET
YEAR ENDED DECEMBER 31, 1996					
Life insurance in force	$219,453	$33,232	$ 124	$186,345	0.1%
Premiums and contract charges					
Life insurance	$ 1,163	$ 94	$ -	$ 1,069	- %
Accident-health insurance	252	2	17	267	6.4%
Property-liability insurance	18,487	479	358	18,366	1.9%
Total premiums and contract charges	$ 19,902	$ 575	$ 375	$ 19,702	1.9%
YEAR ENDED DECEMBER 31, 1995					
Life insurance in force	$176,615	$14,057	$ 140	$162,698	0.1%
Premiums and contract charges					
Life insurance	$ 1,164	$ 43	$ -	$ 1,121	-%
Accident-health insurance	240	4	11	247	4.5%
Property-liability insurance	17,178	524	886	17,540	5.1%
Total premiums and contract charges	$ 18,582	$ 571	$ 897	$ 18,908	4.7%
YEAR ENDED DECEMBER 31, 1994					
Life insurance in force	$153,905	$11,649	$ 129	$142,385	0.1%
Premiums and contract charges					
Life insurance	$ 868	$ 34	$ -	$ 834	-%
Accident-health insurance	224	14	9	219	4.1%
Property-liability insurance	16,177	549	885	16,513	5.4%
Total premiums and contract charges	$ 17,269	$ 597	$ 894	$ 17,566	5.1%

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE V - VALUATION AND QUALIFYING ACCOUNTS

($ IN MILLIONS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	ADDITIONS OTHER ADDITIONS	DEDUCTIONS(1)	BALANCE AT END OF PERIOD
Year Ended December 31, 1996					
Allowance for estimated losses on mortgage loans and real estate	$100	$31		$55	$76
Allowance for reinsurance recoverable	246	18		101	163
Allowance for premium installment receivable	30	111		85	57
YEAR ENDED DECEMBER 31, 1995					
Allowance for estimated losses on mortgage loans and real estate	$ 97	$53		$50	$100
Allowance for reinsurance recoverable	126	133		13	246
Allowance for premium installment receivables	-	63		33	30
YEAR ENDED DECEMBER 31, 1994					
Allowance for estimated losses on mortgage loans	$ 93	$65		$61	$ 97
Allowance for reinsurance recoverable	110	26		10	126

(1) Deductions in allowance for estimated losses on mortgage loans represent amounts transferred to real estate. Deductions in allowance for reinsurance recoverable represent write-offs, net of recoveries, of amounts determined to be uncollectible.

THE ALLSTATE CORPORATION AND SUBSIDIARY
SCHEDULE VI
SUPPLEMENTAL INFORMATION CONCERNING CONSOLIDATED
PROPERTY-CASUALTY INSURANCE OPERATIONS

($ IN MILLIONS)	DECEMBER 31,		
	1996	1995	1994
Deferred policy acquisition costs	$ 777	$ 604	$ 523
Reserves for unpaid claims and claim adjustments	17,382	17,687	16,763
Unearned premiums	6,072	6,130	5,707

($ IN MILLIONS)	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Earned premiums	$18,366	$17,540	$16,513
Net investment income	1,758	1,630	1,515
Claims and claims adjustment expense incurred			
Current year	14,823	14,113	15,241
Prior year	(336)	(425)	(712)
Amortization of deferred policy acquisition costs	2,063	1,959	1,836
Paid claims and claims adjustment expense	15,045	12,938	13,242
Premiums written	18,586	17,965	16,739

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The Allstate Corporation

We have audited the consolidated financial statements of The Allstate Corporation and subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, and have issued our report thereon dated February 21, 1997; such consolidated financial statements and report are included in The Allstate Corporation 1996 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedules of The Allstate Corporation and subsidiaries, listed in the Index at Item 14 (a) 2. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Chicago, Illinois
February 21, 1997

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-88540 and 333-10857 on Form S-3 and Registration Statement Nos. 33-77928, 33-93758, 33-93760, 33-93762, 33-99132, 33-99136, 33-99138, 333-04919, 333-16129 and 333-23309 on Form S-8 of The Allstate Corporation of our reports dated February 21, 1997, appearing in or incorporated by reference in this Annual Report on Form 10-K of The Allstate Corporation for the year ended December 31, 1996.

Chicago, Illinois
March 25, 1997

EXHIBIT INDEX

The Allstate Corporation Form 10-K
For the Year Ended December 31, 1996

Exhibit No.	Document Description	Sequential Page No.
3.(a)	Restated Certificate of Incorporation of The Allstate Corporation as amended effective August 18, 1995. Incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995**	
3.(b)	By-Laws as amended effective June 29, 1995. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.**	
4.	Registrant hereby agrees to furnish to the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.	
10.1	Master Agreement for Systems Operations Services, dated as of November 30, 1992, between Allstate Insurance Company and Advantis, a New York general partnership. Incorporated by reference to Exhibit 10.5 to Registration Statement No. 33-59676.	

Exhibit No.	Document Description	Sequential Page No.
10.2	Human Resources Allocation Agreement, dated as of May 27, 1993, among Sears, Roebuck and Co., The Allstate Corporation and Allstate Insurance Company. Incorporated by reference to Exhibit 10.14 to Registration Statement No. 33-59676.	
10.3	IPO Related Intercompany Agreement, dated as of May 29, 1993, between The Allstate Corporation and Sears, Roebuck and Co. Incorporated by reference to Exhibit 10.15 to Registration Statement No. 33-59676.	
10.4	Tax Sharing Agreement dated May 14, 1993 between Sears, Roebuck and Co. and its subsidiaries. Incorporated by reference to Exhibit 10.6 to Amendment No. 3 to Registration Statement No. 33-59676.	
10.5	Separation Agreement dated February 20, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(a) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.6	Marketing File Separation Agreement dated February 20, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(b) to the Company's Current Report on Form 8-K dated February 22, 1995.**	

Exhibit No.	Document Description	Sequential Page No.
10.7	Research Services Agreement dated February 20, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(c) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.8	Supplemental Tax Sharing Agreement dated January 27, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(d) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.9	Supplemental Human Resources Allocation Agreement dated January 27, 1995 between Incorporated by reference to Exhibit 10(e) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.10	Profit Sharing and Employee Stock Ownership Plan Allocation Agreement dated January 27, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(f) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.11*	Allstate Insurance Company Supplemental Retirement Income Plan, as amended and restated effective January 1, 1996. Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.**	
10.12*	The Allstate Corporation Equity Incentive Plan for Non-Employee Directors, as amended and restated on November 12, 1996.	

Exhibit No.	Document Description	Sequential Page No.
10.13*	The Allstate Corporation Amended and Restated Deferred Compensation Plan for Non-Employee Directors. Incorporated by reference to Exhibit 4 to Registration Statement No. 333-16129	
10.14*	The Allstate Corporation Annual Executive Incentive Compensation Plan. Incorporated by reference to Appendix A to the Company's Proxy Statement dated March 31, 1994.**	
10.15*	The Allstate Corporation Long-Term Executive Incentive Compensation Plan. Incorporated by reference to Appendix B to the Company's Proxy Statement dated March 31, 1994.**	
10.16*	The Allstate Corporation Equity Incentive Plan, as amended and restated on November 12, 1996.	
10.17*	Form of stock option under the Equity Incentive Compensation Plan. Incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.**	
10.18*	Form of restricted stock grant under the Equity Incentive Plan.	
10.19*	The Allstate Corporation Deferred Compensation Plan as amended and restated effective January 1, 1996. Incorporated by reference to Exhibit 4 to the Company's Registration Statement No. 33-99136.	
10.20*	The Allstate Corporation Employees Replacement Stock Plan, as amended and restated on November 12, 1996.	

Exhibit No.	Document Description	Sequential Page No.
10.21*	Form of stock option under the Replacement Stock Plan. Incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.**	
10.22*	Form of restricted stock grant under the Replacement Stock Plan. Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.**	
10.23*	Retirement agreement dated August 9, 1994 between Wayne E. Hedien and the Company. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.**	
11	Computation of Earnings per Common Share.	
12	Computation of Earnings to Fixed Charges Ratio.	
13	Portions of The Allstate Corporation 1996 Annual Report incorporated by reference into Part I or Part II of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.	
21	Subsidiaries of the Registrant.	
23	Independent Auditors' Consent.	

Exhibit No.	Document Description	Sequential Page No.
27	Financial Data schedule, submitted electronically to the Securities and Exchange Commission for information only and not filed.	

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* A management contract or compensatory plan or arrangement.
** SEC File No. 1-11840

Exhibit 11

The Allstate Corporation and Subsidiaries
Computation of Earnings Per Common Share

(In millions, except for per share data)	Twelve Months Ended December 31,		
	1996	1995	1994
Net Income	$2,075	$1,904	$484
Primary earnings per common share computation:			
Weighted average number of common shares (1)	445.4	448.5	449.8
Assumed exercise of dilutive stock options	2.8	1.0	-
Adjusted weighted number of common shares outstanding	448.2	449.5	449.8
Primary net income per share	$4.63	$4.24	$1.08
Fully diluted earnings per common share computation:			
Weighted average number of common shares (1)	445.4	448.5	449.8
Assumed exercise of dilutive stock options	3.5	2.6	-
Adjusted weighted number of common shares outstanding	448.9	451.1	449.8
Fully diluted net income per share	$4.62	$4.22	$1.08

(1) Common shares held as treasury shares were 8.5 million, 2.5 million and .6 million at December 31, 1996, 1995 and 1994, respectively.

THE ALLSTATE CORPORATION
COMPUTATION OF EARNINGS TO FIXED CHARGES RATIO

Exhibit 12

(In millions)	1996	1995	1994	1993	1992
	For the Year Ended December 31,				
1. Income (loss) from continuing operations before income taxes and cumulative effect of accounting changes, equity in net income of unconsolidated subsidiary, and dividends on preferred securities of subsidiary trust	$2,669	$2,421	$120	$1,282	($1,528)
2. Equity in income of 100% owned subsidiary	-	49	107	94	103
3. Dividends from less than 50% owned subsidiary	2	2	-	-	-
4. Income(loss) from continuing operations before income taxes and cumulative effect of accounting changes	$2,671	$2,472	$227	$1,376	($1,425)
Fixed Charges:					
5. Interest of indebtedness	$ 76	$ 72	$ 60	$ 81	$ -
6. Interest factor of annual rental expense	71	90	95	96	92
7. Total fixed charges (5+6)	$ 147	$162	$155	$177	$92
8. Dividends on redeemable preferred securities	6	-	-	-	-
9. Total fixed charges and dividends on redeemable preferred securities	$ 153	$ 162	$ 155	$ 177	$ 92
10. Income (loss) from continuing operations before income taxes, cumulative effect of accounting changes and fixed charges (1+4)	$2,818	$2,634	$382	$1,553	($1,333)
11. Ratio of earnings to fixed charges	18.4X	16.3X	2.5X	8.8X	(B)
12. Interest credited to contractholder funds	$1,196	$1,191	$1,079	$1,104	$1,164
13. Total fixed charges including dividends on redeemable preferred securities and interest credited to contractholder funds (9+12)	$1,349	$1,353	$1,234	$1,281	$1,256
14. Income (loss) from continuing operations before income taxes, cumulative effect of accounting changes and fixed charges including interest credited to investment contracts (4+7+12)	$4,014	$3,825	$1,461	$2,657	($169)
15. Ratio of earnings to fixed charges, including interest credited to investment contracts	3.0X	2.8X	1.2X	2.1X	(C)

(A) The Company has authority to issue up to 25,000,000 shares of preferred sock, par value $1.00 per share; however, there are currently no shares outstanding and the Company does not have a preferred stock dividend obligation. Therefore, the Ratio of Earnings to Fixed Charges and Preferred Stock Dividends is equal to the Ratio of Earnings to Fixed Charges and is not disclosed separately. Certain items have been reclassified to conform with the current presentation.

(B) For purposes of this computation, earnings consist of income(loss) from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense, amortization of financing costs, that portion of rental expense that is representative of the interest factor and dividends on redeemable preferred securities. Earnings of the year ended December 3, 1992 were not sufficient to cover fixed charges by $1,425 million. The loss from 1992 resulted primarily from the impact of Hurricane Andrew which caused pre-tax losses after reinsurance of $2.5 billion. excluding losses from Hurricane Andrew, the 1992 ratio was 12.7x.

(C) For purposes of this computation, earnings consist of income (loss) from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense (including interest credited to investment contracts), amortization of financing costs, that portion of rental expense that is representative of the interest factor and dividends on redeemable preferred securities. Earnings for the year ended December 31, 1992 were not sufficient to cover fixed charges by $1,425 million. The loss in 1992 resulted primarily from the impact of Hurricane Andrew which caused pre-tax losses after reinsurance of $2.5 billion. Excluding losses from Hurricane Andrew, the 1992 ratio was 1.9x.

EXHIBIT 10.12

THE ALLSTATE CORPORATION

EQUITY INCENTIVE PLAN FOR NON-EMPLOYEE DIRECTORS

AS AMENDED AND RESTATED ON NOVEMBER 12, 1996

I. PURPOSE.

The purpose of The Allstate Corporation Equity Incentive Plan for Non-Employee Directors (the "Plan") is to promote the interests of The Allstate Corporation (the "Company") by providing an inducement to obtain and retain the services of qualified persons as members of the Company's Board of Directors (the "Board") and to align more closely the interests of such persons with the interests of the Company's stockholders by providing a significant portion of the compensation provided to such persons in the form of equity securities of the Company.

II. ADMINISTRATION.

The Plan shall be administered by the Committee. The Committee shall have full power to construe and interpret the Plan and Shares and Options granted hereunder, to establish and amend rules for its administration and to correct any defect or omission and to reconcile any inconsistency in the Plan or in any Share or Option granted hereunder to the extent the Committee deems desirable to carry the Plan or any Share or Option granted hereunder into effect. Any decisions of the Committee in the administration of the Plan shall be final and conclusive. The Committee may authorize any one or more of its members, the secretary of the Committee or any officer of the Company to execute and deliver documents on behalf of the Committee. Each member of the Committee, and, to the extent provided by the Committee, any other person to whom duties or powers shall be delegated in connection with the Plan, shall incur no liability with respect to any action taken or omitted to be take in connection with the Plan and shall be fully protected in relying in good faith upon the advice of counsel, to the fullest extent permitted under applicable law.

III. ELIGIBILITY.

Each Non-Employee Director shall be eligible to participate in the Plan.

IV. LIMITATION ON AGGREGATE SHARES.

A. Maximum Number of Shares. The aggregate maximum number of Shares that may be granted pursuant to the Plan or issued upon exercise of Options granted pursuant to the Plan shall be 300,000 shares. Such maximum number of Shares is subject to adjustment under the provisions of Section IV.B. The Shares to be granted or issued upon exercise of Options may be authorized but unissued Shares or Shares previously issued which have been reacquired by the Company. In the event any Option or Reload Option shall, for any reason, terminate or expire or be surrendered without having been exercised in full, the Shares subject to such Option or Reload Option but not

purchased thereunder shall be available for future Options or Reload Options to be granted under the Plan.

B. Adjustment. The maximum number of Shares referred to in Section IV.A of the Plan, the number of Shares granted pursuant to Section VI of the Plan, the number of Options granted pursuant to Section VII of the Plan, and the option price and the number of Shares which may be purchased under any outstanding Option granted under Section VII of the Plan shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding Shares as the result of (i) the declaration and payment of a dividend payable in Common Stock, or the division of the Common Stock outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) into a greater number of Shares without the receipt of consideration therefor by the Company, or any other increase in the number of such Shares of the Company outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) which is effective without the receipt of consideration therefor by the Company (exclusive of any Shares granted by the Company to employees of the Company or any of its Subsidiaries without receipt of separate consideration by the Company), or (ii) the consolidation of the Shares outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) into a smaller number of Shares without the payment of consideration thereof by the Company, or any other decrease in the number of such Shares outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) effected without the payment of consideration by the Company; provided, however, that the total option price for all Shares which may be purchased upon the exercise of any Option granted pursuant to the Plan (computed by multiplying the number of Shares originally purchasable thereunder, reduced by the number of such Shares which have theretofore been purchased thereunder, by the original option price per share before any of the adjustments herein provided for) shall not be changed.

In the event of a change in the Common Stock as presently constituted which is limited to a change of the Company's authorized shares with a par value into the same number of shares with a different par value or without par value, the shares resulting from any such change will be deemed to be the Common Stock within the meaning of this Plan and no adjustment will be required pursuant to this Section IV.B.

The foregoing adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided in this Section IV.B, a Non-Employee Director shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

V. DEFINITIONS.

The following terms shall have the meanings set forth below when used herein:

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation and Nominating Committee of the Board, any successor committee of the Board performing similar functions or, in the absence of such a committee, the Board.

"Common Stock" means the Common Stock, par value $.01 per share, of the Company.

"Disability" means a mental or physical condition which, in the opinion of the Committee, renders a Non-Employee Director unable or incompetent to carry out his or her duties as a member of the Board and which is expected to be permanent or for an indefinite duration.

"Election Shares" means any Shares issued to a Non-Employee Director pursuant to the election of such person to receive such Shares in lieu of cash compensation made in accordance with Section VIII.B.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" of any Share means, as of any applicable date, the mean between the high and low prices of the Shares as reported on the New York Stock Exchange-Composite Tape, or if no such reported sale of the Shares shall have occurred on such date, on the next succeeding date on which there was such a reported sale.

"Initial Election Date" means, for each Non-Employee Director, the later to occur of (i) the date the Plan is approved and adopted by the Company's stockholders pursuant to Section XIII of the Plan, and (ii) the date of such member's initial election or appointment to the Board.

"Non-Employee Director" means each member of the Board who is not an officer or employee of the Company or any of its Subsidiaries.

"Option" means an option to purchase shares of Common Stock.

"Shares" means shares of Common Stock.

"Subsidiary" means any partnership, corporation, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more of the other Subsidiaries of the Company or a combination thereof, or (ii) if a partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity, a majority of the partnership or other similar equity ownership interest thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more Subsidiaries of the Company or a combination thereof. For purposes hereof, the Company or a Subsidiary shall be deemed to have a majority ownership interest in a partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity if the Company or such Subsidiary shall be allocated a majority of partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity gains or losses or shall be or control the managing director, the trustee, the manager or the general partner of such partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity.

VI. FORMULA RESTRICTED STOCK GRANTS FOR NON-EMPLOYEE DIRECTORS.

A. Annual Grant of Shares. Beginning December 1, 1996, on December 1 of each year 500 Shares shall automatically be granted to each Non-Employee Director serving on the Board on such date who has served in such capacity since June 1 of such year. If any person serving as a Non- Employee Director on June 1 of any year ceases to serve as a director of the Company prior to December 1 of such year, such director shall be automatically granted on his or her last day of service a number of Shares equal to (i) 500 multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director has served on the Board during the period beginning on such June 1 and ending on such director's last date of service and the denominator of which is 6.

B. Grant for Newly Appointed Directors. If after June 1, 1996 a Non-Employee Director is initially elected or appointed to the Board effective on any date other than June 1, such Non- Employee Director shall automatically be granted, on the June 1 following the date he or she joins the Board (or such earlier date as he or she ceases to serve as a director), a number of Shares equal to (i) 500 multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director has served on the Board during the period beginning on the date such director joined the Board and ending on the following May 31 (or such earlier date as he or she ceases to serve as a director) and the denominator of which is 6; provided that such fraction shall in no event be greater than one.

C. Transition Grant for Existing Directors. Subject to stockholder approval and adoption pursuant to Section XIII of the Plan, on May 31, 1996, each Non-Employee Director who was serving on the Board on March 12, 1996 shall be automatically granted a number of Shares equal to (i) 200 multiplied by (ii) a fraction, the numerator of which is the number of full calendar months of service by such Non-Employee Director during the period beginning on the later of (a) such director's last anniversary date for service on the Board and (b) the date such director first attained the status of Non-Employee Director and ending on May 31, 1996 (or such earlier date as such director ceases to serve as a director) and the denominator of which is 12.

D. Rounding of Share Amounts. To the extent that application of the the foregoing formulas would result in fractional Shares being issuable, such Non-Employee Director shall be granted a number of Shares equal to the nearest whole number of Shares.

E. Payment for Estimated Taxes. In addition, the Company shall pay to each Non-Employee Director, in cash, as soon as practicable after each issuance of Shares pursuant to this

Section VI, an amount equal to the estimated increase in such Non-Employee Director's federal, state and local tax liabilities as a result of such grant of Shares, assuming the maximum statutory tax rates applicable to such Non-Employee Director.

F. Restrictions. The Non-Employee Directors shall have no rights as a shareholder with respect to any Shares to be granted pursuant to this Section VI prior to the time such Shares are granted. Upon such grant, the Shares shall be represented by a stock certificate registered in the name of the holder. The Shares granted pursuant to this Section VI shall be fully vested, but shall be subject to certain restrictions during the six month period following the date of grant (the "Restriction Period"). The holder shall have the right to enjoy all shareholder rights during the Restriction Period (including the right to vote the Shares and the right to receive any cash or other dividends paid in respect thereof) with the exception that (i) the holder may not sell, transfer, pledge or assign the Shares during the Restriction Period, and (ii) the Company shall retain custody of the certificates representing the Shares during the Restriction Period.

All restrictions shall lapse and the holder of the Shares shall be entitled to the delivery of a stock certificate or certificates representing the Shares (and to the removal of any restrictive legend set forth on such certificates) upon the earliest of (i) six months from the date of grant of such Shares, (ii) the date of the holder's death or Disability, and (iii) the date on which the holder is no longer serving as a director of the Company.

VII. FORMULA STOCK OPTION GRANTS FOR NON-EMPLOYEE DIRECTORS.

A. Annual Grant of Options. On June 1 of each year, beginning June 1, 1996, Options to purchase 1,500 Shares shall automatically be granted to each Non-Employee Director serving on the Board on such date. If any such Non-Employee Director will be required to retire (pursuant to the policies of the Board) during the 12 month period beginning on the date of any grant (or if any such Non-Employee Director has notified the Board that he or she intends to resign from the Board for any reason during the 12 month period beginning on the date of any grant), such director shall instead be granted on June 1 of the relevant year Options to purchase a number of Shares equal to (i) 1,500, multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director will serve on the Board during the period beginning on such June 1 and ending on such director's last date of service and the denominator of which is 12.

B. Grant for Newly Appointed Directors. If after June 1, 1996 a Non-Employee Director is initially elected or appointed to the Board effective on any date other than June 1, such Non- Employee Director shall automatically be granted, on the date he or she joins the Board, Options to purchase a number of Shares equal to (i) 1,500, multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director will serve on the Board during the period beginning on the date such director joins the Board and ending on the following May 31 and the denominator of which is 12.

C. Option Exercise Price. The exercise price per Share for each Option shall be 100% of the Fair Market Value of a Share on the date of grant, subject to Section IV.B.

D. Term of Options. Each Option shall be exercisable for ten years after the date of grant, subject to Section VII.F.

E. Conditions and Limitations on Exercise.

(i) Vesting. Each Option shall vest in three equal installments on the first, second and third anniversaries of the date of grant. Upon a Non-Employee Director's mandatory retirement pursuant to the policies of the Board, the unvested portions of any outstanding Options held by such Non-Employee Director shall fully vest. Upon the termination of a Non-Employee Director's tenure for any other reason, the unvested portions of any outstanding Options shall expire and no Options granted to such Non-Employee Director shall vest after the termination of such director's tenure on the Board.

(ii) Exercise. Each Option shall be exercisable in one or more installments and shall not be exercisable for less than 100 Shares, unless the exercise represents the entire remaining exercisable balance of a grant or grants. Each Option shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of Shares subject to the Option. The option price of any Shares as to which an Option shall be exercised shall be paid in full at the time of the exercise. Payment may, at the election of the Non-Employee Director, be made in any one or any combination of the following forms:

(a) check or wire transfer of funds in such form as may be satisfactory to the Committee;

(b) delivery of Shares valued at their Fair Market Value on the date of exercise or, if the date of exercise is not a business day, the next succeeding business day;

(c) through simultaneous sale through a broker of unrestricted Shares acquired on exercise, as permitted under Regulation T of the Federal Reserve Board; or

(d) by authorizing the Company in his or her written notice of exercise to withhold from issuance a number of Shares issuable upon exercise of such Option which, when multiplied by the Fair Market Value of Common Stock on the date of exercise (or, if the date of exercise is not a business day, the next succeeding business day), is equal to the aggregate exercise price payable with respect to the Option so exercised.

In the event a Non-Employee Director elects to pay the exercise price payable with respect to an Option pursuant to clause (b) above, (i) only a whole number of Share(s) (and not fractional Shares) may be tendered in payment, (ii) such Non-Employee Director must present evidence acceptable to the Company that he or she has owned any such Shares tendered in payment of the exercise price (and that such Shares tendered have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise, and (iii) the certificate(s) for all such

Shares tendered in payment of the exercise price must be accompanied by duly executed instruments of transfer in a form acceptable to the Company. When payment of the Option exercise price is made by the tender of Shares, the difference, if any, between the aggregate exercise price payable with respect to the Option being exercised and the Fair Market Value of the Share(s) tendered in payment (plus any applicable taxes) shall be paid by check or wire transfer of funds. No Non- Employee Director may tender Shares having a Fair Market Value exceeding the aggregate exercise price payable with respect to the Option being exercised.

In the event a Non-Employee Director elects to pay the exercise price payable with respect to an Option pursuant to clause (d) above, (i) only a whole number of Share(s) (and not fractional Shares) may be withheld in payment and (ii) such Non-Employee Director must present evidence acceptable to the Company that he or she has owned a number of Shares at least equal to the number of Shares to be withheld in payment of the exercise price (and that such owned Shares have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise. When payment of the Option exercise price is made by the withholding of Shares, the difference, if any, between the aggregate exercise price payable with respect to the Option being exercised and the Fair Market Value of the Share(s) withheld in payment (plus any applicable taxes) shall be paid by check or wire transfer of funds. No Non-Employee Director may authorize the withholding of Shares having a Fair Market Value exceeding the aggregate exercise price payable with respect to the Option being exercised. Any withheld Shares shall no longer be issuable under such Option.

F. Additional Provisions.

(i) Accelerated Expiration of Options Upon Termination of Directorship. Upon the termination of a Non-Employee Director's tenure for any reason, each outstanding vested and previously unexercised Option shall expire three months after the date of such termination; provided that (a) upon the termination of a Non-Employee Director's tenure as a result of death or Disability, each outstanding vested and previously unexercised Option shall expire two years after the date of his or her termination as a director, and (b) upon the mandatory retirement of a Non-Employee Director pursuant to the policies of the Board, each outstanding vested and previously unexercised Option shall expire five years after the date of his or her termination as a director. In no event shall the provisions of this Section VII.F operate to extend the original expiration date of any Option.

(ii) Sale of the Company. In the event of a merger of the Company with or into another corporation constituting a change of control of the Company, a sale of all or substantially all of the Company's assets or a sale of a majority of the Company's outstanding voting securities (a "Sale of the Company"), the Options may be assumed by the successor corporation or a parent of such successor corporation or substantially equivalent options may be substituted by the successor corporation or a parent of such successor corporation, and if the successor corporation does not assume the Options or substitute options, then all outstanding and unvested Options shall become immediately exercisable and all outstanding Options shall terminate if not exercised as of the date of the Sale of the Company (or other prescribed period of time). The Company shall provide at least 30 days prior written notice of the Sale of the Company to the holders of all outstanding Options, which notice shall state whether (a) the Options will be assumed by the successor corporation or substantially equivalent options will be substituted by the successor corporation, or (b) the Options are thereafter vested and exercisable and will terminate if not exercised as of the date of the Sale of the Company (or other prescribed period of time).

(iii) Liquidation or Dissolution. In the event of the liquidation or dissolution of the Company, Options shall terminate immediately prior to the liquidation or dissolution.

G. Grant of Reload Options. A Non-Employee Director who exercises all or any portion of an Option by the tender or withholding of Shares which have a Fair Market Value equal to not less than 100% of the exercise price for such Options (the "Exercised Options") shall be granted, subject to Section IV, an additional option (a "Reload Option") for a number of Shares equal to the sum of the number of Shares tendered or withheld in payment of the exercise price for the Exercised Options.

Reload Options shall be subject to the following terms and conditions:

(i) the grant date for each Reload Option shall be the date of exercise of the Exercised Option to which it relates;

(ii) subject to clause (iii) below, the Reload Option may be exercised at any time during the unexpired term of the Exercised Option (subject to earlier termination thereof as provided in the Plan); and

(iii) the other terms of the Reload Option shall be the same as the terms of the Exercised Option to which it relates and shall be subject to the provisions of the Plan, except that (a) the option price shall be the Fair Market Value of the Shares on the grant date of the Reload Option, (b) no Reload Option may be exercised within six months from the grant date thereof, and (c) no other Reload Option shall be granted upon exercise of such Reload Option.

H. Non-Qualified Stock Options. All Options granted under the Plan shall be non-qualified options not entitled to special tax treatment under Code Section 422, as may be amended from time to time.

VIII. ELECTION TO RECEIVE STOCK IN LIEU OF CASH COMPENSATION.

A. General. A Non-Employee Director may elect to reduce the cash compensation otherwise payable for services to be rendered by him or her as a director for any period beginning on June 1 and continuing to the following May 31 (or such other period for which cash compensation is payable to Non-Employee Directors pursuant to the policies of the Board), beginning June 1, 1996 and to receive in lieu thereof Shares as provided in this Section VIII.

B. Election. By the later of (i) the date of the Company's annual meeting of stockholders next preceding the June 1 to which such election relates (but in no event less than five business days prior to such June 1) and (ii) such Non-Employee Director's Initial Election Date, each Non-Employee Director may make an irrevocable election to receive, in lieu of all or a specified percentage (which percentage shall be in 10% increments) of the cash compensation to which such director would otherwise be entitled as a member of the Board and any committee thereof (including the annual retainer fee and any meeting or other fees payable for services on the Board or any committee thereof, but excluding any reimbursement for out-of-pocket expenses) for the year beginning the following June 1 (or such other period for which cash compensation is payable to such Non-Employee Director pursuant to the policies of the Board), an equivalent value in Shares granted in accordance with this Section VIII. An election shall be effective (i) if made in accordance with clause (i) of the preceding sentence, beginning on the June 1 following such election; and (ii) if made on such Non-Employee Director's Initial Election Date, immediately.

Each such election shall (i) be in writing in a form prescribed by the Company, (ii) specify the amount of cash compensation to be received in the form of Election Shares (expressed as a percentage of the compensation otherwise payable in cash), and (iii) be delivered to the Secretary of the Company. Such election may not be revoked or changed thereafter except as to compensation for services to be rendered in any 12 month period beginning on any June 1 at least six months following such revocation or new election.

C. Issuance of Common Stock. If a Non-Employee Director elects pursuant to Section VIII.B above to receive Shares, there shall be issued to such director promptly following each subsequent June 1 for which such election is effective (or promptly following the first day of such other period for which such election is effective) a number of Shares equal to the amount of compensation otherwise payable for the 12 month period beginning on such June 1 (or the other period for which such election is effective) divided by the Fair Market Value of the Shares on such June 1 (or on the first day of such other period). To the extent that the application of the foregoing formula would result in fractional shares of Common Stock being issuable, cash will be paid to the Non-Employee Director in lieu of such fractional Shares based upon the Fair Market Value of such fractional Share.

D. Compliance with Exchange Act. The election to receive Election Shares is intended to comply in all respects with Rule 16b-3(d)(1) promulgated under Section 16(b) of the Exchange Act such that the issuance of Election Shares under the Plan on a grant date occurring at least six months after the election shall be exempt from Section 16(b) of the Exchange Act.

E. Grant Date. The grant date for each Election Share for the Non-Employee Director electing such option shall be the first day of the period to which such election relates and is effective.

IX. MISCELLANEOUS PROVISIONS.

A. Rights of Non-Employee Directors. No Non-Employee Director shall be entitled under the Plan to voting rights, dividends or other rights of a stockholder prior to the issuance of Common Stock. Neither the Plan nor any action taken hereunder shall be construed as giving any Non-Employee Director any right to be retained in the service of the Company.

B. Limitations on Transfer and Exercise. All Options granted under the Plan shall not be transferable by the Non-Employee Director, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, as defined by ss.1 et seq, of the Code, Title I of ERISA or the rules and regulations thereunder, and shall be exercisable during the Non-Employee Director's lifetime only by such Non-Employee Director or by such Non-Employee Director's guardian or other legal representative.

C. Compliance with Laws. No shares of Common Stock shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign securities, securities exchange and other applicable laws and requirements. Each Share granted pursuant to Section VI or Section VIII and each Option granted pursuant to Section VII shall be subject to the requirement that if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the Shares granted or subject to the Option upon any securities exchange or under any state or federal securities or other law or regulation, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition to or in connection with the granting of such Share, such Option or the issuance or purchase of Shares thereunder, no such Share may be issued and no Option may be exercised or paid in Common Stock, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The holder of such Share or Option will supply the Company with such certificates, representations and information as the Company shall request and shall otherwise cooperate with the Company in obtaining such listing, registration, qualification, consent or approval. The Committee may at any time impose any limitations upon the sale of a Share or the exercise of an Option or the sale of the Common Stock issued upon exercise of an Option that, in the Committee's discretion, are necessary or desirable in order to comply with Section 16(b) of the Exchange Act and the rules and regulations thereunder. The Committee may at any time impose additional limitations, or may amend or delete the existing limitations, upon the exercise of Options by the tender or withholding of Shares in accordance with Section VII.E (including an amendment or deletion of the related ownership period for Shares specified in such Section), if such additional, amended or deleted limitations are necessary, desirable or no longer required (as the case may be) to remain in compliance with applicable accounting pronouncements relating to the treatment of the plan as a fixed plan for accounting purposes.

D. Payment of Withholding Tax. Whenever Shares are to be issued pursuant to Section VI or Section VIII of the Plan or upon exercise of Options issued pursuant to Section VII of the Plan, the Company shall be entitled to require as a condition of delivery (i) that the participant remit an amount sufficient to satisfy all federal, state and local withholding tax requirements related thereto, (ii) the withholding of Shares due to the participant under the Plan with a Fair Market Value equal to such amount, or (iii) any combination of the foregoing.

E. Expenses. The expenses of the Plan shall be borne by the Company and its Subsidiaries.

F. Deemed Acceptance, Ratification and Consent. By accepting any Common Stock hereunder or other benefit under the Plan, each Non-Employee Director and each person claiming under or through him or her shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

G. Securities Act Registration. The Company shall use its best efforts to cause to be filed under the Securities Act of 1933, as amended, a registration statement covering the Shares issued, and issuable upon exercise of options granted, under the Plan.

H. Governing Law. The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of Delaware.

I. Election Shares. Pending the grant of Election Shares hereunder, all compensation earned by a Non-Employee Director with respect to which an election to receive the grant of Election Shares pursuant to Section VIII.B has been made shall be the property of such director and shall be paid to him or her in cash in the event that Election Shares are not granted by the Company hereunder.

J. Headings; Construction. Headings are given to the sections of the Plan solely as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of the Plan or any provisions hereof. The use of the singular shall also include within its meaning the plural, where appropriate, and vice versa.

XI. AMENDMENT.

The Plan may be amended at any time and from time to time by resolution of the Board as the Board shall deem advisable; provided, however, that no amendment shall become effective without stockholder approval if such stockholder approval is required by law, rule or regulation. No amendment of the Plan shall materially and adversely affect any right of any participant with respect to any Options or Shares theretofore granted under the Plan without such participant's written consent, except for any modifications required to maintain compliance with any federal or state statute or regulation.

XII. TERMINATION.

The Plan shall terminate upon the earlier of the following dates or events to occur:

(i) upon the adoption of a resolution of the Board terminating the Plan; and

(ii) ten years from the date the Plan is initially approved and adopted by the stockholders of the Company in accordance with Article XIII.

Except as specifically provided herein, no termination of the Plan shall materially and adversely affect any of the rights or obligations of any person without his or her consent with respect to any Options or Shares theretofore granted under the Plan.

XIII. STOCKHOLDER APPROVAL AND ADOPTION.

The Plan was originally adopted by the Board on March 12, 1996 and was approved and adopted at a meeting of the stockholders of the Company held on May 21, 1996. The Plan was amended and restated by the Board at a meeting held on November 12, 1996.

EXHIBIT 10.16

THE ALLSTATE CORPORATION

EQUITY INCENTIVE PLAN

AS AMENDED AND RESTATED ON NOVEMBER 12, 1996

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The Plan. The Company established The Allstate Corporation Equity Incentive Plan (as set forth herein and from time to time amended, the "Plan"), effective June 2, 1993. Amendments to the Plan were approved by the Company's stockholders on May 19, 1994. On March 9, 1995, the Board of Directors approved amendments to the Plan, subject to the approval of the Company's stockholders of such amendments and of an amendment to increase the Company's authorized Common Stock to 1,000,000,000 shares, and subject to the occurrence of the proposed Distribution described in the Proxy Statement dated February 21, 1995 of Sears, Roebuck and Co. On May 21, 1996, and subsequently on November 12, 1996 the Plan was further amended and restated.

1. Purpose. The primary purpose of the Plan is to provide a means by which key employees of the Company and its Subsidiaries can acquire and maintain stock ownership, thereby strengthening their commitment to the success of the Company and its Subsidiaries and their desire to remain employed by the Company and its Subsidiaries. The Plan also is intended to attract and retain key employees and to provide such employees with additional incentive and reward opportunities designed to encourage them to enhance the profitable growth of the Company and its Subsidiaries.

2. Definitions. As used in the Plan, terms defined parenthetically immediately after their use shall have the respective meanings provided by such definitions and the terms set forth below shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

(a) "Award" means options, shares of restricted Stock, or shares of unrestricted Stock granted under the Plan.

(b) "Award Agreement" means the written agreement by which an Award is evidenced.

(c) "Board" means the board of directors of the Company.

(d) "Committee" means the committee of the Board appointed pursuant to Article 4.

(e) "Company" means The Allstate Corporation, a Delaware corporation.

(f) "Disability" means, as relates to the exercise of an incentive stock option after Termination of Employment, a permanent and total disability within the meaning of Section 22(e)(3) of the Internal Revenue Code, and for all other purposes, a mental or physical condition which, in the opinion of the Committee, renders a Grantee unable or incompetent to carry out the job responsibilities which such Grantee held or the duties to which such Grantee was assigned at the time the disability was incurred, and which is expected to be permanent or for an indefinite duration.

(g) "Effective Date" means the date described in the first paragraph of the Plan.

(h) "Fair Market Value" of the Stock means, as of any applicable date (other than on the Effective Date) the mean between the high and low prices of the Stock as reported on the New York Stock Exchange Composite Tape, or if no such reported sale of the Stock shall have occurred on such date, on the next preceding date on which there was such a reported sale, *provided*, *however*, that if the Stock is acquired and sold in a simultaneous sale pursuant to the provisions of Article 8(a)(iv), Fair Market Value means the price received upon such sale. Solely as of the effective date of the IPO, Fair Market Value of the Stock means the price to the public pursuant to the form of final prospectus used in connection with the IPO, as indicated on the cover page of such prospectus or otherwise.

(i) "Grant Date" means the date of grant of an Award determined in accordance with Article 6.

(j) "Grantee" means an individual who has been granted an Award.

(k) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and regulations and rulings thereunder. References to a particular section of the Internal Revenue Code shall include references to successor provisions.

(l) "IPO" means such term as defined in the first paragraph of the Plan.

(m) "Minimum Consideration" means the $.01 par value per share or such larger amount determined pursuant to resolution of the Board to be capital within the meaning of Section 154 of the Delaware General Corporation Law.

(n) "1934 Act" means the Securities Exchange Act of 1934, as amended.

(o) "Option Price" means the per share purchase price of (i) Stock subject to an option or (ii) restricted Stock subject to an option.

(p) [deleted]

(q) "Plan" has the meaning set forth in the introductory paragraph.

(r) "Reload Option" has the meaning specified in Article 6(d).

(s) "Retirement" means a Termination of Employment occurring on or after an individual attains age 65, or a Termination of Employment approved by the Company as an early retirement; provided that in the case of a Section 16 Grantee, such early retirement must be approved by the Committee.

(t) "SEC" means the Securities and Exchange Commission.

(u) "Section 16 Grantee" means a person subject to potential liability with respect to equity securities of the Company under Section 16(b) of the 1934 Act.

(v) "Stock" means common stock of the Company, par value $.01 per share.

(x) "Subsidiary" means a corporation as defined in Section 424(f) of the Internal Revenue Code, with the Company being treated as the employer corporation for purposes of this definition.

(y) "10% Owner" means a person who owns stock (including stock treated as owned under Section 424(d) of the Internal Revenue Code) possessing more than 10% of the Voting Power of the Company.

(z) "Termination of Employment" occurs the first day on which an individual is for any reason no longer employed by the Company or any of its Subsidiaries, or with respect to an individual who is an employee of a Subsidiary, the first day on which the Company no longer owns voting securities possessing at least 50% of the Voting Power of such Subsidiary.

(aa) "Voting Power" means the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors.

3. Scope of the Plan.

(a) Number of Shares Available For Delivery Under the Plan. A maximum of 20,000,000 shares of Stock may be awarded under the Plan. Awards may be made from authorized but unissued shares of Stock or from Treasury Stock. No more than an aggregate of 1,800,000 shares of the aforesaid 20,000,000 shares of Stock may be granted under Article 6(e) and (f). No more than 900,000 shares of Stock may be granted as stock options to any employee during the duration of the Plan.

(b) Effect of Expiration or Termination. If and to the extent an Award , other than an Award granted under Article 6(e) or (f),shall expire or terminate for any reason without having been exercised in full (including, without limitation, a cancellation and regrant of an option pursuant to Article 4(c)(vii)), or shall be forfeited, without, in either case, the Grantee having enjoyed any of the benefits of stock ownership, the shares of Stock associated with such Award shall become available for other Awards. Except in the case of a Reload Option granted to a Section 16 Grantee, the grant of a Reload Option shall not reduce the number of shares of Stock available for other Awards.

(c) Treasury Stock. The Committee shall have the authority to cause the Company to purchase from time to time shares of Stock to be held as treasury shares and used for or in connection with Awards.

(d) Committee Discretion to Cancel Options. The Committee may, in its discretion, elect at any time, should it determine it is in the best interest of the Company's stockholders to cancel any options granted hereunder, to cancel all or any of the options granted hereunder and pay the holders of any such options an amount (payable in such proportion as the Committee may determine in cash or in Stock (valued at the Fair Market Value of a share of Stock on the date of cancellation of such option)) equal to the number of shares of Stock subject to such cancelled option, multiplied by the amount (if any) by which the Fair Market Value of Stock on the date of cancellation of the option exceeds the Option Price; provided that if the Committee should determine that not making payment of such amount to the holders of such option upon the cancellation would be in the best interests of stockholders of the Company (ignoring in such determination the cost of such payment and considering only other matters), the Committee may void options granted hereunder and declare that no payment shall be made to the holders of such options.

4. Administration.

(a) Committee Administration. Subject to Article 4(b), the Plan shall be administered by the Committee, which shall consist of not less than two persons appointed by the Board, who are directors of the Company and not employees of the Company or any of its Subsidiaries. Membership on the Committee shall be subject to such limitations (including, if appropriate, a change in the minimum number of members of the Committee) as the Board deems appropriate to permit transactions pursuant to the Plan to be exempt from potential liability under Section 16(b) of the 1934 Act and to comply with Section 162 (m) of the Internal Revenue Code.

(b) Board Reservation and Delegation. The Board may, in its discretion, reserve to itself or delegate to another committee of the Board any or all of the authority and responsibility of the Committee with respect to Awards to Grantees who are not Section 16 Grantees at the time any such delegated authority or responsibility is exercised. Such other committee may consist of one or more directors who may, but need not be, officers or employees of the Company or of any of its Subsidiaries. To the extent that the Board has reserved to itself or delegated the authority and responsibility of the Committee to such other committee, all references to the Committee in the Plan shall be to such other committee.

(c) Committee Authority. The Committee shall have full and final authority, in its sole and absolute discretion, but subject to the express provisions of the Plan, as follows:

(i) to grant Awards,

(ii) to determine (A) when Awards may be granted, and (B) whether or not specific Awards shall be identified with other specific Awards, and if so, whether they shall be exercisable cumulatively with, or alternatively to, such other specific Awards,

(iii) to interpret the Plan and to make all determinations necessary or advisable for the administration of the Plan,

(iv) to prescribe, amend, and rescind rules and regulations relating to the Plan, including, without limitation, rules with respect to the exercisability and nonforfeitability of Awards upon the Termination of Employment of a Grantee,

(v) to determine the terms and provisions of the Award Agreements, which need not be identical and, with the consent of the Grantee, to modify any such Award Agreement at any time,

(vi) to cancel options in accordance with the provision of Section 3(d),

(vii) except as provided in Section 4(c)(vi) hereof, to cancel, with the consent of the Grantee, outstanding Awards, and to grant new Awards in substitution thereof,

(viii) to accelerate the exercisability of, and to accelerate or waive any or all of the restrictions and conditions applicable to, any Award,

(ix) to authorize foreign Subsidiaries to adopt plans as provided in Article 14,

(x) to make such adjustments or modifications to Awards to Grantees working outside the United States as are necessary and advisable to fulfill the purposes of the Plan,

(xi) to authorize any action of or make any determination by the Company as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan,

(xii) to make appropriate adjustments to, cancel or continue Awards in accordance with Article 22, and

(xiii) to impose such additional conditions, restrictions, and limitations upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including, without limitation, requiring simultaneous exercise of related identified Awards, and limiting the percentage of Awards which may from time to time be exercised by a Grantee.

(d) Committee Determinations Final. The determination of the Committee on all matters relating to the Plan or any Award Agreement shall be conclusive and final. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

5. Eligibility. Awards may be granted to any employee of the Company or any of its Subsidiaries. In selecting the individuals to whom Awards may be granted, as well as in determining the number of shares of Stock subject to, and the other terms and conditions applicable to, each Award, the Committee shall take into consideration such factors as it deems relevant in promoting the purposes of the Plan.

6. Conditions to Grants.

(a) General Conditions.

(i) The Grant Date of an Award shall be the date on which the Committee grants the Award or such later date as specified in advance by the Committee.

(ii) The term of each Award (subject to Articles 6(c) and 6(d) with respect to incentive stock options and Reload Options, respectively) shall be a period of not more than 12 years from the Grant Date, and shall be subject to earlier termination as herein provided.

(iii) A Grantee may, if otherwise eligible, be granted additional Awards in any combination.

(iv) The Committee may grant Awards with terms and conditions which differ among the Grantees thereof. To the extent not set forth in the Plan, the terms and conditions of each Award shall be set forth in an Award Agreement.

(b) Grant of Options and Option Price. The Committee may, in its discretion, grant options (which may be options to acquire unrestricted Stock or restricted Stock) to any employee eligible under Article 5 to receive Awards. No later than the Grant Date of any option, the Committee shall determine the Option Price; provided that the Option Price shall, except as provided in subsection (c) below and in Article 15, not be less than 100% of the Fair Market Value of the Stock on the Grant Date.

(c) Grant of Incentive Stock Options. At the time of the grant of any option, the Committee may designate that such option shall be made subject to additional restrictions to permit it to qualify as an "incentive stock option" under the requirements of Section 422 of the Internal Revenue Code. Any option designated as an incentive stock option:

(i) shall have an Option Price of (A) not less than 100% of the Fair Market Value of the Stock on the Grant Date or (B) in the case of a 10% Owner, not less than 110% of the Fair Market Value of the Stock on the Grant Date;

(ii) shall have a term of not more than 10 years (five years, in the case of a 10% Owner) from the Grant Date, and shall be subject to earlier termination as provided herein or in the applicable Award Agreement;

(iii) shall not have an aggregate Fair Market Value (determined for each incentive stock option at its Grant Date) of Stock with respect to which incentive stock options are exercisable for the first time by such Grantee during any calendar year (under the Plan and any other employee stock option plan of the Grantee's employer or any parent or subsidiary thereof ("Other Plans")), determined in accordance with the provisions of Section 422 of the Internal

Revenue Code, which exceeds $100,000 (the "$100,000 Limit");

(iv) shall, if the aggregate Fair Market Value of Stock (determined on the Grant Date) with respect to all incentive stock options previously granted under the Plan and any Other Plans ("Prior Grants") and any incentive stock options under such grant (the "Current Grant") which are exercisable for the first time during any calendar year would exceed the $100,000 Limit, be exercisable as follows:

(A) the portion of the Current Grant exercisable for the first time by the Grantee during any calendar year which would be, when added to any portions of any Prior Grants exercisable for the first time by the Grantee during such calendar year with respect to stock which would have an aggregate Fair Market Value (determined as of the respective Grant Date for such options) in excess of the $100,000 Limit shall, notwithstanding the terms of the Current Grant, be exercisable for the first time by the Grantee in the first subsequent calendar year or years in which it could be exercisable for the first time by the Grantee when added to all Prior Grants without exceeding the $100,000 Limit; and

(B) if, viewed as of the date of the Current Grant, any portion of a Current Grant could not be exercised under the provisions of the immediately preceding sentence during any calendar year commencing with the calendar year in which it is first exercisable through and including the last calendar year in which it may by its terms be exercised, such portion of the Current Grant shall not be an incentive stock option, but shall be exercisable as a separate option at such date or dates as are provided in the Current Grant;

(v) shall be granted within 10 years from the earlier of the date the Plan is adopted or the date the Plan is approved by the stockholders of the Company; and

(vi) shall require the Grantee to notify the Committee of any disposition of any Stock issued pursuant to the exercise of the incentive stock option under the circumstances described in Section 421(b) of the Internal Revenue Code (relating to certain disqualifying dispositions), within 10 days of such disposition.

Notwithstanding the foregoing and Article 4(c)(v), the Committee may take any action with respect to any option, including but not limited to an incentive stock option, without the consent of the Grantee, in order to prevent such option from being treated as an incentive stock option.

(d) Grant of Reload Options. The Committee may provide in an Award Agreement that a Grantee who exercises all or any portion of an option for shares of Stock which have a Fair Market Value equal to not less than 100% of the Option Price for such options ("Exercised Options") and who paid the Option Price with shares of Stock shall be granted, subject to Article 3, an additional option ("Reload Option") for a number of shares of stock equal to the sum ("Reload Number") of the number of shares of Stock tendered or withheld in payment of the Option Price for the Exercised Options plus, if so provided by the Committee, the number of shares of Stock, if any, retained by the Company in connection with the exercise of the Exercised Options to satisfy any federal, state or local tax withholding requirements.

Reload Options shall be subject to the following terms and conditions:

(i) the Grant Date for each Reload Option shall be the date of exercise of the Exercised Option to which it relates;

(ii) subject to Article 6(d)(iii) below, the Reload Option may be exercised at any time during the unexpired term of the Exercised Option (subject to earlier termination thereof as provided in the Plan and in the applicable Award Agreement); and

(iii) the terms of the Reload Option shall be the same as the terms of the Exercised Option to which it relates, except that (A) the Option Price shall be the Fair Market Value of the Stock on the Grant Date of the Reload Option and (B) no Reload Option may be exercised within one year from the Grant Date thereof.

(e) Grant of Shares of Restricted Stock.

(i) The Committee may, in its discretion, grant shares of restricted Stock to any employee eligible under Article 5 to receive Awards.

(ii) Before the grant of any shares of restricted Stock, the Committee shall determine, in its discretion:

(A) whether the certificates for such shares shall be delivered to the Grantee or held (together with a stock power executed in blank by the Grantee) in escrow by the Secretary of the Company until such shares become nonforfeitable or are forfeited,

(B) the per share purchase price of such shares, which may be zero provided, however, that

(1) the per share purchase price of all such shares (other than treasury shares) shall not be less than the Minimum Consideration for each such share; and

(2) if such shares are to be granted to a Section 16 Grantee, the per share purchase price of any such shares shall also be at least 50% of the Fair Market Value of the Stock on the Grant Date unless such shares are granted for no monetary consideration (in which case treasury shares are to be delivered) or with a purchase price per share equal to the Minimum Consideration for the

Stock, and

(C) the restrictions applicable to such grant;

(iii) Payment of the purchase price (if greater than zero) for shares of restricted Stock shall be made in full by the Grantee before the delivery of such shares and, in any event, no later than 10 days after the Grant Date for such shares. Such payment may, at the election of the Grantee, be made in any one or any combination of the following:

(A) cash,

(B) Stock valued at its Fair Market Value on the date of payment or, if the date of payment is not a business day, the next succeeding business day, or

(C) with the approval of the Committee, shares of restricted Stock, each valued at the Fair Market Value of a share of Stock on the date of payment or, if the date of payment is not a business day, the next succeeding business day

provided, however, that, in the case of payment in Stock or restricted Stock,

(1) the use of Stock or restricted Stock in payment of such purchase price by a Section 16 Grantee is subject to (i) the availability of an exemption of such use of stock from potential liability under Section 16(b) of the 1934 Act, or (ii) the inapplicability of such Section;

(2) in the discretion of the Committee and to the extent permitted by law, payment may also be made in accordance with Article 9; and

(3) if the purchase price for restricted Stock ("New Restricted Stock") is paid with shares of restricted Stock ("Old Restricted Stock"), the restrictions applicable to the New Restricted Stock shall be the same as if the Grantee had paid for the New Restricted Stock in cash unless, in the judgment of the Committee, the Old Restricted Stock was subject to a greater risk of forfeiture, in which case a number of shares of New Restricted Stock equal to the number of shares of Old Restricted Stock tendered in payment for New Restricted Stock may in the discretion of the Committee be subject to the same restrictions as the Old Restricted Stock, determined immediately before such payment.

(iv) The Committee may, but need not, provide that all or any portion of a Grantee's Award of restricted Stock shall be forfeited

(A) except as otherwise specified in the Award Agreement, upon the

Grantee's Termination of Employment within a specified time period after the Grant Date, or

(B) if the Company or the Grantee does not achieve specified performance goals within a specified time period after the Grant Date and before the Grantee's Termination of Employment, or

(C) upon failure to satisfy such other restrictions as the Committee may specify in the Award Agreement.

(v) If a share of restricted Stock is forfeited, then

(A) the Grantee shall be deemed to have resold such share of restricted Stock to the Company at the lesser of (1) the purchase price paid by the Grantee (such purchase price shall be deemed to be zero dollars ($0) if no purchase price was paid) or (2) the Fair Market Value of a share of Stock on the date of such forfeiture;

(B) the Company shall pay to the G rantee the amount determined under clause (A) of this sentence as soon as is administratively practical; and

(C) such share of restricted Stock shall cease to be outstanding, and shall no longer confer on the Grantee thereof any rights as a stockholder of the Company, from and after the date of the Company's tender of the payment specified in clause (B) of this sentence, whether or not such tender is accepted by the Grantee.

(vi) Any share of restricted Stock shall bear an appropriate legend specifying that such share is non-transferable and subject to the restrictions set forth in the Plan. If any shares of restricted Stock become nonforfeitable, the Company shall cause certificates for such shares to be issued or reissued without such legend and delivered to the Grantee or, at the request of the Grantee, shall cause such shares to be credited to a brokerage account specified by the Grantee.

(f) Grant of Unrestricted Stock. The Committee may, in its discretion, grant shares of unrestricted Stock to any employee eligible under Article 5 to receive Awards.

7. Non-transferability. Except as otherwise provided in the terms of a specific grant, each Award (other than unrestricted Stock) granted hereunder shall by its terms not be assignable or transferable other than by will or the laws of descent and distribution and may be exercised, during the Grantee's lifetime, only by the Grantee. Each share of restricted Stock shall be non-transferable until such share becomes nonforfeitable. Notwithstanding the foregoing, the Grantee may, to the extent provided in the Plan and in a manner specified by the Committee, (a) designate in writing a beneficiary to exercise his options after the Grantee's death, and (b) transfer an option (other than an incentive stock option) to a revocable, inter vivos trust as to which the

Grantee is both the settlor and the trustee.

8. Exercise.

(a) Exercise of Options. Subject to Articles 4(c)(vii), 14 and 17, and such terms and conditions as the Committee may impose, each option shall be exercisable in one or more installments commencing not earlier than the first anniversary of the Grant Date of such option. Options shall not be exercisable for twelve months following a hardship distribution that is subject to Treasury Regulation ss. 1.401(k)-1(d)(2)(iv)(B)(4), except to the extent permitted thereunder. Options shall not be exercisable for less than 25 shares of Stock unless the exercise represents the entire remaining balance of a grant or grants. Each option shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of shares of Stock or restricted Stock subject to the option. The Option Price of any shares of Stock or restricted Stock as to which an option shall be exercised shall be paid in full at the time of the exercise. Payment may, at the election of the Grantee, be made in any one or any combination of the following forms:

(i) check in such form as may be satisfactory to the Committee,

(ii) Stock valued at its Fair Market Value on the date of exercise or, if the date of exercise is not a business day, the next succeeding business day,

(iii) with the approval of the Committee, shares of restricted Stock, each valued at the Fair Market Value of a share of Stock on the date of exercise or, if the date of exercise is not a business day, the next succeeding business day,

(iv) through simultaneous sale through a broker of shares of unrestricted Stock acquired on exercise, as permitted under Regulation T of the Federal Reserve Board, or

(v) by authorizing the Company in his or her written notice of exercise to withhold from issuance a number of shares of Stock issuable upon exercise of such option which, when multiplied by the Fair Market Value of Common Stock on the date of exercise (or, if the date of exercise is not a business day, the next succeeding business day), is equal to the aggregate Option Price payable with respect to the option so exercised.

In the event a Grantee elects to pay the Option Price payable with respect to an option pursuant to clause (ii) above, (A) only a whole number of share(s) of Stock (and not fractional shares of Stock) may be tendered in payment, (B) such Grantee must present evidence acceptable to the Company that he or she has owned any such shares of Stock tendered in payment of the Option Price (and that such shares of Stock tendered have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise, and (C) Stock must be delivered to the Company. Delivery may, at the election of the Grantee, be made either by (I) delivery of the certificate(s) for all such shares of Stock tendered in payment of the Option Price, accompanied by duly executed instruments of transfer in a form acceptable to the Company, or (II) direction to the Grantee's broker to transfer, by book entry, such shares of Stock from a brokerage account of the Grantee to a brokerage account specified by the Company. When payment of the Option Price is made by tender of Stock, the difference, if any, between the aggregate Option Price payable with respect to the option being exercised and the Fair Market Value of the share(s) of Stock tendered in payment (plus any applicable taxes) shall be paid by check. No Grantee may tender shares of Stock having a Fair Market Value exceeding the aggregate Option Price payable with respect to the Option being exercised

In the event a Grantee elects to pay the Option Price payable with respect to an option pursuant to clause (v) above, (A) only a whole number of share(s) of Stock (and not fractional shares of Stock) may be withheld in payment and (B) such Grantee must present evidence acceptable to the Company that he or she has owned a number of shares of Stock at least equal to the number of shares of Stock to be withheld in payment of the Option Price (and that such owned shares of Stock have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise. When payment of the Option Price is made by the withholding of shares of Stock, the difference, if any, between the aggregate Option Price payable with respect to the option being exercised and the Fair Market Value of the share(s) of Stock withheld in payment (plus any applicable taxes) shall be paid by check. No Grantee may authorize the withholding of shares of Stock having a Fair Market Value exceeding the aggregate Option Price payable with respect to the option being exercised. Any withheld shares of Stock shall no longer be issuable under such option.

If restricted Stock ("Tendered Restricted Stock") is used to pay the Option Price for Stock, then a number of shares of Stock acquired on exercise of the option equal to the number of shares of Tendered Restricted Stock shall be subject to the same restrictions as the Tendered Restricted Stock, determined as of the date of exercise of the option. If the Option Price for restricted Stock is paid with Tendered Restricted Stock, and if the Committee determines that the restricted Stock acquired on exercise of the option is subject to restrictions ("Greater Restrictions") that cause it to have a greater risk of forfeiture than the Tendered Restricted Stock, then notwithstanding the preceding sentence, all the restricted Stock acquired on exercise of the option shall be subject to such Greater Restrictions.

Shares of unrestricted Stock acquired by a Grantee on exercise of an option shall be delivered to the Grantee or, at the request of the Grantee, shall be credited directly to a brokerage account specified by the Grantee.

(b) Special Rules for Section 16 Grantees. Subject to Article 15, no option shall be exercisable by a Section 16 Grantee during the first six months after its Grant Date, if such exercise (or the sale of shares received upon exercise) would result in the loss of an exemption for a grant under Section 16(b) of the 1934 Act.

(c) Permissible Shares Issued. No shares of Stock shall be issued hereunder upon option exercise except shares of Stock available under Article 3(a). EACH GRANTEE, BY ACCEPTANCE OF AN AWARD, WAIVES ALL RIGHTS TO SPECIFIC PERFORMANCE OR INJUNCTIVE OR OTHER EQUITABLE RELIEF AND

ACKNOWLEDGES THAT HE HAS AN ADEQUATE REMEDY AT LAW IN THE FORM OF DAMAGES.

9. Loans and Guarantees. The Committee may, in its discretion:

(a) allow a Grantee to defer payment to the Company of all or any portion of (i) the Option Price of an option, (ii) the purchase price of a share of restricted Stock, or (iii) any taxes associated with a benefit hereunder which is not a cash benefit at the time such benefit is so taxable, or

(b) cause the Company to guarantee a loan from a third party to the Grantee, in an amount equal to all or any portion of such Option Price, purchase price, or any related taxes.

Any such payment deferral or guarantee by the Company pursuant to this Article 9 shall be, on a secured or unsecured basis, for such periods, at such interest rates, and on such other terms and conditions as the Committee may determine. Notwithstanding the foregoing, a Grantee shall not be entitled to defer the payment of such Option Price, purchase price, or any related taxes unless the Grantee (i) enters into a binding obligation to pay the deferred amount and (ii) except with respect to treasury shares, pays upon exercise of an option or grant of shares of restricted Stock, as the case may be, an amount equal to or greater than the aggregate Minimum Consideration therefor. If the Committee has permitted a payment deferral or caused the Company to guarantee a loan pursuant to this Article 9, then the Committee may, in its discretion, require the immediate payment of such deferred amount or the immediate release of such guarantee upon the Grantee's Termination of Employment or if the Grantee sells or otherwise transfers the Grantee's shares of Stock purchased pursuant to such deferral or guarantee.

10. Notification under Section 83(b). The Committee may, on the Grant Date or any later date, prohibit a Grantee from making the election described below. If the Committee has not prohibited such Grantee from making such election, and the Grantee shall, in connection with the exercise of any option, or the grant of any share of restricted Stock, make the election permitted under Section 83(b) of the Internal Revenue Code (i.e., an election to include in such Grantee's gross income in the year of transfer the amounts specified in Section 83(b) of the Internal Revenue Code), such Grantee shall notify the Company of such election within 10 days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Section 83(b) of the Internal Revenue Code.

11. Mandatory Withholding Taxes.

(a) Whenever under the Plan, cash or shares of Stock are to be delivered upon exercise or payment of an Award or upon a share of restricted Stock becoming nonforfeitable, or any other event with respect to rights and benefits hereunder, the Company shall be entitled to require as a condition of delivery (i) that the Grantee remit an amount sufficient to satisfy all federal, state, and local withholding tax requirements related thereto, (ii) the withholding of such sums from compensation otherwise due to the Grantee or from any shares of Stock due to the Grantee under the Plan or (iii) any combination of the foregoing.

(b) If any disqualifying disposition described in Article 6(c)(vi) is made with respect to shares of Stock acquired under an incentive stock option granted pursuant to the Plan or any election described in Article 10 is made, then the person making such disqualifying disposition or election shall remit to the Company an amount sufficient to satisfy all federal, state, and local withholding taxes thereby incurred; provided that, in lieu of or in addition to the foregoing, the Company shall have the right to withhold such sums from compensation otherwise due to the Grantee or from any shares of Stock due to the Grantee under the Plan.

12. Elective Share Withholding.

(a) Subject to the prior approval of the Committee and to Article 12(b), a Grantee may elect the withholding ("Share Withholding") by the Company of a portion of the shares of Stock otherwise deliverable to such Grantee upon the exercise or payment of an Award or upon a share of restricted Stock's becoming nonforfeitable (each a "Taxable Event") having a Fair Market Value equal to

(i) the minimum amount necessary to satisfy required federal, state, or local withholding tax liability attributable to the Taxable Event; or

(ii) with the Committee's prior approval, a greater amount, not to exceed the estimated total amount of such Grantee's tax liability with respect to the Taxable Event.

(b) Each Share Withholding election by a Grantee shall be subject to the following restrictions:

(i) any Grantee's election shall be subject to the Committee's right to revoke its approval of Share Withholding by such Grantee at any time before the Grantee's election if the Committee has reserved the right to do so at the time of its approval;

(ii) if the Grantee is a Section 16 Grantee, such Grantee's election shall be subject to the disapproval of the Committee at any time, whether or not the Committee has reserved the right to do so; and

(iii) the Grantee's election must be made before the date (the "Tax Date") on which the amount of tax to be withheld is determined.

13. Termination of Employment.

(a) Restricted Stock. Except as otherwise provided by the Committee on or after the Grant Date, a Grantee's shares of restricted Stock that are forfeitable shall be forfeited upon the Grantee's Termination of Employment.

(b) Other Awards. If a Grantee has a Termination of Employment, then, unless otherwise provided in the Grant Agreement, any unexercised option to the extent exercisable on the date of the Grantee's Termination of Employment may be exercised by the Grantee, in whole or in part, at any time within three months following such Termination of Employment, except that

(i) if the Grantee's Termination of Employment is on account of Disability, then any unexercised option to the extent exercisable at the date of such Termination of Employment, may be exercised, in whole or in part, by the Grantee at any time within two years after the date of such Termination of Employment; and

(ii) if the Grantee's Termination of Employment is on account of Retirement, then any unexercised option to the extent exercisable at the date of such Termination of Employment, may be exercised, in whole or in part, by the Grantee at any time within five years after the date of such Termination of Employment; and

(iii) if the Grantee's Termination of Employment is caused by the death of the Grantee or if the Grantee's death occurs during the period following Termination of Employment during which the option would be exercisable under the preceding clause of Article 13(b) or under Article 13(b)(i) or (ii), then any unexercised option to the extent exercisable on the date of the Grantee's death, may be exercised, in whole or in part, at any time within two years after the Grantee's death by the Grantee's personal representative or by the person to whom the option is transferred by will or the applicable laws of descent and distribution.

(c) Maximum Extension. Notwithstanding the foregoing, no Award shall be exercisable beyond the maximum term permitted under the original Award Agreement unless the Committee explicitly extends such original term, in which case such term shall not be extended beyond the maximum term permitted by the Plan.

14. Equity Incentive Plans of Foreign Subsidiaries. The Committee may authorize any foreign Subsidiary to adopt a plan for granting Awards ("Foreign Equity Incentive Plan"). All awards granted under such Foreign Equity Incentive Plans shall be treated as grants under the Plan. Such Foreign Equity Incentive Plans shall have such terms and provisions as the Committee permits not inconsistent with the provisions of the Plan and which may be more restrictive than those contained in the Plan. Awards granted under such Foreign Equity Incentive Plans shall be governed by the terms of the Plan except to the extent that the provisions of the Foreign Equity Incentive Plans are more restrictive than the terms of the Plan, in which case such terms of the Foreign Equity Incentive Plans shall control.

15. Substituted Awards. The Committee may grant substitute awards for any cancelled Award granted under this Plan or any plan of any entity acquired by the Company or any of its Subsidiaries in accordance with this Article 15. If the Committee cancels any Award (granted under this Plan, or any plan of any entity acquired by the Company or any of its Subsidiaries), and a new Award is substituted therefor, then the Committee may, in its discretion, determine the terms and

conditions of such new Award, and may provide that the Grant Date of the cancelled Award shall be the date used to determine the earliest date or dates for exercising the new substituted Award under Article 8 hereof so that the Grantee may exercise the substituted Award at the same time as if the Grantee had held the substituted Award since the Grant Date of the cancelled Award.

16. <u>Securities Law Matters.</u>

(a) If the Committee deems necessary to comply with the Securities Act of 1933, the Committee may require a written investment intent representation by the Grantee and may require that a restrictive legend be affixed to certificates for shares of Stock.

(b) If based upon the opinion of counsel for the Company, the Committee determines that the exercise or nonforfeitability of, or delivery of benefits pursuant to, any Award could violate any applicable provision of (i) federal or state securities law or regulations or (ii) the listing requirements of any national securities exchange on which are listed any of the Company's equity securities, then the Committee may postpone any such exercise, nonforfeitability or delivery, as the case may be, but the Company shall use its best efforts to cause such exercise, nonforfeitability or delivery to comply with all such provisions at the earliest practicable date.

17. <u>No Funding Required.</u> Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of, benefits under the Plan.

18. <u>No Employment Rights.</u> Neither the establishment of the Plan, nor the granting of any Award shall be construed to (a) give any Grantee the right to remain employed by the Company or any of its Subsidiaries or to any benefits not specifically provided by the Plan or (b) in any manner modify the right of the Company or any of its Subsidiaries to modify, amend, or terminate any of its employee benefit plans.

19. <u>Rights as a Stockholder.</u> A Grantee shall not, by reason of any Award (other than restricted Stock) have any right as a stockholder of the Company with respect to the shares of Stock which may be deliverable upon exercise or payment of such Award until such shares have been delivered to him. Shares of restricted Stock held by a Grantee or held in escrow by the Secretary of the Company shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan or the Award Agreement. The Committee, in its discretion, at the time of grant of restricted Stock, may permit or require the payment of cash dividends thereon to be deferred and, if the Committee so determines, reinvested in additional restricted Stock to the extent shares are available under Article 3, or otherwise reinvested in Stock. Stock dividends, deferred cash dividends and dividends in the form of property other than cash, issued with respect to restricted Stock shall, unless otherwise provided in the Award Agreement, be treated as additional shares of restricted Stock that are subject to the same restrictions and other terms as apply to the shares with respect to which such dividends are issued. The Committee may, in its discretion, provide for crediting and payment of interest on deferred cash dividends.

20. Nature of Payments. Any and all grants, payments of cash, or deliveries of shares of Stock hereunder shall constitute special incentive payments to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for the purposes of determining any pension, retirement, death or other benefits under (a) any pension, retirement, profit-sharing, bonus, life insurance or other employee benefit plan of the Company or any of its Subsidiaries or (b) any agreement between the Company or any Subsidiary, on the one hand, and the Grantee, on the other hand, except as such plan or agreement shall otherwise expressly provide.

21. Non-Uniform Determinations. Neither the Committee's nor the Board's determinations under the Plan need be uniform and may be made by the Committee or the Board selectively among persons who receive, or are eligible to receive, Awards (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, to enter into non-uniform and selective Award Agreements as to (a) the identity of the Grantees, (b) the terms and provisions of Awards, and (c) the treatment, under Article 13, of Terminations of Employment.

22. Adjustments. The Committee may make such provision with respect to Awards, including without limitation, equitable adjustment of

(a) the aggregate numbers of shares of Stock available under Articles 3(a) and 3(b),

(b) the number of shares of Stock or shares of restricted Stock covered by an Award, and

(c) the Option Price, or

the termination or continuation of an Award as it may determine to be appropriate and equitable to reflect a stock dividend, stock split, reverse stock split, share combination, recapitalization, merger, consolidation, acquisition of property or shares, separation, spin-off, reorganization, stock rights offering, liquidation, or similar event, of or by the Company.

23. Amendment of the Plan. The Board may from time to time in its discretion amend or modify the Plan without the approval of the stockholders of the Company, except as such stockholder approval may be required (a) to permit transactions in Stock pursuant to the Plan to be exempt from potential liability under Section 16(b) of the 1934 Act, (b) to permit the Company to deduct, in computing its income tax liability pursuant to the provisions of the Internal Revenue Code, compensation resulting from Awards, (c) to retain incentive stock option treatment under Section 422 of the Internal Revenue Code, or (d) under the listing requirements of any securities exchange on which are listed any of the Company's equity securities.

24. Termination of the Plan. The Plan shall terminate on the tenth (10th) anniversary of the Effective Date or at such earlier time as the Board may determine. Any termination, whether in whole or in part, shall not affect (a) any Award then outstanding under the Plan, or (b) the Company's ability to make adjustments to or cancel or continue Awards in accordance with Article 22.

25. No Illegal Transactions. The Plan and all Awards granted pursuant to it are subject to all laws and regulations of any governmental authority which may be applicable thereto; and notwithstanding any provision of the Plan or any Award, Grantees shall not be entitled to exercise Awards or receive the benefits thereof and the Company shall not be obligated to deliver any Stock or pay any benefits to a Grantee if such exercise, delivery, receipt or payment of benefits would constitute a violation by the Grantee or the Company of any provision of any such law or regulation.

26. Controlling Law. The law of the State of Delaware except its law with respect to choice of l aw, shall be c ontrolling in all matters relating to or arising out of the Plan or any Award.

27. Severability. If all or any part of the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of the Plan not declared to be unlawful or invalid. Any Article or part of an Article so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Article or part of an Article to the fullest extent possible while remaining lawful and valid.

EXHIBIT 10.18

THE ALLSTATE CORPORATION
ALLSTATE PLAZA
NORTHBROOK, ILLINOIS 60062

Date:

EMPLOYEE NAME
ADDRESS
CITY, STATE ZIP CODE

1. Grant of Restricted Stock.

Pursuant to action taken by the Board of Directors of The Allstate Corporation (the "Company") and the Compensation and Nominating Committee (the "Committee"), under The Allstate Corporation Equity Incentive Plan (the "Plan"), the terms of which are specifically incorporated herein by reference, you are hereby granted # shares of restricted Stock of the Company, upon and subject to the provisions and conditions hereinafter set forth.

Your shares of restricted Stock shall be exchangeable for shares of unrestricted common Stock of the Company and certificates shall be issued to you in one installment of ____ shares on _____,_____. Shares of restricted Stock may not be sold, transferred, pledged or otherwise assigned and shall, except to the extent exchangeable for shares of unrestricted common stock of the Company as hereinafter provided or as otherwise provided by the Committee after the date of this grant, be automatically cancelled upon your Termination of Employment with the Company and its wholly-owned subsidiaries. You must sign this Agreement and "Stock Power" form and return them to The Allstate Corporation, Stock Option Office, 2775 Sanders Road, Northbrook, Illinois, 60062 in order to comply with the terms of this grant.

Until your shares of restricted Stock become unrestricted as set forth above, no certificates for your restricted Stock will be issued to you, and your shares of restricted Stock will be evidenced by certificates held by or on behalf of the Company, in book-entry form, or otherwise, as determined by the Company. As a holder of shares of restricted Stock, you are otherwise entitled to all the rights (including voting and dividend rights) of a holder of an equivalent number of shares of unrestricted common Stock of the Company.

2. Tax Withholding.

Under existing laws and regulations, in general, the fair market value of the shares granted hereunder on the date such shares become exchangeable for shares of unrestricted common Stock of the Company will be subject to federal income tax at ordinary rates and to social security tax and their respective withholding requirements, and may be subject to state and local taxes and withholding requirements. The payment of all federal, state and local taxes is your personal responsibility. However, the Company, at its discretion, shall be entitled to require as a condition of delivery of a share of Stock upon a share of restricted Stock becoming nonforfeitable that (I) you pay to the Company an amount sufficient to satisfy all federal, state and local withholding tax requirements, (ii) an amount sufficient to satisfy all federal, state and local withholding tax requirements be withheld by the Company from compensation otherwise due to you or from any shares due to you under the Plan, or (iii) a combination of (I) and (ii).

3. Adjustments.

The Committee may make provision, including but not limited to equitable adjustments in the number of shares of restricted Stock covered by this Award or for the termination or continuation of this Award as it may determine to be appropriate and equitable to reflect any stock dividend, stock split, reverse stock split, share combination, recapitalization, merger, consolidation, acquisition of property or shares, separation, spin-off, reorganization, stock rights offering, liquidation, or similar event of the Company.

4. Changes in Law.

The Company reserves and shall have the right, by written notice to you, to change the provisions of the Award in any manner that it may deem necessary or advisable to carry out the purpose of its grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling or judicial decision; provided that any such change shall be applicable only to shares for which payment shall not then have been made as herein provided.

5. Severability.

If all or any part if this Award is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of this Agreement not declared to be unlawful or invalid. Any part of this Agreement so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms or such part to the fullest extent possible while remaining lawful and valid.

6. Definitions.

Unless otherwise specified, all capitalized terms herein shall have the same meaning as such terms have in the Plan.

Jerry D. Choate
Chairman and Chief Executive Officer
THE ALLSTATE CORPORATION

You must sign and return one copy of this Agreement in the envelope provided. By doing so, you are indicating your acceptance of this Award and the terms of this Agreement and the Plan.

- - --
Employee Signature

- - --

Date

STOCK POWER

FOR VALUE received, I hereby sell, assign and transfer unto The Allstate Corporation ___________ shares of The Allstate Corporation Common Stock, par value $.01, awarded to me on _____________ under The Allstate Corporation Equity Incentive Plan and represented by the within Certificate, and do hereby irrevocably constitute and appoint the Secretary or any Assistant Secretary of The Allstate Corporation as attorney to transfer the said stock on the books of The Allstate Corporation, with full power of substitution in the premises.

Dated: ______________

Signature

EXHIBIT 10.20

THE ALLSTATE CORPORATION
EMPLOYEES REPLACEMENT STOCK PLAN

As Amended and Restated on November 12, 1996

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The Plan. The Allstate Corporation ("Company") hereby establishes The Allstate Corporation Employees Replacement Stock Plan (as set forth herein and from time to time amended, the "Plan"), subject to approval by the Company's stockholders at the 1995 Annual Meeting of Stockholders and subject to the occurrence of the Distribution, as defined hereinafter, to be effective on the Distribution Date, as defined hereinafter ("Effective Date").

1. Purpose. The purpose of the Plan is to provide continuation of benefits and opportunities provided to former participants in any of the Sears Plans, which benefits and opportunities were lost, terminated, forfeited, cancelled (with or without consent of the grantee) or reduced as a result of the Distribution, by providing for the grant of substitute Awards hereunder.

2. Definitions.

As used in the Plan, terms defined parenthetically immediately after their use shall have the respective meanings provided by such definitions and the terms set forth below shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

(a) "Allstate Group Grantee" means any individual who is employed on the Distribution Date or who, immediately prior to his most recent Termination of Employment prior to the Distribution Date, was employed by The Allstate Corporation or any Allstate Affiliate, as defined in the Separation Agreement, except The PMI Group, Inc. ("PMI") or any of PMI's subsidiaries.

(b) "Award" means an option, share of restricted Stock, or stock appreciation right granted under the Plan.

(c) "Award Agreement" means the w ritten agreement by which an Award is evidenced.

(d) "Board" means the Board of Directors of the Company.

(e) "Change of Control" means any of the following occurring more than five business days after the Distribution:

(i) the acquisition by any person or group of beneficial ownership of any of the Stock or the Voting Power of the Company, which acquisition results in such person or group having beneficial ownership of 20% or more of either the then-outstanding Stock or Voting Power of the Company, except that (A) no such person or group shall be deemed to own beneficially (1) any securities acquired directly from the Company pursuant to a written agreement with the Company, (2) any securities held by the Company or a Subsidiary or any employee benefit plan (or any related trust) of the Company or a Subsidiary, or (3) any securities acquired directly from any Grantee, except securities acquired in transactions effected through the facilities of a registered national securities exchange or any automated quotation system of the National Association of Securities Dealers, Inc., and (B) no Change of Control shall be deemed to have occurred solely by reason of any such acquisition by a corporation with respect to which, after such acquisition, more than 60% of both the then-outstanding common shares of such corporation and the Voting Power of such corporation are then beneficially owned, directly or indirectly, by the persons who were the beneficial owners of the Stock and Voting Power of the Company immediately before such acquisition in substantially the same proportion as their ownership, immediately before such acquisition, of the then-outstanding Stock or the Voting Power of the Company, as the case may be;

(ii) individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that any individual who becomes a director after the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 under the 1934 Act); or

(iii) approval by the stockholders of the Company of (A) a merger, reorganization or consolidation with respect to which the individuals and entities who were the respective beneficial owners of the Stock and Voting Power of the Company immediately before such merger, reorganization or consolidation do not, after such merger, reorganization or consolidation, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding common shares and the Voting Power of the corporation resulting from such merger, reorganization or consolidation, (B) a liquidation or dissolution of the Company or (C) the sale or other disposition of all or substantially all of the assets of the Company; provided, however, that for the purposes of this clause (iii), the votes of all Section 16 Grantees shall be disregarded in determining whether stockholder approval has been obtained.

For purposes of this definition, "person" means such term as used in SEC Rule 13d-5(b) under the 1934 Act, "beneficial owner" means such term as defined in SEC Rule 13d-3 under the 1934 Act, and "group" means such term as defined in Section 13(d) of the 1934 Act.

Notwithstanding the foregoing, (a) a Change of Control shall be deemed not to have occurred with respect to any Section 16 Grantee if such Section 16 Grantee is, by agreement (written or otherwise), a participant on such Section 16 Grantee's own behalf in a transaction which causes the Change of Control to occur; and (b) the Distribution shall not be deemed to be a Change in Control.

(f) "Change of Control Value" means the Fair Market Value of a share of Stock on the date of receipt of notice of exercise of a limited stock appreciation right issued to replace a limited stock appreciation right granted under a Sears Plan.

(g) "Committee" means the committee of the Board appointed pursuant to Article 4.

(h) "Company" means The Allstate Corporation, a Delaware corporation.

(i) "Distribution" means the distribution by Sears to holders of Sears common shares of all of the shares of Stock owned by it.

(j) "Distribution Date" means the date to be determined by the board of directors of Sears, as of which the Distribution shall be effected.

(k) "Effective Date" means the date described in the first paragraph of the Plan.

(l) "Fair Market Value" of any security of the Company or any other issuer (other than Fair Market Value of Stock as of the Distribution Date and Fair Market Value of a Sears common share as of the Distribution Date) means, as of any applicable date:

(i) if the security is listed for trading on the New York Stock Exchange, the mean between the high and low prices of the security as reported on the New York Stock Exchange Composite Tape, or if no such reported sale of the security shall have occurred on such date, on the next preceding date on which there was such a reported sale, or

(ii) if the security is not so listed, but is listed on another national securities exchange or authorized for quotation on the National Association of Securities Dealers Inc.'s NASDAQ National Market ("NASDAQ/NM"), the closing price, regular way, of the security on such exchange or NASDAQ/NM, as the case may be, or if no such reported sale of the security shall have occurred on such date, on the next preceding date on which there was such a reported sale, or

(iii) if the security is not listed for trading on a national securities exchange or authorized for quotation on NASDAQ/NM, the average of the closing bid and asked prices as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or, if no such prices shall have been so reported for such date, on the next preceding date for which such prices were so reported, or

(iv) if the security is not listed for trading on a national securities exchange or authorized for quotation on NASDAQ/NM or NASDAQ, the fair market value of the security as determined in good faith by the Committee.

Notwithstanding paragraphs (i) through (iv) above, "Fair Market Value" of a Sears common share as of the Distribution Date shall be the sum of the average of the high and low per share prices, regular way, of such share as reported on the New York Stock Exchange Composite Tape on each of the five business days beginning on and including the tenth business day preceding the record date associated with the Distribution ("Record Date"), on which there was a reported sale of such stock, divided by five (or, if less, the number of such days on which there was such a reported sale); and "Fair Market Value" of Stock as of the Distribution Date shall be the sum of the average of the high and low per share prices, regular way, of the Stock as reported on the New York Stock Exchange Composite Tape on each of the five business days beginning on and including the tenth business day preceding the Record Date, on which there was a reported sale of such stock divided by five (or, if less, the number of such days on which there was such a reported sale).

(m) "Grant Date" means, except as provided in Article 6, the date on which the Committee grants the Award or such later date as specified in advance by the Committee.

(n) "Grantee" means an individual who has been granted an Award.

(o) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and regulations and rulings thereunder. References to a particular section of the Internal Revenue Code shall include references to successor provisions.

(p) "Minimum Consideration" means the $.01 par value per share of the Stock or such larger amount determined pursuant to resolution of the Board to be capital within the meaning of Section 154 of the Delaware General Corporation Law.

(q) "1934 Act" means the Securities Exchange Act of 1934, as amended.

(r) "Option Price" means the per share purchase price of Stock subject to an option.

(s) "Plan" has the meaning set forth in the introductory paragraph.

(t) "Reload Option" has the meaning set forth in Article 6(b)(ii).

(u) "Retirement" means a Termination of Employment occurring on or after an individual attains age 65, or a Termination of Employment after an individual attains age 55 approved by Allstate Insurance Company as an early retirement, provided that in the case of a Section 16 Grantee, such early retirement must be approved by the Committee.

(v) "Sears" means Sears, Roebuck and Co., a New York corporation.

(w) "Sears Option" means an option granted under a Sears Plan.

(x) "Sears Plans" means the following plans of Sears: the 1994 Employees Stock Plan, the 1990 Employees Stock Plan, the 1986 Employees Stock Plan, the 1982 Employees Stock Plan, the 1978 Employees Stock Plan and the 1979 Incentive Compensation Plan.

(y) "Sears Restricted Stock" means restricted shares granted under a Sears Plan.

(z) "Sears SAR" means a stock appreciation right, limited stock appreciation right or tax benefit right granted under a Sears Plan.

(aa) "SEC" means the Securities and Exchange Commission.

(bb) "Section 16 Grantee" means a person subject to potential liability with respect to equity securities of the Company under Section 16(b) of the 1934 Act.

(cc) "Separation Agreement" means the separation agreement between Sears and the Company dated as of January ___, 1995.

(dd) "Stock" means common stock of the Company, par value $.01 per share.

(ee) "Subsidiary" means a corporation as defined in Section 424(f) of the Internal Revenue Code, with the Company being treated as the employer corporation for purposes of this definition.

(ff) "10% Owner" means a person who owns stock (including stock treated as owned under Section 424(d) of the Internal Revenue Code) possessing more than 10% of the total combined voting power of all classes of stock of the Company.

(gg) "Termination of Employment" occurs as of the first day on which an individual is for any reason no longer employed by the Company or any of its Subsidiaries, or with respect to an individual who is an employee of a Subsidiary, the first day on which the Company no longer, directly or indirectly, owns voting securities possessing at least 50% of the aggregate Voting Power of such Subsidiary.

(hh) "Voting Power" of a corporation or other entity means the combined voting power of the then-outstanding voting securities of such corporation or other entity entitled to vote generally in the election of directors.

3. <u>Scope of the Plan.</u>

(a) <u>Number of Shares Available Under Plan.</u> An aggregate number of shares of Stock is hereby made available and is reserved for delivery on account of the exercise of Awards and payment of benefits in connection with Awards equal to the number of shares of Stock determined pursuant to the formulas set forth in Article 6 to be required to replace awards under the Sears Plans; provided that in no event shall the aggregate number of such shares of Stock exceed 4,500,000 shares of Stock. Subject to the foregoing limits, shares of uthorized but unissued Stock or shares of Stock held as treasury shares by the Company may be used for or in connection with Awards.

(b) Expired or Terminated Awards not Available. If and to the extent an Award shall expire or terminate for any reason without having been exercised in full, or shall be forfeited, regardless of whether, in either case, the Grantee enjoyed any of the benefits of stock ownership, the shares of Stock (including restricted Stock) and stock appreciation rights associated with such Award shall not become available for other Awards.

(c) Treasury Stock. The Committee shall have the authority to cause the Company to purchase from time to time shares of Stock to be held as treasury shares and used for or in connection with Awards.

4. Administration.

(a) Committee Administration. Subject to Article 4(b), the Plan shall be administered by the Committee, which shall consist of not less than three persons who are appointed by the Board, who are directors of the Company and not employees of the Company or any of its affiliates. Membership on the Committee shall be subject to such limitations (including, if appropriate, a change in the minimum number of members of the Committee) as the Board deems appropriate to permit transactions pursuant to the Plan to be (1) exempt from potential liability under Section 16(b) of the 1934 Act, and Rule 16b-3 pursuant thereto, as in effect both before and after September 1, 1995, or such other date as the SEC shall determine, and (2) exempt from limitations on deductibility under Section 162(m) of the Internal Revenue Code.

(b) Board Reservation and Delegation. The Board may, in its discretion, reserve to itself or delegate to another committee of the Board any or all of the authority and responsibility of the Committee with respect to Awards to Grantees who are not Section 16 Grantees at the time any such delegated authority or responsibility is exercised. Such other committee may consist of one or more directors who may, but need not, be officers or employees of the Company or of any of its Subsidiaries. To the extent that the Board has reserved to itself or delegated the authority and responsibility of the Committee to such other committee, all references to the Committee in the Plan shall be to the Board or such other committee, as the case may be.

(c) Committee Authority. The Committee shall have full and final authority, in its discretion, but subject to the express provisions of the Plan, as follows:

(i) to grant Awards on or after the Distribution Date as described in Article 6,

(ii) to determine (A) when Awards may be granted, and (B) whether or not specific Awards shall be identified with other specific Awards, and if so, whether they shall be exercisable cumulatively with, or alternatively to, such other specific Awards,

(iii) to interpret the Plan and to make all determinations necessary or advisable for the administration of the Plan,

(iv) to prescribe, amend, and rescind rules and regulations relating to the Plan, including, without limitation, rules with respect to the exercisability and nonforfeitability of Awards upon the Termination of Employment of a Grantee,

(v) to determine the terms and provisions of the Award Agreements, which need not be identical and, with the consent (to the extent required by the Plan) of the Grantee, to modify any such Award Agreement at any time,

(vi) to accelerate the exercisability of, and to accelerate or waive any or all of the restrictions and conditions applicable to, any Award,

(vii) to make such adjustments or modifications to Awards to Grantees working outside the United States as are necessary and advisable to fulfill the purposes of the Plan, and

(viii) to impose such additional conditions, restrictions, and limitations upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including, without limitation, requiring simultaneous exercise of related identified Awards, and limiting the percentage of Awards which may from time to time be exercised by a Grantee.

The Committee shall have full and final authority to authorize any action or make any determination as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan, including to correct any defect, supply any omission and reconcile any inconsistency between the Plan and the awards under the Sears Plans the Plan is intended to replace.

(d) Committee Determinations Final. The determination of the Committee on all matters relating to the Plan or any Award Agreement shall be conclusive and final. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

5. Eligibility. Awards may be granted to any employee or former employee (or to the estate of a deceased employee) of the Company or any of its Subsidiaries to replace any awards granted to such employee, former employee or deceased employee under a Sears Plan

which were terminated, forfeited, cancelled or reduced (with or without the consent of the Grantee) in connection with the Distribution.

6. Awards.

(a) In General. In accordance with its powers under the Plan, the Committee may grant replacement Awards, including options (including Reload Options), replacement stock appreciation rights (including replacement stock appreciation rights replacing limited stock appreciation rights and tax benefit rights) and replacement restricted stock in accordance with Article 6 to preserve those opportunities and benefits of Allstate Group Grantees which were terminated, forfeited, cancelled, or reduced in connection with the Distribution, provided that no Grantee shall be granted Awards under the Plan with respect to more than 675,000 shares of Stock.

(b) Options and Reload Options.

(i) Grant of Replacement Options. Subject to Article 3(a), the Committee may grant options ("Replacement Options") under the Plan to each Allstate Group Grantee who holds unexercised Sears Options (whether or not nonforfeitable) at the Distribution Date; provided that such Allstate Group Grantee's right to exercise any Sears Options has been forfeited or cancelled in connection with the Distribution. The Award Agreement with respect to such Replacement Options shall provide that the Grantee may exercise a Replacement Option at the same time as he would have been able to exercise the Sears Option it replaces, subject to Article 8(c), if applicable.

(A) The Option Price for a Replacement Option shall be determined by the following formula; provided that in no event shall the Option Price be less than the Minimum Consideration:

$$\text{Option Price} = \frac{A \times B}{C}$$

Any fraction of a cent shall be rounded down to the next full cent.

(B) The number of shares of Stock for which the Replacement Option is exercisable shall be determined in accordance with the following formula:

$$\text{Number of shares} = \frac{C \times D}{B}$$

Any fractional share shall be rounded up to the next full share.

(C) In the foregoing formulas,

"A" is the option exercise price for a Sears Option being replaced,

"B" is the Fair Market Value of a share of Stock as of the Distribution Date,

"C" is the Fair Market Value of a Sears common share as of the Distribution Date, and

"D" is the number of Sears common shares for which the Sears Option being replaced is exercisable.

(D) Each Replacement Option shall have the same terms and conditions (other than the Option Price and the number of shares of Stock, but including any provision for Reload Options) as, and not give the Grantee any benefits he did not have, under the corresponding Sears Option.

(ii) Grant of Reload Options. The Committee may, subject to Article 3, grant a Reload Option to any Grantee of a Replacement Option whose Replaced Sears Option included a reload option for Sears shares. For purposes of the Plan, a "Reload Option" shall mean an option to purchase a number of shares of Stock granted in connection with the exercise of the Grantee's Replacement Option (the "Exercised Options") upon the payment of the Option Price for such Exercised Options with shares of Stock which have a Fair Market Value equal to not less than 100% of the Option Price for such Exercised Options. The Reload Option with respect to an Exercised Option shall be for a number of shares of Stock equal to the number of shares of Stock tendered to exercise the Exercised Options plus, if so provided by the Committee, the number of shares of Stock, if any, retained by the Company in connection with the exercise of the Exercised Options to satisfy any federal, state, or local tax withholding requirements. Reload Options shall be subject to the following terms and conditions:

(A) the Grant Date for each Reload Option shall be the date of exercise of the Exercised Option to which it relates;

(B) the Reload Option may be exercised at any time during the unexpired term of the Replacement Option to which it relates (subject to earlier termination thereof as provided in the Plan and in the applicable Award Agreement); and

(C) the terms of the Reload Option shall be the same as the terms of the Exercised Option to which it relates, except that (1) the Option Price shall be the Fair Market Value of the Stock on the Grant Date of the Reload Option and (2) no Reload Option may be exercised within one year from the Grant Date thereof.

(c) Stock Appreciation Rights.

(i) Grant of Replacement SARs. The Committee may grant stock appreciation rights ("Replacement SARs") under the Plan to each Allstate Group Grantee who holds unexercised limited stock appreciation rights, and tax benefit rights (whether or not nonforfeitable) under the Sears Plans; provided that such Allstate Group Grantee's right to exercise any Sears SARs has been forfeited or cancelled in connection with the Distribution. Replacement SARs granted in replacement of Sears SARs identified with Sears Options shall be equal in number to, and shall be identified with the Replacement Options granted in replacement of such Sears Options. The Award Agreement with respect to such Replacement SARs shall provide that the Grantee may exercise a Replacement SAR at the same time as if the Grantee had held the Replacement SAR since the grant date of the Sears SAR it replaces, subject to the limitations of Article 8(c), if applicable.

(ii) Benefit for Replacement Limited Stock Appreciation Rights. The benefit for each Replacement SAR granted in replacement of a limited stock appreciation right ("Replacement LSAR") identified with a Sears Option shall be equal to the difference between the Change of Control Value of a share of Stock on the date of exercise of such Replacement SAR and the Option Price of the related Replacement Option.

(iii) Benefit for Replacement Tax Benefit Rights. The benefit for each Replacement SAR granted in replacement of a tax benefit right ("Replacement Tax Benefit Right") identified with a Sears Option shall be equal to the then applicable maximum statutory federal income tax rate for corporations (subject to any limitations thereon contained in the tax benefit right being replaced), multiplied by the amount of compensation, if any, realized by the Grantee for federal income tax purposes upon exercise of the related Replacement Option.

(iv) Terms and Conditions of Replacement SARs. Each Replacement SAR shall have the same terms and conditions (except as provided above in this Article 6(c)) as, and not give the Grantee greater rights than, the corresponding Sears SAR.

(d) Restricted Stock.

(i) Replacement Restricted Stock. The Committee may grant shares of restricted Stock ("Replacement Restricted Stock") under the Plan to each Allstate Group Grantee whose Sears Restricted Stock is forfeited or cancelled in connection with the Distribution. The Award Agreement with respect to such Replacement Restricted Stock shall provide that such Replacement Restricted Stock shall become nonforfeitable at the same time that the Sears Restricted Stock it replaces would have become nonforfeitable, subject to the limitations of Article 8(c), if applicable.

(A) The Grantee's basis in the Replacement Restricted Stock (i.e. the amount of consideration, if any, that shall be deemed to have been paid by the Grantee for the Replacement Restricted Stock) shall be determined by the following formula:

$$\frac{E \times B}{C}$$

The Grantee shall not be required to pay additional consideration for the grant of Replacement Restricted Stock, except that the Minimum Consideration shall be paid for any shares of restricted Stock that are not treasury shares.

(B) The number of shares of Replacement Restricted Stock to be granted shall be determined by the following formula:

$$\text{Number of shares} = \frac{F \times C}{B}$$

Any fractional share shall be rounded up to the next full share.

(C) In the foregoing formulas,

"B" is the Fair Market Value of a share of Stock as of the Distribution Date,

"C" is the Fair Market Value of a Sears common share as of the Distribution Date,

"E" is the Grantee's average per share basis, if any, in the Sears Restricted Stock being replaced, and

"F" is the number of shares of Sears Restricted Stock being replaced.

(D) Each share of Replacement Restricted Stock shall be substantially the same terms and conditions other than the number of shares and the amount of the Grantee's basis therein) as, and shall not give the Grantee any benefits which he did not have, under the corresponding Sears Restricted Stock, except as otherwise provided by the Committee.

(ii) Additional Conditions for Restricted Stock.

(A) The Committee may provide that any share of restricted Stock shall be held (together with a stock power executed in blank by the Grantee) in escrow by the Secretary of the Company until such shares become nonforfeitable or are forfeited or may make such other arrangements for the holding of shares of restricted stock as it deems appropriate.

(B) If a share of restricted Stock is forfeited such share of restricted Stock shall cease to be outstanding, and shall no longer confer on the Grantee thereof any rights as a stockholder of the Company.

(C) Any share of restricted Stock shall bear an appropriate legend specifying that such share is non-transferable and subject to the restrictions set forth in the Plan. If any shares of restricted Stock become nonforfeitable, the Company shall cause certificates for such shares to be issued or reissued without such legend and delivered to the Grantee or, at the request of the Grantee, shall cause such shares to be credited to a brokerage account specified by the Grantee.

7. Non-transferability. Each Award (other than restricted Stock) granted hereunder shall by its terms not be assignable or transferable other than by will or the laws of descent and distribution and may be exercised, during the Grantee's lifetime, only by the Grantee. Each share of restricted Stock shall be non-transferable until such share becomes nonforfeitable. Notwithstanding the foregoing, the Grantee may, to the extent provided in the Plan and in a manner specified by the Committee, (a) designate in writing a beneficiary to exercise his options after the Grantee's death, and (b) transfer an option, or stock appreciation right to a revocable, inter vivos trust as to which the Grantee is both the settlor and the trustee.

8. Exercise.

Exercise of Replacement Options. Subject to Articles 4 and 6, (i) each Replacement Option shall be exercisable in one or more installments commencing not earlier than the first anniversary of the grant date of the Sears Option it replaces, (ii) options shall not be exercisable for twelve months following a hardship distribution that is subject to Treasury Regulation ss. 1.401(k)-1(d)(2)(iv)(B)(4), (iii) each option shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of shares of Stock subject to the option, (iv) the Option Price of any shares of Stock as to which an option shall be exercised shall be paid in full at the time of the exercise, and (v) payment may be made in either one or any combination of the following, as provided in the Award Agreement:

(I) cash, or

(II) Stock that has been held for at least six months, valued at the Fair Market Value on the date of exercise.

Shares of Stock acquired by a Grantee on exercise of an option shall be delivered to the Grantee or, at the request of the Grantee, shall be credited directly to a brokerage account specified by the Grantee.

(b) Exercise of Replacement Stock Appreciation Rights. Subject to Articles 4(c)(vi) and 6, (i) each stock appreciation right shall be exercisable not earlier than the first anniversary of the grant date of the Sears stock appreciation right it replaces, to the extent the option with which it is identified, if any, may be exercised, (ii) replacement LSARs shall become fully exercisable upon the occurrence of a Change of Control and shall be exercisable for a period of sixty days thereafter, (iii) replacement SARs shall be exercised by delivery to the Company of written notice of intent to exercise a specific number of Replacement SARs, and (iv) unless otherwise provided in the applicable Award Agreement, the exercise of stock appreciation rights which are identified with shares subject to an option shall result in the cancellation or forfeiture of such option to the extent of such exercise.

(c) Special Rules for Section 16 Grantees. Subject to Article 6, no stock appreciation right or option shall be exercisable by a Section 16 Grantee during the first six months after its Grant Date, except as exempted from Section 16(b) of the 1934 Act.

(d) Notification under Section 83(b). The Committee may, on the Grant Date or any later date, prohibit a Grantee from making the election described below. If the Committee has not prohibited such Grantee from making such election, and the Grantee, in connection with the exercise of any option, or the grant of any share of restricted Stock, makes the election permitted under Section 83(b) of the Internal Revenue Code to include in such Grantee's gross income in the year of transfer the amounts specified in Section 83(b) of the Internal Revenue Code, such Grantee shall notify the Company of such election within 10 days of filing notice of such election.

10. Withholding Taxes.

(a) Mandatory Withholding.

(i) Whenever under the Plan, cash or shares of Stock are to be delivered upon exercise or payment of an Award or upon a share of restricted Stock becoming nonforfeitable, or any other event with respect to rights and benefits hereunder, the Company shall be entitled to require as a condition of delivery (A) that the Grantee remit an amount sufficient to satisfy all federal, state, and local withholding tax requirements related thereto, (B) the withholding of such sums from compensation otherwise due to the Grantee or from any shares of Stock due to the Grantee under the Plan or (C) any combination of the foregoing.

(ii) If any election described in Article 9 is made, then the person making such election shall remit to the Company an amount sufficient to satisfy all federal, state, and local withholding taxes thereby incurred; provided that, in lieu of or in addition to the foregoing, the Company shall have the right to withhold such sums from compensation otherwise due to the Grantee or from any shares of Stock due to the Grantee under the Plan.

(b) Elective Share Withholding.

(i) To the extent provided under the terms of the Sears Option or Sears Restricted Stock Award which it replaces, and subject to the prior approval of the Committee and to Article 10(b)(ii) below, a Grantee may elect the withholding ("Share Withholding") by the Company of a portion of the shares of Stock otherwise deliverable to such Grantee upon the exercise or payment of an Award or upon a share of restricted Stock's becoming nonforfeitable (each a "Taxable Event") having a Fair Market Value equal to

(A) the minimum amount necessary to satisfy required federal, state, or local withholding tax liability attributable to the Taxable Event; or

(B) with the Committee's prior approval, a greater amount, not to exceed the estimated total amount of such Grantee's tax liability with respect to the Taxable Event.

(ii) Each Share Withholding election by a Grantee shall be subject to the following restrictions:

(A) any Grantee's election shall be subject to the Committee's right to revoke its approval of Share Withholding by such Grantee at any time before the Grantee's election if the Committee has reserved the right to do so at the time of its approval;

(B) if the Grantee is a Section 16 Grantee, such Grantee's election shall be subject to the disapproval of the Committee at any time, whether or not the Committee has reserved the right to do so; and

(C) the Grantee's election must be made before the date (the "Tax Date") on which the amount of tax to be withheld is determined.

11. Termination of Employment.

(a) Restricted Stock. Except as otherwise provided by the Committee on or after the Grant Date, a Grantee's shares of restricted Stock that are forfeitable shall be forfeited upon the Grantee's Termination of Employment.

(b) Other Awards. Unless otherwise provided in the Award Agreement, any unexercised option or stock appreciation right, to the extent exercisable on the date of the Grantee's Termination of Employment, may be exercised, in whole or in part, at any time within three months after the Grantee's Termination of Employment, except that

(i) if the Grantee's Termination of Employment is caused by the death of the Grantee, or if the Grantee's death occurs during the period following Termination of Employment during which the option or stock appreciation right would be exercisable under the preceding clause of Article 11(b) or under Article 11(b)(ii), then any unexercised option or stock appreciation rights, to the extent exercisable on the date of the Grantee's death, may be exercised, in whole or in part, at any time within two years after the Grantee's death by the Grantee's personal representative or by the person to whom the option or stock appreciation rights are transferred by will or the applicable laws of descent and distribution; and

(ii) if the Grantee's Termination of Employment is on account of Retirement, then any unexercised option or stock appreciation rights, to the extent exercisable on the date of such Termination of Employment, may be exercised, in whole or in part, at any time within two years after such Termination of Employment.

(c) The foregoing provisions of this Article 11 shall not extend the unexpired term of any Award.

12. Securities Law Matters.

(a) If the Committee deems necessary to comply with the Securities Act of 1933, the Committee may require a written investment intent representation by the Grantee and may require that a restrictive legend be affixed to certificates for shares of Stock.

(b) If, based upon the opinion of counsel for the Company, the Committee determines that the exercise, nonforfeitability of, or delivery of benefits pursuant to, any Award would violate any applicable provision of (i) federal or state securities law or regulations or (ii) the listing requirements of any national securities exchange on which are listed any of the Company's equity securities, then the Committee may postpone any such exercise, nonforfeitability or delivery, as the case may be, but the Company shall use its best efforts to cause such exercise, nonforfeitability or delivery to comply with all such provisions at the earliest practicable date.

13. <u>No Funding Required</u>. Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund or otherwise segregate assets to be used for payment of benefits under the Plan.

14. <u>No Employment Rights</u>. Neither the establishment of the Plan nor the granting of any Award shall be construed to (a) give any Grantee the right to remain employed by the Company or any of its Subsidiaries or to any benefits not specifically provided by the Plan or (b) alter in any manner the right of the Company or any of its Subsidiaries to modify, amend, or terminate any of its employee benefit plans.

15. <u>Rights as a Stockholder</u>. A Grantee shall not, by reason of any Award (other than restricted Stock) have any right as a stockholder of the Company with respect to the shares of Stock which may be deliverable upon exercise or payment of such Award until such Stock has been delivered to him. Shares of restricted Stock held by a Grantee or held in escrow by the Secretary of the Company shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan or Award Agreement. Subject to Article 6, the Committee may, in its discretion, at the time of grant of restricted Stock, permit or require the payment of cash dividends thereon to be reinvested in additional restricted Stock to the extent shares are available under Article 3, or otherwise reinvested in Stock. Stock dividends and deferred cash dividends with respect to restricted Stock shall be subject to the same restrictions and other terms as apply to the shares with respect to which such dividends are issued. Subject to Article 6, the Committee may, in its discretion, provide for crediting and payment of interest on deferred cash dividends.

16. <u>Nature of Payments</u>. Any and all grants, payments of cash, or deliveries of shares of Stock hereunder shall constitute special incentive payments to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for the purposes of determining any pension, retirement, death or other benefits under (a) any pension, retirement, profit-sharing, bonus, life insurance or other employee benefit plan of the Company or any of its Subsidiaries or (b) any agreement between the Company or any Subsidiary, on the one hand, and the Grantee, on the other hand, except as such plan or agreement shall otherwise expressly provide.

17. <u>Non-Uniform Determinations</u>. The Committee and the Board may make nonuniform determinations under the Plan and may make determinations selectively among persons who receive, or are eligible to receive, Awards (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, to enter into non-uniform and selective Award Agreements as to (a) the identity of the Grantees, (b) the terms and provisions of Awards, and (c) the treatment, under Article 11, of Terminations of Employment.

18. Adjustments. Subject to Article 6, the Committee shall make equitable adjustment of

(a) the aggregate numbers of shares of Stock available under Articles 3(a) and 3(b),

(b) the number of shares of Stock, shares of restricted Stock or stock appreciation rights covered by an Award,

(c) the Option Price,

(d) the Fair Market Value of Stock to be used to determine the amount of the benefit payable upon exercise of stock appreciation rights, and

(e) all other appropriate matters,

to reflect any stock dividend, stock split, reverse stock split, share combination, recapitalization, merger, consolidation, acquisition of property or shares, separation, spin-off, reorganization, stock rights offering, liquidation or similar event of or by the Company.

19. Amendment of the Plan. The Board may from time to time in its discretion amend or modify the Plan without the approval of the stockholders of the Company, except as such stockholder approval may be required (a) to permit transactions in Stock pursuant to the Plan to be exempt from potential liability under Section 16(b) of the 1934 Act, (b) to permit the Company to deduct, in computing its income tax liability pursuant to the provisions of the Internal Revenue Code, compensation resulting from Awards, or (c) under the listing requirements of any national securities exchange on which are listed any of the Company's equity securities.

20. Termination of the Plan. The Plan shall terminate on the tenth (10th) anniversary of the Effective Date or at such earlier time as the Board may determine. Any termination, whether in whole or in part, shall not affect any Award then outstanding under the Plan.

21. No Illegal Transactions. The Plan and all Awards granted pursuant to it are subject to all laws and regulations of any governmental authority which may be applicable thereto; and notwithstanding any provision of the Plan or any Award, Grantees shall not be entitled to exercise Awards or receive the benefits thereof and the Company shall not be obligated to deliver any Stock or pay any benefits to a Grantee if such exercise, delivery, receipt or payment of benefits would constitute a violation by the Grantee or the Company of any provision of any such law or regulation.

22. Controlling Law. The law of the State of Delaware, except its law with respect to choice of law, shall be controlling in all matters relating to the Plan.

23. Severability. If all or any part of the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of the Plan not declared to be unlawful or invalid. Any Article or part of an Article so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Article or part of an Article to the fullest extent possible while remaining lawful and valid.

EXHIBIT 13

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS/HOME OFFICE
The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062-6127
(847) 402-5000
http://www.allstate.com

ANNUAL MEETING
All shareholders are cordially invited to attend the annual meeting of The Allstate Corporation:

Tuesday - May 20, 1997 - 1:30 p.m.
Chicago Botanic Garden
1000 Lake-Cook Road
Glencoe, IL

Holders of common stock of record at the close of business on March 21, 1997, are entitled to vote at the meeting. A notice of meeting, proxy statement and proxy were mailed to shareholders with this annual report.

TRANSFER AGENT/SHAREHOLDER RECORDS
For information or assistance regarding individual stock records, dividend reinvestment plan and voluntary cash payments, dividend checks, direct deposit of dividend payments, or stock certificates, please call (800) 355-5191, or write:

Harris Trust and Savings Bank
Shareholder Services Division
P.O. Box A3504
Chicago, IL 60690-9502

Please use the following address for items sent by courier or overnight mail:

Harris Trust and Savings Bank
Shareholder Services Division
311 West Monroe Street
11th Floor
Chicago, IL 60606-4607

INVESTOR INQUIRIES
Investor Relations
The Allstate Corporation
3075 Sanders Road
Northbrook, IL 60062-7127
(800) 416-8803

COMMON STOCK AND DIVIDEND INFORMATION

	HIGH	LOW	CLOSE	DIVIDENDS DECLARED
1996				
First quarter	46	37 3/8	42	.2125
Second quarter	46 1/2	37 3/8	45 5/8	.2125
Third quarter	49 3/4	40 7/8	49 1/4	.2125
Fourth quarter	60 7/8	48 3/4	57 7/8	.2125
1995				
First quarter	29	23 1/2	28 3/4	.195
Second quarter	31 7/8	28 1/8	29 5/8	.195
Third quarter	37 1/4	29 1/4	35 3/8	.195
Fourth quarter	42 3/8	33 5/8	41 1/8	.195

Stock price ranges are from the New York Stock Exchange composite listing. at February 14, 1997, there were 220,201 shareholders of record.

FORM 10-K, OTHER REPORTS

Shareholders may receive, without charge, a copy of The Allstate Corporation's Form 10-K annual report, filed with the Securities and Exchange Commission, for the year ended Dec. 31, 1996, by contacting:

Investor Relations
The Allstate Corporation
3075 Sanders Road
Northbrook, IL 60062-7127
(800) 416-8803

STOCK EXCHANGE LISTING
The Allstate Corporation's common stock is listed on the New York Stock Exchange under the trading symbol ALL. Common stock is also listed on the Chicago Stock Exchange.

INDEPENDENT AUDITORS

Deloitte &Touche LLP
Two Prudential Plaza
180 North Stetson Avenue
Chicago, IL 60601-6779

MEDIA INQUIRIES
Allstate Media Relations
2775 Sanders Road
Northbrook, IL 60062-6127
(847) 402-5600

CONTENTS

NET INCOME PER COMMON SHARE	DIVIDENDS PER COMMON SHARE	MARKET VALUE PER COMMON SHARE
1994 $1.08	1994 $0.72	1994 $23.75
1995 $4.24	1995 $0.78	1995 $41.13
1996 $4.63	1996 $0.85	1996 $57.88

11-year summary of selected financial data

($ in millions except per share data)	1996	1995	1994
CONSOLIDATED OPERATING RESULTS			
Insurance premiums and contract charges	$19,702	$18,908	$17,566
Net investment income	3,813	3,627	3,343
Realized capital gains and losses	784	258	200
Total revenues	24,299	22,793	21,109
Operating income (loss), net of tax	1,600	1,587	268
Realized capital gains and losses, net of tax	510	168	130
Equity in net income (loss) of unconsolidated subsidiary	29	56	86
Income (loss) from continuing operations	2,075	1,904	484
Gain (loss) from discontinued operations, net of tax	-	-	-
Cumulative effect of changes in accounting	-	-	-
Net income (loss)	2,075	1,904	484
Earnings (loss) per share			
Income (loss) before cumulative effect of changes in accounting	4.63	4.24	1.08
Cumulative effect of changes in accounting	-	-	-
Net income (loss)	4.63	4.24	1.08
Dividends declared per share	0.85	0.78	0.72
CONSOLIDATED FINANCIAL POSITION			
Investments	$58,329	$56,505	$47,227
Total assets	74,508	70,029	60,988
Reserves for claims and life-contingent contract benefits and contractholder funds	43,789	42,904	39,961
Debt	1,386	1,228	869
Shareholders' equity	13,452	12,680	8,426
Shareholders' equity per share	30.47	28.34	18.73
PROPERTY-LIABILITY OPERATIONS			
Premiums written	$18,586	$17,965	$16,739
Premiums earned	18,366	17,540	16,513
Net investment income	1,758	1,630	1,515
Operating income (loss), net of tax	1,266	1,301	81
Realized capital gains and losses, net of tax	490	158	145
Equity in net income (loss) of unconsolidated subsidiary	29	56	86
Income (loss) before cumulative effect of changes in accounting	1,725	1,608	312
Net income (loss)	1,725	1,608	312
Operating ratios			
Claims and claims expense ("loss") ratio	78.9	78.1	88.0
Expense ratio	21.6	22.3	23.3
Combined ratio	100.5	100.4	111.3
LIFE AND ANNUITY OPERATIONS			
Premiums and contract charges	$1,336	$1,368	$1,053
Net investment income	2,045	1,992	1,827
Operating income, net of tax	368	327	226
Realized capital gains and losses, net of tax	20	10	(15
Income from continuing operations before cumulative effect of changes in accounting	388	337	211
Net income (loss)	388	337	211
Statutory premiums and deposits	5,157	4,874	4,539
Investments including Separate Accounts	33,588	31,065	26,197

Operating income (loss), net of tax is "Income before dividends on preferred securities and equity in net income of unconsolidated subsidiary" excluding realized capital gains (losses) and gain (loss) on disposition of operations, net of tax. - Consolidated financial position for 1993 and thereafter are not comparable to prior years due to adoption of new accounting rules for debt and equity securities. - Earnings (loss) per share is presented pro forma for 1993 and 1992 and is not applicable prior to 1992.

11-year summary of selected financial data

($ in millions except per share data)	1993	1992	1991	1990	1989	1988	1987	1986
CONSOLIDATED OPERATING RESULTS								
Insurance premiums and contract charges	$17,118	$16,670	$16,215	$15,342	$14,251	$12,870	$11,306	$9,384
Net investment income	3,269	3,153	2,954	2,528	2,195	1,745	1,364	1,124
Realized capital gains and losses	215	161	4	182	224	185	273	151
Total revenues	20,602	19,984	19,173	18,052	16,670	14,800	12,943	10,659
Operating income (loss), net of tax	1,083	(718)	662	518	626	784	896	633
Realized capital gains and losses, net of tax	140	106	3	118	148	122	180	109
Equity in net income (loss) of unconsolidated subsidiary	79	112	58	54	41	8	(31)	2
Income (loss) from continuing operations	1,302	(500)	723	690	815	914	1,045	744
Gain (loss) from discontinued operations, net of tax	-	-	-	11	-	(146)	(99)	(6)
Cumulative effect of changes in accounting	-	(325)	-	-	-	185	-	-
Net income (loss)	1,302	(825)	723	701	815	953	946	738
Earnings (loss) per share								
Income (loss) before cumulative effect of changes in accounting	2.99	(1.16)						
Cumulative effect of changes in accounting	-	(0.75)						
Net income (loss)	2.99	(1.91)						
Dividends declared per share	0.36							
CONSOLIDATED FINANCIAL POSITION								
Investments	$47,932	$40,971	$38,213	$32,972	$28,144	$24,334	$18,940	$15,315
Total assets	58,994	51,817	47,173	41,246	35,369	30,817	25,406	21,257
Reserves for claims and life-contingent contract benefits and contractholder funds	37,275	35,776	31,576	27,058	22,193	18,370	14,106	10,986
Debt	850	1,800	-	-	-	-	-	-
Shareholders' equity	10,300	5,383	8,151	7,127	6,793	6,213	5,525	5,107
Shareholders' equity per share	22.89	17.04						
PROPERTY-LIABILITY OPERATIONS								
Premiums written	$16,292	$15,774	$15,107	$14,572	$13,385	$12,271	$10,980	$9,442
Premiums earned	16,039	15,542	15,018	14,176	13,039	11,908	10,485	8,798
Net investment income	1,406	1,420	1,350	1,254	1,212	1,063	953	836
Operating income (loss), net of tax	963	(867)	475	355	481	665	798	538
Realized capital gains and losses, net of tax	146	166	24	108	132	114	161	93
Equity in net income (loss) of unconsolidated subsidiary	79	112	58	54	41	8	(31)	3
Income (loss) before cumulative effect of changes in accounting	1,188	(589)	557	517	654	787	928	633
Net income (loss)	1,188	(900)	557	517	654	982	928	633
Operating ratios								
Claims and claims expense ("loss") ratio	79.7	97.4	83.3	85.7	82.8	80.5	80.6	82.1
Expense ratio	23.5	24.0	24.8	24.5	24.7	24.1	24.3	24.1
Combined ratio	103.2	121.4	108.1	110.2	107.5	104.6	104.9	106.2
LIFE AND ANNUITY OPERATIONS								
Premiums and contract charges	$1,079	$1,128	$1,197	$1,166	$1,212	$962	$821	$586
Net investment income	1,858	1,733	1,604	1,274	983	682	411	288
Operating income, net of tax	169	149	187	163	145	119	99	95
Realized capital gains and losses, net of tax	(6)	(60)	(21)	10	16	8	19	16
Income from continuing operations before cumulative effect of changes in accounting	163	89	166	173	161	127	118	111
Net income (loss)	163	75	166	184	161	(29)	18	105
Statutory premiums and deposits	4,086	3,851	4,222	4,252	3,276	3,447	2,294	1,629
Investments including Separate Accounts	24,909	21,829	19,050	15,732	11,787	9,435	6,412	4,279

- - - Shareholders' equity is presented pro forma for 1992 reflecting the formation of The Allstate Corporation - Net income (loss) and financial position for 1992 and thereafter are not comparable to prior years due to adoption of new accounting rules for postretirement and postemployment benefits. - Net income for 1988 reflects adoption of new income tax accounting rules.

THE FOLLOWING DISCUSSION HIGHLIGHTS SIGNIFICANT FACTORS INFLUENCING RESULTS OF OPERATIONS AND FINANCIAL POSITION OF THE ALLSTATE CORPORATION (THE "COMPANY" OR "ALLSTATE"). IT SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ON PAGES 57 THROUGH 88 AND THE 11-YEAR SUMMARY OF SELECTED FINANCIAL DATA ON PAGES 32 AND 33.

ANALYSIS OF THE COMPANY'S TWO PRINCIPAL INSURANCE SEGMENTS IS PROVIDED IN PROPERTY-LIABILITY OPERATIONS AND LIFE AND ANNUITY OPERATIONS BEGINNING ON PAGES 35 AND 46, RESPECTIVELY.

1996 ACCOMPLISHMENTS

- Several actions were taken to significantly reduce exposure to catastrophes in Florida and California.
- The Company sold its Northbrook, Reinsurance and ARCO operations.
- The Company issued $750 million of trust preferred securities. The proceeds were used for general corporate purposes, including the Company's stock repurchase program.
- In late 1996, the Company's board of directors approved the expansion of its stock repurchase program by an amount not to exceed $750 million through the end of 1997.

CONSOLIDATED REVENUES

($ in millions)	1996	1995	1994
	For the year ended December 31,		
Property-liability insurance premiums	$18,366	$17,540	$16,513
Life and annuity premiums and contract charges	1,336	1,368	1,053
Net investment income	3,813	3,627	3,343
Realized capital gains and losses	784	258	200
Total revenues	$24,299	$22,793	$21,109

CONSOLIDATED NET INCOME Net income for 1996, increased to $2.08 billion, or $4.63 per share, from $1.90 billion, or $4.24 per share in 1995, which in turn increased from $484 million, or $1.08 per share in 1994. Net income for each of the periods was impacted by the following items:

1996
- Increased property-liability premiums;
- Favorable property-liability auto severity trends;
- Increased realized capital gains from the repositioning of the property-liability investment portfolio, and favorable investment performance and market conditions;
- Improved Allstate Life operating income resulting from growth in new business and favorable mortality margins; and
- $318 million pre-tax charge to strengthen discontinued lines and coverages net loss reserves.

1995
- Increased revenue growth in both property-liability and Allstate Life;
- Lower property-liability loss and expense ratios;
- Improved Allstate Life mortality margins and operating expenses; and
- Gain of $93 million after-tax on the sale of 70% of PMI Group.

1994
- $1.06 billion after-tax in losses from the Northridge earthquake;
- $100 million after-tax charge for the cost of an early retirement program;
- Favorable trends in property-liability claim severity and expense reductions; and
- Improved Allstate Life operating income.

PROPERTY-LIABILITY 1996 HIGHLIGHTS

- Property-liability premiums written increased 3.5% in 1996, as 27.3% growth in non-standard auto offset the absence of premium from the Northbrook, Reinsurance and ARCO operations following their sale.
- Property-liability combined ratio increased slightly to 100.5 from 100.4 as improvements in the expense ratio were partially offset by increases in the loss ratio.
- Property-liability net income increased to $1.73 billion in 1996 from $1.61 billion in 1995.

PROPERTY-LIABILITY OPERATIONS

OVERVIEW In order to focus primarily on its core strengths, the Company sold Northbrook Holdings, Inc. and its wholly owned subsidiaries (collectively "Northbrook"), its U.S.-based reinsurance operations for policies written after 1984 ("Reinsurance") and its London-based reinsurance operations, Allstate Reinsurance Co., Limited ("ARCO") during the second half of 1996. Subsequent to the dispositions, Allstate's property-liability operations consists of two principal areas of business: personal property and casualty ("PP&C") and discontinued lines and coverages ("Discontinued Lines and Coverages"). PP&C, which has historically included only the Company's personal property and casualty business, now includes the ongoing commercial business written through the Allstate agent distribution channel. Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and mass tort losses and other commercial business in run-off, and the historical results of the mortgage pool business and businesses sold in 1996.

Underwriting results for each of the property-liability lines of business are discussed separately beginning on page 38.

Summarized financial data and key operating ratios for Allstate's property-liability operations are presented in the following table.

($ in millions)	1996	1995	1994
Premiums written	$18,586	$17,965	$16,739
Premiums earned	$18,366	$17,540	$16,513
Claims and claims expense	14,487	13,688	14,529
Operating costs and expenses	3,964	3,915	3,721
Early retirement program	-	-	132
Underwriting loss	(85)	(63)	(1,869)
California Earthquake Authority assessment	150	-	-
Net investment income	1,758	1,630	1,515
Realized capital gains and losses, after-tax	490	158	145
(Loss) gain on disposition of operations, after-tax	(60)	93	-
Income tax expense (benefit) on operations	257	266	(435)
Income before equity in net income of unconsolidated subsidiary	1,696	1,552	226
Equity in net income of unconsolidated subsidiary	29	56	86
Net income	$ 1,725	$ 1,608	$312
Catastrophe losses	$ 991	$ 934	$ 1,988
Operating ratios			
Claims and claims expense ("loss") ratio	78.9	78.1	88.0
Expense ratio	21.6	22.3	23.3
Combined ratio	100.5	100.4	111.3
Effect of catastrophe losses on combined ratio	5.4	5.3	12.0

NET INVESTMENT INCOME AND REALIZED CAPITAL GAINS Pretax net investment income increased 7.9% in 1996 and 7.6% in 1995. The increases in net investment income were primarily due to higher investment balances.

In low interest rate environments, funds from maturing investments may be reinvested at substantially lower interest rates than the rates which prevailed when the funds were previously invested.

Realized capital gains net of tax for 1996 were $490 million compared with $158 million in 1995. The increase was primarily due to the sale of tax-exempt long-term fixed income and equity securities, in order to reduce the market risk (principally interest rate sensitivity and equity price risk) associated with property-liability's fixed income and equity securities investment portfolios. The proceeds from the repositioning were reinvested in taxable intermediate-term fixed income securities. Favorable investment performance and market conditions also contributed to the 1996 increase. Realized capital gains net of tax increased 9.0% in 1995, as compared to 1994 as increased sales of equity securities were partially offset by writedowns on fixed income and equity securities. Year-to-year fluctuations in realized capital gains are largely a function of the timing of sales decisions reflecting management's view of individual securities and overall market conditions.

The Company expects the rate of increase in property-liability net investment income to be lower in 1997 as a result of the Northbrook, Reinsurance and ARCO sales. These sales resulted in a net reduction of property-liability investments of approximately $1.59 billion.

CATASTROPHE LOSSES Catastrophes are an inherent risk of the property-liability insurance business which have contributed, and will continue to contribute, to material year-to-year fluctuations in Allstate's results of operations and financial position. The level of catastrophe losses experienced in any year cannot be predicted and could be material to the results of operations and financial position. The Company has experienced two severe catastrophes in the last five years resulting in losses of $2.33 billion relating to Hurricane Andrew (net of reinsurance) and $1.72 billion relating to the Northridge earthquake. While management believes the Company's catastrophe management strategies, described below, will greatly reduce the probability of severe losses in the future, the Company continues to be exposed to similar or greater catastrophes.

The establishment of appropriate reserves for catastrophes, as for all property-liability claims, is an inherently uncertain process. Catastrophe reserve estimates are regularly reviewed and updated, using the most current information. Any resulting adjustments, which may be material, are reflected in current operations.

CATASTROPHE MANAGEMENT Allstate has implemented strategies to limit, over time, subject to the requirements of insurance laws and regulations and as limited by competitive considerations, its insurance exposures in certain regions prone to catastrophes. These strategies include limits on new business production, limitations on certain policy coverages, increases in deductibles, policy brokering and participation in catastrophe pools. In addition, Allstate has requested and received rate increases in certain regions prone to catastrophes. During 1996, the Company made substantial progress in Florida and California in reducing its exposure to catastrophes.

Allstate continues to support passage of legislation in Congress such as the Homeowner's Insurance Availability Act which could, if enacted, lessen the impact to Allstate of catastrophic natural disasters such as hurricanes and earthquakes. Allstate is a founding member of a newly-formed coalition whose members include property insurers and insurance agents. This group is promoting a measure that would provide federal reinsurance to state disaster plans. The Company is unable to determine whether, or in what form, such proposed legislation will be enacted or what the effect on the Company will be.

For Allstate, major areas of potential losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. The major areas of exposure to potential losses due to earthquakes in California include population centers in and around Los Angeles and San Francisco. Other areas in the United States with exposure to potential earthquake losses include areas surrounding the New Madrid fault system in the midwest and faults in and surrounding Seattle, Washington. Allstate continues to evaluate business strategies and options in the reinsurance market for appropriate coverage at acceptable rates and the financial markets to more effectively manage its exposure to catastrophe losses in these and other areas.

Florida Hurricanes Over the last several years the Company has non-renewed policies as a means of reducing exposure to catastrophes. During 1996, approval was received from the Florida Department of Insurance on key components of the Company's plan to reorganize its Florida property business in order to reduce its exposure to hurricane losses. As part of this plan, the Company has discontinued its policy non-renewal program and taken the following additional actions.

- Allstate Floridian Insurance Company ("Floridian") was formed to sell and service Allstate's Florida property policies. Effective mid-September 1996, all new Florida property policies were written by Floridian. Existing Allstate property policies, which expire after October 31, 1996, are being transferred to Floridian as the policies are renewed.
- Floridian entered into catastrophe reinsurance agreements with a non-affiliated entity which provides approximately $400 million of catastrophe reinsurance protection.
- Allstate entered into an agreement with Clarendon National Insurance Company ("Clarendon") to sell the renewal rights of up to 137,000 Florida property policies and as a result may non-renew up to 170,000 policies. Beginning with policies expiring after November 14, 1996, Allstate will no longer provide coverage for these policies as they expire over the next twelve months. In connection with the sale of the renewal rights of these policies, the Company recognized an after-tax loss of $24 million in 1996. The Company expects annual written premiums to decrease by approximately $106 million as a result of this sale.
- Effective September 17, 1996, for new business, and November 1, 1996, for renewal business, Florida property policies contained increased deductibles, certain coverage modifications and a 24.9% statewide average increase in premium rates. Except for the possibility of recouping certain assessments for deficits in the residual property markets, the Company has agreed to not increase property premium rates until January 1999.
- Beginning April 16, 1997, as certain policies renew, the Company will transfer the wind damage portion of between 50,000 and 60,000 Allstate property policies to the Florida Windstorm Underwriting Association.

Management believes as these actions are implemented, the Company's exposure to hurricane losses will be substantially reduced in Florida, however, premium growth will also be impacted.

California Earthquakes On December 2, 1996, the California Earthquake Authority ("CEA") commenced operations. The CEA is a privately-financed, publicly-managed state agency created to provide coverage for earthquake damage resulting from the movement of the earth. Insurers selling homeowners insurance in California are required to offer earthquake insurance to their customers either through their company or participation in the CEA. Beginning January 20, 1997, Allstate's traditional earthquake policies and mini-earthquake policies ("Mini-policy") began transferring to the CEA; this transfer will continue over the next year as these policies expire. Beginning late in the second quarter of 1996, Allstate's traditional earthquake policies were renewed as Mini-policies. The Mini-policy has higher deductibles, eliminates coverage for most non-dwelling structures and limits personal contents coverage, thereby significantly reducing Allstate's exposure to earthquake losses in California from what it was at the time of the Northridge earthquake in 1994.

Approximately $700 million of capital needed to create the CEA was obtained from assessments of participating insurance companies. Assessments were based on an insurer's proportionate market share of earthquake coverage in the state. Allstate's pretax assessment, including related expenses, was approximately $150 million.

Additional capital needed to operate the CEA will be obtained through assessments of participating insurance companies, reinsurance and bond issuances funded by policyholder assessments. Allstate may be assessed in the future depending on the capital level of the CEA.

- Participating insurers are required to fund a second assessment, not to exceed $2.10 billion in total, if the capital of the CEA falls below $350 million.
- Participating insurers are required to fund a third assessment, after recovery of reinsurance and bond issuances, of up to $1.40 billion, if aggregate earthquake losses exceed $5.60 billion or the CEA's capital falls below $350 million.
- The authority of the CEA to assess participating insurers expires when the CEA has completed twelve years of operation.

- All assessments to participating CEA insurers are based on earthquake insurance market share, as of December 31 of the preceding year. Earthquake insurance market share is based on the percent of earthquake premium written by the CEA for which the insurer has written the underlying property policy.
- The aggregate amount of insurer assessments may change annually to reflect the market share of insurers entering and withdrawing from the CEA.
- Allstate does not expect its portion of these additional contingent assessments, if needed, to exceed $700 million, assuming its current earthquake insurance market share does not materially change.

Management believes Allstate's exposure to earthquake losses in California will be significantly reduced in the future as a result of the CEA. However, the Company continues to be directly exposed to earthquake losses in California through January 1998 until all policies expire and are rewritten by the CEA. The Company's homeowners policy will continue to include coverages for losses caused by explosions, theft, glass breakage and fires following an earthquake, which are not written by the CEA. The Company will non-renew approximately $117 million in earthquake premiums written over the next year.

DISPOSITIONS The 1996 net loss on dispositions is comprised of the following after-tax gains and losses:
- $51 million gain from the sale of Northbrook;
- $9 million gain from the sale of Reinsurance;
- $24 million loss from the sale of renewal rights of certain Florida homeowners policies to Clarendon;
- $41 million loss from the sale of ARCO; and
- $55 million loss due to an increase in the provision for future losses established in connection with Allstate's decision to exit the mortgage guaranty insurance business.

The sale of certain Florida policy renewal rights to Clarendon is discussed in Catastrophe Management. The sales of Northbrook, Reinsurance, ARCO and the increase in the provision for future losses established for mortgage guaranty business are discussed in detail in the Discontinued Lines and Coverages underwriting summary beginning on page 41.

In 1995, the Company sold 70% of the common stock of the PMI Group, Inc. ("PMI Group"), a wholly owned subsidiary in an initial public offering. A gain of $93 million after-tax was realized.

PERSONAL PROPERTY AND CASUALTY (PP&C) UNDERWRITING SUMMARY

($ in millions)	1996	1995	1994
Premiums written	$17,978	$16,941	$15,635
Premiums earned	$17,708	$16,524	$15,452
Claims and claims expense	13,574	12,648	13,563
Operating costs and expenses	3,718	3,576	3,368
Early retirement program	-	-	105
Underwriting income (loss)	$ 416	$ 300	$(1,584)
Catastrophe losses	$ 983	$ 905	$ 1,959
Operating ratios			
Claims and claims expense ("loss") ratio	76.7	76.5	87.8
Expense ratio	21.0	21.6	22.5
Combined ratio	97.7	98.1	110.3
Effects of catastrophe losses on combined ratio	5.6	5.5	12.7

PP & C PREMIUMS WRITTEN BY LINE
[GRAPH APPEARS HERE]

($ in millions)	1994	1995	1996
Standard auto	$9,611	$10,127	$10,389
Non-standard auto	1,681	2,165	2,756
Homeowners	2,715	2,915	3,042
Other	1,628	1,734	1,791
Total	$15,635	$16,941	$17,978

PP&C PREMIUMS PP&C provides primarily private-passenger auto and homeowners insurance to individuals. The Company separates the voluntary personal auto insurance business into two categories for underwriting purposes according to insurance risks: the standard market and the non-standard market. The standard market consists of drivers who meet certain criteria which classify them as having low to average risk of loss expectancy. The non-standard market consists of drivers who have higher-than-average risk profiles due to their driving records, lack of prior insurance or the types of cars they own. These policies are written at rates higher than standard auto rates.

The standard auto and homeowners markets are pursuing a segmented growth marketing strategy with respect to geographic areas. Standard auto is attempting to grow more rapidly in areas where the regulatory climate is more conducive to attractive returns. Homeowners is attempting to reduce or limit its exposure in areas where the risk of loss from catastrophes does not provide appropriate returns. The process to designate geographic areas as growth and limited growth is dynamic and may be revised as changes occur in the legal, regulatory and economic environments, as catastrophe exposure is reduced and as new products are approved. Less than 6.0% of the total United States population reside in areas designated as standard auto limited growth markets. The Company is attempting to reduce or limit homeowners growth in areas where approximately 20.0% of the United States population reside.

Standard auto premiums written increased 2.6% in 1996 to $10.39 billion, from $10.13 billion in 1995, primarily due to increases in renewal policies in force and average premiums. The increase in policies in force was achieved in markets designated for growth and was partially offset by a slight decline in policies in force in limited growth markets. Average premium increases were primarily attributable to a shift to newer and more expensive autos, and to a lesser extent, rate increases. Rate increases generally are limited by regulatory and competitive factors. Standard auto premiums written increased 5.4% in 1995, from $9.61 billion in 1994, primarily due to increases in both the number of policies in force and average premiums. The growth in policies in force was due to increases in both new and renewal business and was achieved in markets designated for growth, partially offset by a decline in policies in force in limited growth markets.

Non-standard auto premiums written increased 27.3% in 1996, to $2.76 billion from $2.17 billion in 1995, which in turn increased 28.8% over 1994 premiums of $1.68 billion. For both periods, the increase was driven by an increase in policies in force and, to a lesser extent, average premiums. The increase in policies in force were driven primarily by new business growth, which is due, in part, to the introduction of non-standard auto products in new markets. The increases in average premiums were primarily due to rate increases.

Homeowners premiums written in 1996 increased 4.4% to $3.04 billion from $2.92 billion in 1995, which in turn increased 7.4% over 1994 premiums of $2.72 billion. For both periods, the increases in premiums were primarily due to higher average premiums and a small increase in policies in force. The higher average premiums are primarily due to rate increases in catastrophe exposure areas, principally Florida in 1996 and California in 1995, and the effect of policy provisions which adjust for inflation. Growth in policies in force is primarily occurring in areas targeted for growth and is partially offset by reductions in policies in certain areas prone to catastrophes. The reduced rate of increase in homeowners premiums in 1996 was impacted by catastrophe management initiatives in California, including a policy which offers higher deductibles and significantly reduces and in some cases eliminates certain coverages, thereby reducing the Company's exposure to earthquake losses while lowering premiums. In November 1996, after the introduction of the CEA, the Company returned to writing new homeowners policies in California.

PP&C COMBINED RATIO
[GRAPH APPEARS HERE]

	1994	1995	1996
Excluding catastrophes	97.6	92.6	92.1
Total including catastrophes	110.3	98.1	97.7

PP&C UNDERWRITING RESULTS Underwriting income increased to $416 million from $300 million for 1995. The increase was primarily due to increased premium, and favorable auto claim severity (average cost per claim) and expense trends, which were partially offset by an increase in loss frequency trends (rate of claim occurrence) and catastrophe losses. Catastrophe losses for 1996 were $983 million compared with $905 million for 1995 and $1.96 billion in 1994. Underwriting income in 1995 improved from a loss of $1.58 billion in 1994, primarily due to lower catastrophe losses, premium growth and favorable loss and expense trends. The favorable loss trends in 1995 were primarily due to an improvement in standard auto and homeowners claim frequency and improved claim severity in auto injury coverages, partially offset by unfavorable trends in auto physical damage claim severities.

Changes in auto claim severity are generally influenced by inflation in the medical services and auto repair sectors of the economy and Company loss control programs. Injury claims are affected by medical cost inflation while physical damage claims are affected largely by auto repair cost inflation and used car costs. Management believes that favorable injury coverage severity trends in 1996 and 1995 are due, in part, to the Company's bodily injury loss initiatives and economic trends. The Company's bodily injury loss initiatives include the centralization of claim functions to facilitate the consistent application of evaluation and claim settlement processes, using state-of-the-art practices and systems. Soft tissue injuries (minor strains and sprains), which result from low or moderate impact collisions, are thoroughly investigated and aggressively defended. Special investigative units are used to detect fraud and handle suspect claims. While the Company's injury coverage severity declined in 1996 from 1995 and 1994, it also trended favorably as compared to the medical cost inflation index and the industry.

For physical damage coverages, PP&C monitors its rate of increase in average cost per claim against the Body Work price index and the Used Car price index. The Company's 1996 and 1995 rates of increase in physical damage coverage severity were higher than the benchmark indices, but improved from the prior year, and were consistent with industry trends. During 1996, the Company began the testing and training phase of redesigned claim settlement processes for auto physical damage claims.

During 1996, lower loss costs due to reduced auto injury frequencies were more than offset by an increase in auto physical damage and homeowners frequencies. The increase in frequencies is primarily the result of severe winter storms in the first quarter. Non-standard auto claim frequencies increased in 1996 and 1995 from the prior years, consistent with new business growth. During 1995, standard auto claim frequencies decreased slightly for physical damage coverages. The improvement in physical damage claim frequencies for 1995 resulted from favorable trends in the first quarter due to milder winter weather. Claim frequency for homeowners coverages, excluding claims related to catastrophes, decreased in 1995 and 1994, while claim severity increased.

As a result of a study of the issues affecting the homeowners business and as a means of improving homeowners contribution to underwriting income, underwriting standards for the majority of new business were changed to include home inspections and an analysis of potential insureds' prior loss history, as well as financial stability.

The improvement in the 1996 expense ratio was the result of a benefit due to a change in the components of acquisition costs deferred, which were partially offset by increased charges due to investments in technology. The Company changed the components of the acquisition costs deferred to include all forms of agent remuneration, which vary directly with premium production in order to more appropriately match the costs of acquiring business to the related revenue, and to increase the consistency of accounting for agent remuneration despite differing contractual agreements with agents.

The additional costs deferred consist primarily of employer payroll taxes, benefits and the agents' office expense allowance, which is reimbursed based on the percent of premiums written. Previously, only commissions paid to agents and agency managers, premium taxes and inspection report costs were deferred. This change had a favorable impact to 1996 underwriting income of $111 million or .6 points in the expense ratio. The expense ratio declined to 21.0 in 1996 from 22.5 in 1994, as management improved efficiency and controlled the growth of back-office operation expenses. The Company expects to increase its investment in technology and other initiatives to support the growth of the Company, improve efficiencies and control expenses.

PP&C OUTLOOK

- The reduced rate of increase in 1996 standard auto premiums written, as compared to 1995, reflects, in part, the impact of PP&C's segmented growth marketing strategy. The Company is pursuing various initiatives in growth markets, including increasing its agent force, expanding its advertising program and offering new pricing structures to increase the growth of Allstate's standard auto premium in 1997.
- In early 1997, California standard auto rates will decrease by approximately 7.0% as new policies are written and existing policies are renewed. This decrease is due primarily to changes in the regulatory environment in California and favorable loss trends.

- PP&C intends to grow non-standard auto premiums written in 1997 by introducing new products into new markets and expanding distribution channels. However, the rate of growth in non-standard auto premiums is expected to gradually decline as the market matures.
- PP&C expects the rate of growth in homeowners premiums to decline in 1997. Increases in premiums due to new business growth, the Company's re-entry into the California property market and the Florida rate increase will be partially offset by reduced premiums due to the sale of Florida property policy renewal rights to Clarendon, the transfer of the wind portion of certain Florida property policies to the Florida Windstorm Underwriting Association and the transfer of California earthquake policies to the CEA.
- During 1997, the Company plans to expand its domestic and international presence through the development of start-up operations, acquisitions or partnerships.

DISCONTINUED LINES AND COVERAGES UNDERWRITING SUMMARY ($ in millions)	1996	1995	1994
Underwriting loss	$501	$363	$285

Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and mass tort losses and other commercial business in run-off, and the historical results of the mortgage pool business and businesses sold in 1996. Results have been restated for 1995 and 1994 to reflect the historical results of businesses sold in 1996.

During 1996, the Company concluded a comprehensive re-evaluation of Discontinued Lines and Coverages net loss reserves, including the process for estimating and identifying available reinsurance, which resulted in an increase in net loss reserves of $318 million. The increase in net loss reserves consisted of several components, including a $244 million increase in environmental and asbestos net loss reserves, a $60 million increase in net loss reserves for mass tort exposures and a $14 million increase in the provision for future insolvencies of reinsurers. See the discussion in "Property-Liability Claims and Claims Expense Reserves" section, which follows.

On July 31, 1996, Allstate completed the sale of Northbrook to St. Paul Fire & Marine Insurance Company ("St. Paul"). Northbrook writes commercial insurance through its subsidiaries using independent agents. Allstate received gross proceeds of $189 million and recognized a gain of $18 million ($51 million after-tax) on the sale. The proceeds and gain are subject to a purchase price adjustment, expected to be finalized in 1997. In connection with the sale, Allstate entered into an agreement with St. Paul whereby Allstate and St. Paul will share in any development of the closing net loss reserves of Northbrook. The Company does not expect unfavorable reserve development based on current trends, conditions and claim settlement processes. Premiums written for Northbrook through July 31, 1996, included in the results of operations for the year ended December 31, 1996, were $295 million. As a result of the sale, the Company's reserve for claims and claims expenses, net of reinsurance, was reduced by $1.01 billion and investments were reduced by $973 million. See Note 3 to the consolidated financial statements.

On September 16, 1996, the Company completed the sale of Reinsurance to SCOR U.S. Corporation ("SCOR"). The transaction consisted of the sale of certain non-insurance assets, non-insurance liabilities and renewal rights, and a reinsurance transaction for the insurance liabilities. The Company received gross proceeds of $152 million as a result of the sale and will realize a $79 million gain ($58 million after-tax). The Company recognized the portion of the gain, $15 million ($9 million after-tax), related to the sale of the renewal rights in 1996. The remaining $64 million gain ($49 million after-tax) was deferred and will be amortized through underwriting income over the reserve run-off period, approximately five years, in accordance with retroactive reinsurance accounting principles.

On November 15, 1996, Allstate completed the sale of the common stock of ARCO to QBE Insurance Group Limited of Sydney, Australia. The Company received proceeds of

$37 million and recognized a $40 million loss ($41 million after-tax) on the sale. See Note 3 to the consolidated financial statements.

Premiums written for Reinsurance and ARCO, included in the results of operations for the year ended December 31, 1996, were $316 million. As a result of the Reinsurance and ARCO sales, the Company's investments were reduced by $617 million.

During 1996, the Company increased by $87 million ($55 million after-tax) the provision for future losses provided for the run-off of the mortgage pool business which is included in the loss on disposition of operations line of the statement of operations. The original provision of $119 million ($80 million after-tax) was established in 1995 in connection with Allstate's decision to exit the mortgage guaranty insurance business. The increase was due primarily to revised loss trend analyses based on continued weakness in economic conditions, including real estate prices and unemployment in Southern California where this business is highly concentrated. This business continues to be affected by these economic conditions, as well as interest rate volatility or a combination of such factors. These factors are considered in the periodic re-evaluation of the provision for future losses.

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Underwriting results of the property-liability operations are significantly influenced by estimates of property-liability claims and claims expense reserves (see Note 6 to the consolidated financial statements). These reserves are an accumulation of the estimated amounts necessary to settle all outstanding claims, including claims that are incurred but not reported ("IBNR"), as of the reporting date. These reserve estimates are based on known facts and interpretation of circumstances, including Allstate's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes. The effects of inflation are implicitly considered in the reserving process. The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Allstate regularly updates its reserve estimates as new facts become known and further events occur which may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determined to be needed. The following table summarizes changes in Allstate's estimate of prior year reserves in 1996, 1995 and 1994.

	Reserve increase (decrease)		
($ in millions)	1996	1995	1994
Reserve re-estimates due to:			
Environmental and asbestos claims	$ 335	$ 82	$ 80
All other property-liability claims	(671)	(507)	(792)
Pretax reserve decrease	$(336)	$(425)	$(712)

Loss development information related to ARCO is not included in the table above.

Favorable calendar year reserve development in 1996, 1995 and 1994 was the result of favorable severity trends in each of the three years, which more than offset adverse development in Discontinued Lines and Coverages and increases to reserves for claim expense which occurred in 1996. The favorable severity trend during this three-year period was largely due to lower than anticipated medical cost inflation for personal auto injury claims and improvements in the Company's claim settlement processes. The reduction in the anticipated medical cost inflation trend has emerged over time as actual claim settlements validated the effect of the steady decline in the rate of inflation. Although improvements in the Company's claim settlement process have contributed to favorable severity development of personal injury claims during the past three years, the new processes have caused an increase in the number of claims outstanding. The Company expects the rate of increase in claims outstanding to continue to decline in 1997, however, the number of outstanding claims may not be reduced to levels previously reported due to an increase in the time required to complete the new claim settlement processes. In addition, while the claim settlement process changes are believed to have contributed to favorable severity trends on closed claims, these changes introduce a greater degree of variability in reserve estimates for the remaining outstanding claims at December 31, 1996. Future reserve releases, if any, will depend on the continuation of the favorable loss trends.

Allstate's exposure to environmental, asbestos and mass tort claims stem principally from excess and surplus business written from 1972-1985, including substantial excess and surplus general liability coverages on Fortune 500 companies, and reinsurance coverage written during the 1960s through the 1980s, including reinsurance on primary insurance written on large U.S. companies. Mass tort exposures primarily relate to product liability claims, such as those for medical devices and other products, and general liabilities. Establishing net loss reserves for environmental, asbestos and mass tort claims is subject to uncertainties that are 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, unresolved legal issues regarding policy coverage, availability of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether environmental, asbestos and mass tort losses are, or were ever intended to be covered, are complex. 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 insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

As the industry has gained experience evaluating environmental and asbestos exposures, some actuarial firms have developed techniques and databases which were helpful in refining the Company's estimation techniques. During 1996, Allstate conducted a comprehensive re-evaluation of Discontinued Lines and Coverages net loss reserves. The Company also performed an in-depth analysis of its reinsurance recoverables and refined its process for estimating and identifying available reinsurance since some reinsurers have become insolvent or Allstate has commuted their agreements. During the third quarter of 1996, based upon the Company's re-evaluation, loss reserves, net of reinsurance, for environmental and asbestos exposures were increased by $172 million and $72 million, respectively.

In 1986, the general liability policy form used by Allstate and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims and added an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for products liability coverage, and policies issued after 1986 also have an annual aggregate limit as to all coverages. Allstate's experience to date is that these policy form changes have effectively limited its exposure to environmental and asbestos claim risks assumed, as well as primary commercial coverages written, for most policies written in 1986 and all policies written after 1986.

The table on the next page summarizes reserves and claim activity for environmental and asbestos claims before (Gross) and after (Net) the effects of reinsurance for the past three years. Included in the table below is the survival ratio, which is calculated as ending reserves divided by claims and claims expense paid.

	1996		1995		1994	
($ in millions)	Gross	Net	Gross	Net	Gross	Net
ENVIRONMENTAL CLAIMS						
Beginning reserves	$944	$520	$940	$447	$916	$442
Businesses sold	(11)	(9)	-	-	-	-
Uncollectible reinsurance allocation	-	-	-	61	-	-
Beginning reserves-adjusted	933	511	940	508	916	442
Incurred claims and claims expense	69	255	65	59	68	48
Claims and claims expense paid	(55)	(44)	(61)	(47)	(44)	(43)
Ending reserves	$947	$722	$944	$520	$940	$447
Survival ratio-environmental claims	17.2	16.4	15.5	11.1	21.4	10.4
ASBESTOS CLAIMS						
Beginning reserves	$724	$501	$800	$504	$806	$520
Businesses sold	(16)	(12)	-	-	-	-
Uncollectible reinsurance allocation	-	-	-	43	-	-
Beginning reserves-adjusted	708	489	800	547	806	520
Incurred claims and claims expense	161	80	22	23	71	32
Claims and claims expense paid	(95)	(59)	(98)	(69)	(77)	(48)
Ending reserves	$774	$510	$724	$501	$800	$504
Survival ratio-asbestos claims	8.1	8.6	7.4	7.3	10.4	10.5
Survival ratio-environmental and asbestos combined	11.5	12.0	10.5	8.8	14.4	10.4

Beginning in 1995, the allowance for uncollectible reinsurance balances was added to the table above. Comparable amounts are not available for 1994.

Pending claims for environmental and asbestos exposures totaled approximately 16,075, 18,250 and 18,080 at December 31, 1996, 1995 and 1994, respectively. Approximately 1,345 pending claims were transferred as a result of the Northbrook and Reinsurance sales. Approximately 2,140, 3,060 and 3,160 new claims were reported during 1996, 1995 and 1994, respectively. Approximately 2,970, 2,890 and 2,420 claims were closed during 1996, 1995 and 1994, respectively, of which approximately 2,300, 2,100 and 1,630 claims were settled without payment. Approximately 63%, 56% and 57% of the total net environmental and asbestos reserves at December 31, 1996, 1995 and 1994, respectively, represents IBNR.

Allstate's reserves for environmental coverages could be affected by the existing federal Superfund law and similar state statutes. Superfund reform proposals have been introduced in Congress, including a proposal introduced in the current session, but none have been adopted at the date of this publication. There can be no assurance that any Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims. Management is unable to determine the effect, if any, that such legislation will have on results of operations or financial position.

In addition to environmental and asbestos exposures, the Discontinued Lines and Coverages net loss reserve studies also included an assessment of current claims for mass tort exposures. Based on the re-evaluation, loss reserves for mass tort exposures were increased in the third quarter of 1996 by $60 million, net of reinsurance. This increase includes the reallocation of $103 million of general liability net loss reserves between 1985 and subsequent accident years to pre-1985 accident years.

Management believes its net loss reserves for environmental, asbestos and mass tort exposures are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, plaintiffs' expanded theories of liability, the risks inherent in major litigation and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in the loss reserves. In addition, while the Company believes the improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable loss. Due to the uncertainties and factors described, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

PROPERTY-LIABILITY REINSURANCE CEDED The Company acquires reinsurance to limit aggregate and single exposures on large risks. Additionally, in connection with the sale to SCOR (see Note 3 to the consolidated financial statements) in 1996, Allstate entered into a reinsurance agreement for the post-1984 reinsurance liabilities. Allstate has purchased reinsurance primarily to mitigate losses arising from long-tail liability lines, including environmental, asbestos and mass tort exposures. These reinsurance arrangements have not had a material effect on Allstate's liquidity or capital resources. Allstate has entered into a three-year excess reinsurance contract covering Florida property policies, effective January 1, 1997, which provides up to $400 million of reinsurance protection for catastrophe losses in excess of $1.00 billion, up to an aggregate limit of $800 million. The Company continues to have primary liability as a direct insurer for risks reinsured.

The following table summarizes the impact of reinsurance activity on Allstate's reserve for claims and claims expense and incurred claims and claims expense.

	at December 31, 1996			For the year ended December 31, 1996	
($ in millions)	Gross claims And claims expense reserves	Reinsurance recoverable On unpaid claims, net	Reinsurance recoverable as % of total gross reserves	Ceded claims and claims expense	As % of gross claims and claims expense
Pools, associations and facilities	$ 797	$ 544	3.1%	$297	2.0%
Environmental and asbestos	1,721	489	2.8	(105)	(0.7)
Disposition of operations--SCOR	381	381	2.2	-	-
Other(1)	14,483	370	2.2	169	1.1
Total property-liability	$17,382	$1,784	10.3%	$361	2.4%

(1) Composed primarily of reinsurance related to Discontinued Lines and Coverages. Also includes reinsurance related to PP&C.

Reinsurance has been placed with insurance companies based on the evaluation of the financial security of the reinsurer, terms of coverage and price. Recent developments in the insurance industry have resulted in environmental, asbestos and mass tort exposures being segregated into separate legal entities with dedicated capital. These actions have been supported by regulatory bodies in certain cases. The Company is unable to determine the impact, if any, that these developments will have on the collectibility of reinsurance recoverables in the future. The Company has a recoverable from Lloyd's of London of $127 million and $189 million at December 31, 1996 and 1995, respectively. Lloyd's of London implemented a restructuring plan in 1996 to solidify its capital base and to segregate claims for years before 1993. The impact, if any, of the restructuring on the collectibility of the recoverable from Lloyd's of London is uncertain at this time. The recoverable from Lloyd's of London is spread among thousands of investors (Names) who have unlimited liability. Excluding pools, associations and facilities, no other amount due or estimated due from any one reinsurer was in excess of $78 million and $79 million at December 31, 1996 and 1995, respectively.

Estimating amounts of reinsurance recoverable is also impacted by the uncertainties involved in the establishment of loss reserves. Management believes the recoverables are appropriately established; however, as the Company's underlying reserves continue to develop, the amount ultimately recoverable may vary from amounts currently recorded. The reinsurers and amounts recoverable therefrom are regularly evaluated by the Company and a provision for uncollectible reinsurance is recorded. The pretax provisions for uncollectible reinsurance were $18 million, $133 million and $26 million in 1996, 1995 and 1994, respectively. The increase in the provision for 1995 was primarily due to an increase in uncollectible reinsurance related to reserve increases for breast implant, environmental and asbestos claims. The allowance for uncollectible reinsurance was $163 million and $246 million at December 31, 1996 and 1995, respectively.

Allstate enters into certain intercompany insurance and reinsurance transactions for the property-liability and life and annuity operations. Allstate enters into these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All material intercompany transactions have been eliminated in consolidation.

LIFE AND ANNUITY HIGHLIGHTS

- Variable annuity sales increased 187.1%, equity-indexed annuity sales increased 202.4% and life insurance sales increased 14.7%.
- Statutory premiums and deposits increased 5.8% largely as a result of the ongoing introduction of new products and product features, despite the decline in the overall market for fixed annuities.
- Operating income increased 12.5% and net income increased 15.1% due to growth in investments and improved profitability on both new and existing business.
- Investments, including Separate Account assets, increased 8.1%.

LIFE AND ANNUITY OPERATIONS

($ in millions)	1996	1995	1994
Statutory premiums and deposits	$ 5,157	$ 4,874	$ 4,539
Investments	$28,037	$27,256	$23,397
Separate Account assets	5,551	3,809	2,800
Investments, including Separate Account assets	$33,588	$31,065	$26,197
Premiums and contract charges	$ 1,336	$ 1,368	$ 1,053
Net investment income	2,045	1,992	1,827
Policy benefits	2,313	2,381	2,031
Operating costs and expenses	511	475	492
Early retirement program	-	-	22
Income from operations	557	504	335
Income tax expense on operations	189	177	109
Net operating income	368	327	226
Realized capital gains and losses, after tax	20	10	(15)
Net income	$ 388	$ 337	$ 211

STATUTORY PREMIUMS AND DEPOSITS BY LINE
[GRAPH APPEARS HERE]

Life and Annuity Statutory Premiums by Line

($ in millions)	1994	1995	1996
Annuity products	$2,288	$2,694	$2,958
Life products	1,056	1,153	1,323
Group pension	1,195	1,027	876
Total	$4,539	$4,874	$5,157

LIFE AND ANNUITY PREMIUMS, DEPOSITS AND CONTRACT CHARGES The life and annuity operations of Allstate ("Allstate Life") markets a broad line of life insurance, annuity and group pension products through a combination of Allstate agents including life specialists, banks, independent agencies, brokers and direct response marketing.

Statutory premiums and deposits, which include premiums and deposits for all products, increased by $283 million or 5.8% in 1996 and $335 million or 7.4% in 1995. The following table presents statutory premiums and deposits by product line.

($ in millions)	1996	1995	1994
Life products			
Universal	$ 778	$ 660	$ 616
Traditional	307	271	227
Other	238	222	213
Annuity products			

Fixed	1,755	2,275	1,745
Variable	1,203	419	543
Group pension products	876	1,027	1,195
Total	$5,157	$4,874	$4,539

Increases in annuity and life insurance sales were partially offset by decreases in group pension product sales in 1996 and 1995. Growth in universal and traditional life product sales was achieved through independent agencies and Allstate agents during 1996 and 1995. The interest rate environment in late 1995 and 1996 made variable annuity products more attractive than fixed annuity products. Increased sales of variable annuities through banks, brokers and independent agencies fueled increased annuity deposits in 1996. Equity-indexed annuity products, introduced in late 1995, continued to grow in volume in 1996 to $254 million.

Life and annuity premiums and contract charges under generally accepted accounting principles ("GAAP") decreased 2.3% in 1996 and increased 29.9% in 1995. Under GAAP, revenues exclude deposits on most annuities and premiums on universal life insurance policies. While premiums on traditional life products and contract charges on universal life policies and variable annuity products continued to grow in 1996, these increases were more than offset by decreases in sales of structured settlement annuities with life contingencies and group pension retirement annuities. The increase in 1995 was due primarily to increased sales of structured settlement annuities with life contingencies, traditional life and group pension retirement annuities, as well as growth in contract charges on universal life and annuity products. GAAP premium and contract charges will vary with the mix of products sold during the period.

LIFE AND ANNUITY NET INVESTMENT INCOME Pretax net investment income increased 2.7% in 1996 compared to 1995, primarily due to a 5.6% growth in investments, excluding Separate Account assets and unrealized gains on fixed income securities. The additional investment income earned on the higher base of investments is somewhat offset by lower yields on fixed income securities, as the positive cash flows from operating and financing activities were invested in securities yielding less than the average portfolio rate. Pretax net investment income increased 9.0% in 1995 compared to 1994, primarily due to a 7.0% increase in investments, excluding Separate Account assets and unrealized gains and losses on fixed income securities.

In low interest rate environments, funds from maturing investments may be reinvested at substantially lower interest rates than which prevailed when the funds were previously invested.

REALIZED CAPITAL GAINS AND LOSSES Net realized capital gains increased in 1996, primarily due to reduced writedowns on impaired investments including mortgage loans and privately-placed securities. This improvement was partially offset by decreased gains on pre-payments and sales of fixed income securities. Net capital gains were realized in 1995 as compared to net capital losses in 1994. The increase in capital gains reflects reduced mortgage loan losses and increased gains on pre-payments of privately-placed securities.

LIFE AND ANNUITY OPERATING INCOME Net operating income increased 12.5% in 1996 and 44.7% in 1995. The increase in 1996 is largely the result of growth in statutory premiums and deposits driven by growth in new business. Profitability improvements resulted from favorable mortality margins on both new and existing business. Also contributing to increased profitability was the decrease of amortization expense relating to deferred policy acquisition costs. The increase in 1995 net operating income was due to growth in investments, higher margins and lower operating expenses, which consisted primarily of a favorable $10 million after-tax adjustment to policy acquisition costs and a $24 million after-tax reduction in accrued guaranty fund assessments.

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LIFE AND ANNUITY OUTLOOK

- - - Allstate Life expects to continue to outpace the industry premium and earnings growth rate in 1997 through:
  - increased cross-sales of life and annuity products to existing Allstate customers,
  - expanded market reach through banks' and brokers' distribution channels, and
  - continued accelerated, market- and customer-focused product development.
- - - Management is committed to increasing back-office productivity by creating operational efficiencies.
- - - In 1997, competitive pressures are expected to continue in the life and annuity industry, due in a large part to the current interest rate environment. Allstate Life closely monitors the market spreads on interest-sensitive products, and takes appropriate actions such as revising credited interest rates or adjusting the mix of assets.

Operating Income
[GRAPH APPEARS HERE]

($ in millions)	1994	1995	1996
Life and Annuity Operating Income	$ 226	$ 327	$ 368

- - - The level of pension product sales, including guaranteed investment contracts, will continue to be based on Allstate Life's assessment of market opportunities.

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MARKET RISK
Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. The Company's primary market risk exposures are to changes in interest rates and equity prices. The Company does not currently have material exposures to either commodity price or foreign currency exchange risk. However, currency risk exposures may increase in the future as the Company expands its international operations and investments in foreign stocks and bonds.

The active management of market risk is integral to the Company's operations. The Company may use the following tools to manage its exposure to market risk within defined tolerance ranges: 1) rebalance its existing asset or liability portfolios, 2) change the character of future investments purchased or 3) use derivatives to modify the interest rate or equity characteristics of existing assets and liabilities or assets expected to be purchased. (See the derivative financial instruments section in "Investments" and Note 5 to the consolidated financial statements for a more detailed discussion of these products.)

CORPORATE OVERSIGHT The Company generates substantial investable funds from its two primary business operations, property-liability and life and annuity. In formulating and implementing policies for investing new and existing funds, the Company seeks to earn returns that enhance its ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth for the Company. Accordingly, the Company's investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation.

The Company, through the Boards of Directors of its operating subsidiaries, administers and oversees investment risk management processes primarily through two entities: the Investment Committee and the Credit and Risk Management Committee ("CRMC"). The Investment Committee provides executive oversight of investment activities. The CRMC is a subcommittee of the Investment Committee consisting of both senior corporate officers and senior managers who are responsible for the day-to-day management of market risk. The CRMC meets semi-monthly to provide detailed oversight of investment risk, including market risk.

The Company has investment guidelines that define the overall framework for managing market and other investment risks, including the accountabilities and controls over these activities. In addition, the Company has entity specific investment policies that, among other things, delineate the investment strategies that are appropriate given each entity's liquidity and surplus requirements.

As set forth in the investment guidelines and policies, the Company limits its exposure to market risk primarily through the establishment and approval of asset allocation and duration limits (where duration is a measure of the sensitivity of the fair value of assets or liabilities to changes in interest rates). These limits consider the structure and duration of liabilities, capital position, and Company performance objectives, among other things, in an attempt to optimize the Company's risk-return and cost-benefit trade-offs. As risk management methodologies continue to increase in sophistication, the Company's primary tools for managing market risk exposures will likely change.

As appropriate, the Company also uses value-at-risk and stress testing to monitor and control market risk exposures. Value-at-risk measures the potential loss in fair value that could arise from adverse movements in the market over a time interval using historical volatilities and correlations between markets. Stress tests measure downside risk to fair value and earnings over longer time intervals for adverse economic scenarios.

The day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by the asset allocation, duration and other limits, including but not limited to credit and liquidity.

Although the Company applies a common overall governance approach to market risk where appropriate, the underlying asset-liability frameworks and accounting and regulatory environments differ markedly between property-liability and life and annuity operations. These differing frameworks affect each operation's investment decisions and market risk management objectives.

PROPERTY-LIABILITY OPERATIONS The primary business of the property-liability operations is the sale of private-passenger auto and homeowners insurance. In the management of investments supporting this business, property-liability adheres to an investment strategy that combines the goals of ensuring the safety of funds under management and adequate liquidity, providing high and stable after-tax returns, and providing long-term capital growth.

Accordingly, property-liability's overall market risk management objective is to maximize total after-tax return on capital while considering the risks in the fixed income and equity markets such as duration, credit, liquidity and tax risk. An optimization process is used for this purpose and assists in determining the allocation of investments between different asset classes. This process considers, among other things, asset and liability structures, cash flows from new business, catastrophe exposures, correlation among risk sources (if any), operating leverage and tax effects.

In determining the most appropriate duration for its assets, property-liability periodically measures the duration of its liabilities in several contexts. To achieve higher levels of operating income and to reflect the economic impact of high policy renewal rates, the Company permits a duration mismatch between assets and related liabilities within a defined tolerance range. During the first half of 1996, in order to more closely align the interest rate sensitivity of its property-liability assets and liabilities (and thereby decrease the Company's exposure to interest rate risk), property-liability reduced its investment in long-term fixed income securities and sold treasury futures to effectively reduce the duration of certain assets.

At December 31, 1996, property-liability had approximately $4.29 billion in common stocks and $441 million in other equity investments. The largest equity exposure for property-liability is to declines in the Standard & Poor's 500 Composite Price Index ("S&P 500"), as its common stock portfolio tracks relatively close to the S&P 500.

LIFE AND ANNUITY OPERATIONS Allstate Life offers a variety of annuities including fixed rate single and flexible premium deferred annuities and single premium immediate annuities, including structured settlement annuities, guaranteed investment contracts and pension retirement annuities. For such products, Allstate Life seeks to invest premiums and deposits to create future cash flows that will fund future claims, benefits and expenses, and earn stable margins.

In order to support competitive credited rates and earn stable profits, Allstate Life adheres to a basic philosophy of matching assets with related liabilities to limit interest rate risk, while maintaining adequate liquidity and a prudent and diversified level of credit risk.

The primary tools for managing investment portfolios in relation to liabilities are simulation models (including cash flow and duration analysis), asset allocation models and periodic analysis of portfolio composition compared to specifications. Allstate Life calculates effective durations of assets and liabilities and monitors quarterly whether the asset-liability duration gap is within desired tolerances. In aggregate, Allstate Life's annuity asset and liability effective durations are matched within acceptable ranges at December 31, 1996. Allstate Life uses interest rate swaps, futures, forwards, caps and floors to reduce the interest rate risk resulting from duration mismatches between assets and liabilities. In addition, Allstate Life uses financial futures to hedge the interest rate risk related to anticipatory investment purchases and sales.

At December 31, 1996, Allstate Life had approximately $354 million in equity-indexed annuities which provide customers with contractually guaranteed participation in price appreciation of the S&P 500. Allstate Life purchases equity-indexed options to hedge the price appreciation component of equity-indexed annuities. Apart from these options, Allstate Life purchases equity-indexed options to participate in equity market appreciation while limiting downside exposure and seeking to maximize return on capital.

At December 31, 1996, Allstate Life had approximately $488 million in common stocks and $342 million in other equity investments. Allstate Life decreased its exposure to common stocks during 1996 through a combination of sales and futures hedges. In addition, during the first quarter of 1997 Allstate Life sold approximately $100 million in hedged common stock investments and concurrently closed-out of its related futures positions.

LIQUIDITY AND CAPITAL RESOURCES
The following table presents selected information relevant to the Company's liquidity and capital resources.

($ in millions) December 31,	1996	1995
Total investments and cash	$58,445	$56,595
Equity securities	5,561	6,150
Fixed income securities maturing in less than one year	1,518	1,881
Short-term investments and cash	1,394	638
Short-term debt	152	-
Long-term debt	1,234	1,228
Minority interest in mandatorily redeemable preferred stock of subsidiary	750	-
Shareholders' equity	13,452	12,680

CAPITAL RESOURCES In November 1996, Allstate issued $750 million of trust preferred securities due no later than 2045, $550 million at 7.95% and $200 million at 7.83%. The Company will use the net proceeds for general corporate purposes, including the stock repurchase program (see Note 10 to the consolidated financial statements).

In early 1996, Allstate initiated a commercial paper program with an authorized borrowing limit of up to $1.00 billion to cover its short-term cash needs. The majority of the proceeds from the issuance of the commercial paper have been used by the insurance operations for general corporate purposes. At December 31, 1996, the Company had outstanding commercial paper borrowings of $152 million with a weighted average interest rate of 5.74%.

During 1996, the Company purchased 6.7 million shares of its common stock, for its treasury, at an average cost per share of $50.19.

During 1996, Allstate Insurance Company ("AIC") received gross proceeds of $378 million in connection with the sales of Northbrook, Reinsurance and ARCO. Proceeds from the sales of these operations will be used for general corporate purposes.

In April 1995, the Company and AIC raised $1.12 billion through its initial public offering of PMI Group and the issuance of the 6.76% Exchangeable Notes due April 15, 1998.

In connection with the Sears, Roebuck and Co. ("Sears") distribution of its ownership interest in the Company, AIC received from Sears $450 million due on a demand collateral note, and the Company paid Sears $327 million in return for a note from the Allstate ESOP for a like principal amount and 50.0% of the unallocated shares (see Note 13 to the consolidated financial statements).

The Company maintains a $1.50 billion, five-year revolving line of credit as a potential source of funds to meet short-term liquidity requirements. The line of credit expires December 20, 2001 and allows for borrowings by The Allstate Corporation, AIC and Allstate Life Insurance Company. In order to borrow on the line of credit, AIC is required to maintain a specified statutory surplus level and the Company's debt to equity ratio (as defined in the agreement) must not exceed a designated level. These requirements are currently being met and management expects to continue to meet them in the future. There were no borrowings under the line of credit during 1996. Total borrowings under the combined commercial paper program and line of credit are limited to $1.50 billion.

At December 31, 1996, under a shelf registration statement filed with the Securities and Exchange Commission, the Company may issue up to $750 million of debt securities, preferred stock or debt warrants.

The capacity for Allstate's growth in premiums, like that of other insurers, is in part a function of its operating leverage. Operating leverage for property-liability companies is measured by the ratio of net premiums written to statutory surplus. Ratios in excess of 3 to 1 are considered outside the usual range by insurance regulators and rating agencies. AIC's premium to surplus ratio was 1.6x and 1.9x at December 31, 1996 and 1995, respectively.

The National Association of Insurance Commissioners ("NAIC") has a standard for assessing the solvency of insurance companies, which is referred to as risk-based capital ("RBC").

The requirement consists of 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 RBC formula for property-liability companies includes asset and credit risk but places more emphasis on underwriting factors for reserving and pricing. The RBC formula for life insurance companies establishes capital requirements relating to insurance risk, business risk, asset risk and interest rate risk. At December 31, 1996, RBC for each of the Company's individual property-liability and life and annuity companies was significantly above levels that would require regulatory action.

FINANCIAL RATINGS AND STRENGTH The following table summarizes the Company's and its major subsidiaries, debt and commercial paper ratings and the insurance claims-paying ratings from various agencies at December 31, 1996.

	Moody's	Standard & Poor's	A.M. Best
The Allstate Corporation (debt)	A2	A	*
The Allstate Corporation (commercial paper)	P-1	A-1	*
Allstate Insurance Company (claims-paying ability)	Aa3	AA	A
Allstate Life Insurance Company (claims-paying ability)	Aa3	AA+	A+

*not rated by the agency

LIQUIDITY The Allstate Corporation is a holding company which owns AIC. The Company's principal sources of funds are dividend payments from AIC, intercompany borrowings and funds that may be raised periodically from the issuance of additional debt, including commercial paper or stock. The payment of dividends by AIC is subject to certain limitations imposed by insurance laws of the State of Illinois (see Note 12 to the consolidated financial statements). The Company's principal uses of funds are the payment of dividends to shareholders, share repurchases, intercompany lendings to its insurance affiliates, debt service and additional investments in insurance operations.

The principal sources of funds for the property-liability insurance operations are premiums, collections of principal and income from the investment portfolio and intercompany loans from The Allstate Corporation. The principal uses of funds by the property-liability operations are the payment of claims and related expenses, operating expenses and dividends to The Allstate Corporation, the purchase of investments and the repayment of intercompany loans.

The Company's property-liability operations typically generate substantial positive cash flow from operations as a result of most premiums being received in advance of the time when claim payments are required. These positive operating cash flows, along with that portion of the investment portfolio that is held in cash and highly liquid securities, commercial paper borrowings and the Company's line of credit have met, and are expected to continue to meet the liquidity requirements of the property-liability operations. Catastrophe claims, the timing and amount of which are inherently unpredictable, may create increased liquidity requirements for the property-liability operations of the Company.

The principal sources of funds for Allstate Life are premiums, deposits, collections of principal and income from the investment portfolio and capital contributions from AIC, its parent. The primary uses of these funds are to purchase investments, and pay policyholder claims, benefits, contract maturities and surrenders, operating costs and dividends to AIC.

Fixed income securities represent 82.3% of Allstate Life's total investments. The maturity structure of these securities are managed to meet the anticipated cash flow requirements of the underlying liabilities. A portion of Allstate Life's diversified product portfolio, primarily fixed deferred annuities and universal life insurance policies, is subject to discretionary surrender and withdrawal by customers. Total surrenders and withdrawals for Allstate Life were $1.57 billion, $1.73 billion and $1.44 billion in 1996, 1995 and 1994, respectively. The increase in 1995 was primarily due to a higher level of customer surrenders in the first half of the year on older fixed rate annuities on which the surrender charge period had expired. Management took actions in 1995, including raising renewal crediting rates, in order to slow the surrender rate on these annuities. Accordingly, the rate of surrenders and withdrawals on these products decreased beginning in the second half of 1995 and continued through 1996, contributing to the lower rate of surrenders and withdrawals in 1996. Allstate Life expects the dollar amount of surrenders and withdrawals to increase in the future, as the blocks of interest-sensitive life and annuity products continue to grow and as in-force policies and contracts age. However, an increase in the level of surrenders relative to total contractholder account balances is not anticipated unless there is a sharp and sustained increase in interest rates which may create increased liquidity requirements. Management believes its assets are sufficiently liquid to meet future obligations to its life and annuity policyholders, under various interest rate scenarios.

The following table summarizes liabilities for interest-sensitive life and annuity products by their contractual surrender provisions at December 31, 1996. Approximately 11.0% of these liabilities are subject to discretionary withdrawal without adjustment.

($in millions)	
Not subject to discretionary withdrawal	$10,188
Subject to discretionary withdrawal with adjustments:	
Specified surrender charges (1)	10,442
Market value	1,402
	22,032
Subject to discretionary withdrawal without adjustments	2,753
Total	$24,785

(1) Includes $2.55 billion of liabilities with a contractual surrender charge of less than 5.0% of the account balance.

The following table sets forth the weighted average investment yield and the weighted average interest credit rates during the years ended December 31, 1996 and 1995 for Allstate Life's interest-sensitive life products (excluding variable life), fixed rate contracts (which include guaranteed investment contracts, structured settlement annuities and group pension retirement annuities) and flexible rate contracts (which include all other annuities except variable annuities).

	Weighted average investment yield		Weighted average interest credit rate	
	1996	1995	1996	1995
Interest-sensitive life products	7.8%	8.1%	5.9%	6.0%
Fixed rate contracts	8.5%	8.7%	7.6%	7.7%
Flexible rate contracts	7.7%	8.1%	5.8%	5.9%

INVESTMENTS

The composition of the investment portfolio at December 31, 1996 is presented in the table below (see Notes 2 and 4 to the consolidated financial statements for investment accounting policies and additional information).

	Property-liability		Allstate Life		Total	
($ in millions)		Percent to total		Percent to total		Percent to total
Fixed income securities	$24,019	80.8%	$23,076	82.3%	$47,095	80.7%
Equity securities	4,731	15.9	830	3.0	5,561	9.5
Mortgage loans	77	.3	3,069	10.9	3,146	5.4
Real estate	449	1.5	289	1.0	738	1.3
Short-term	416	1.4	280	1.0	1,278	2.2
Other	18	.1	493	1.8	511	.9
Total	$29,710	100.0%	$28,037	100.0%	$58,329	100.0%

Property-liability investments increased $500 million to $29.71 billion at December 31, 1996, as the investment of positive cash flows generated from operating activities was partially offset by a $642 million decrease in the unrealized net capital gains on equity and fixed income securities and the transfer of $1.59 billion of investments related to the sale of Northbrook, Reinsurance and ARCO.

Allstate Life investments increased $781 million to $28.04 billion at December 31, 1996 as the investment of positive cash flows generated from operating activities was partially offset by a $557 million decrease in the unrealized net capital gains on equity and fixed income securities.

FIXED INCOME SECURITIES Allstate's fixed income securities portfolio consists of tax-exempt municipal bonds, publicly-traded corporate bonds, privately-placed securities, mortgage-backed securities, asset-backed securities, foreign government bonds, redeemable preferred stock and U.S. government bonds. Allstate generally holds its fixed income securities for the long term, but has classified all of these securities as available for sale to allow maximum flexibility in portfolio management. At December 31, 1996, net unrealized capital gains on the fixed income securities portfolio totaled $2.04 billion compared to $3.37 billion as of December 31, 1995. The decrease in the unrealized gain position is primarily attributable to rising interest rates. As of December 31, 1996, approximately 71.0% of the consolidated fixed income securities portfolio was invested in taxable fixed income securities.

Nearly 94.0% of the Company's fixed income securities portfolio is rated investment grade, which is defined by the Company as a security having an NAIC rating of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, or a comparable Company internal rating. The quality mix of Allstate's fixed income securities portfolio at December 31, 1996 is presented below.

($ in millions)

NAIC ratings	Moody's equivalent description	Fair value	Percent of total
1	Aaa/Aa/A	$35,242	74.8%
2	Baa	9,020	19.1
3	Ba	1,737	3.7
4	B	932	2.0
5	Caa or lower	130	.3
6	In or near default	34	.1
		$47,095	100.0%

Included among the securities that are rated below investment grade are both public and private high yield bonds and securities that were purchased at investment grade but have since been downgraded. The Company mitigates the credit risk of investing in below investment grade fixed income securities by limiting these investments to 7.0% of the total fixed income securities and through diversification of the portfolio.

Over 30% of the Company's fixed income portfolio, at December 31, 1996, is invested in municipal bonds of which 94% are rated as investment grade. The municipal bond portfolio consisted of approximately 9,100 issues from nearly 2,400 issuers. The largest exposure to a single issuer is $217 million.

As of December 31, 1996, the fixed income securities portfolio contained $10.36 billion of privately-placed corporate obligations, compared with $9.57 billion at December 31, 1995. The benefits of privately-placed securities as compared to public securities are generally higher yields, improved cash flow predictability through pro-rata sinking funds on many bonds, and a combination of covenant and call protection features designed to better protect the holder against losses resulting from credit deterioration, reinvestment risk and fluctuations in interest rates. The relative disadvantages of privately-placed securities as compared to public securities include reduced liquidity and in some cases limited access to information. Over 83% of the privately-placed securities are rated as investment grade by either the NAIC or the Company's internal ratings. The Company determines the fair value of privately-placed fixed income securities based on discounted cash flows using current interest rates for similar securities.

At December 31, 1996 and 1995, $8.59 billion and $7.28 billion, respectively of the fixed income portfolio were invested in mortgage-backed securities ("MBS"). At December 31, 1996, principally all of the MBS were investment grade and approximately 80% have underlying collateral that is guaranteed by U.S. government entities, thus credit risk was minimal.

MBS, however, are subject to interest rate risk as the duration and ultimate realized yield are affected by the rate of repayment of the underlying mortgages. Allstate attempts to limit interest rate risk by purchasing MBS whose cost does not significantly exceed par value, and with repayment protection to provide a more certain cash flow to Allstate. At December 31, 1996, the amortized cost of the MBS portfolio was below par value by $199 million and over 40% of the MBS portfolio was invested in planned amortization class bonds. This type of MBS is repaid over a predetermined time period, which is guaranteed to be met under most circumstances.

The fixed income securities portfolio contained $2.69 billion and $1.66 billion of asset-backed securities ("ABS") at December 31, 1996 and 1995, respectively. ABS are subject to many of the same risks as MBS, but to a lesser degree because of the nature of the underlying assets. Allstate attempts to mitigate these risks by primarily investing in highly-rated, publicly-traded, intermediate term ABS at or below par value. At December 31, 1996, the amortized cost of the ABS portfolio was below par value by $15 million. Over 50% of the Company's ABS are invested in securitized credit card receivables. The remainder of the portfolio is backed by securitized home equity, manufactured housing and auto loans.

Allstate closely monitors its fixed income portfolio for declines in value that are other than temporary. Securities are placed on non-accrual status when they are in default or when the receipt of interest payments is in doubt.

MORTGAGE LOANS AND REAL ESTATE Allstate's $3.15 billion investment in mortgage loans at December 31, 1996 is comprised primarily of loans secured by first mortgages on developed commercial real estate, and is primarily held in the life and annuity operations. Geographical and property type diversification are key considerations used to manage Allstate's mortgage loan risk.

Allstate closely monitors its commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risk, are reviewed by financial and investment management at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status. The underlying collateral values are based upon discounted property cash flow projections, which are updated as conditions change or at least annually.

In 1996, $489 million of commercial mortgage loans were contractually due. Of these, 43.2% were paid as due, 46.2% were refinanced at prevailing market terms, .5% were restructured, 1.4% were foreclosed or are in the process of foreclosure, and 8.7% were in the process of refinancing or restructuring discussions. For contractual maturities of the commercial mortgage loan portfolio as of December 31, 1996 for loans that were not in foreclosure, see Note 4 to the consolidated financial statements. Allstate expects to continue to extend the maturity of certain maturing loans at prevailing interest rates where the borrower is unable to obtain financing elsewhere. Depending on the interest rate environment, some loans may not be able to be extended at prevailing market rates.

Allstate's $738 million of real estate investments at December 31, 1996 is comprised of $452 million of real estate acquired directly as an investment and $286 million of property acquired through foreclosure or deed in lieu of foreclosure. As of December 31, 1996, $104 million of foreclosed real estate properties were considered held for investment and the Company had an active plan or intent to sell $182 million.

EQUITY SECURITIES AND SHORT-TERM The Company's equity securities portfolio decreased $589 million to $5.56 billion at December 31, 1996 compared to 1995. To reduce exposure to equity market risk in the property-liability investment portfolio, the Company decreased its holdings of equity securities in 1996. The proceeds from the sale were reinvested in taxable intermediate-term fixed income securities.

The Company's short-term investment portfolio was $1.28 billion and $548 million at December 31, 1996 and 1995, respectively. Allstate invests available cash balances primarily in taxable short-term securities having a final maturity date or redemption date of one year or less. The increase in the short-term portfolio in 1996 is due, in part, to the receipt of proceeds from the issuance of the trust preferred securities.

DERIVATIVE FINANCIAL INSTRUMENTS Derivative financial instruments include swaps, futures, forwards and options, including caps and floors. The Company primarily uses derivative financial instruments to reduce its exposure to market risk (principally interest rate and equity price risk), in conjunction with asset/liability management, in its life and annuity operations. The Company does not hold or issue these instruments for trading purposes. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. However, such nonperformance is not expected because the Company utilizes highly rated counterparties, establishes risk control limits and maintains ongoing monitoring procedures.

The following table summarizes the notional amounts, weighted average interest rates by expected (contractual) maturities and fair values for the Company's interest rate swap, cap and floor agreements. Notional amounts are used to calculate the exchange of contractual payments under the agreements. Weighted average floating rates on interest rate swap agreements are based on the contractual interest rates in effect at December 31, 1996 and therefore, may differ substantially from the weighted average floating rates the Company will actually pay and receive on these agreements.

At December 31, 1996

($ in millions)	0-1 year	>1-2 years	>2-3 years	>3-4 years	>4-5 years	After 5 years	Total	Fair value
INTEREST RATE SWAP AGREEMENTS(1)								
(Notional amount)								
Pay floating rate, receive fixed rate	$ 57	$ 67	$ 101	$ 81	$ 72	$120	$ 498	$18
Weighted average pay rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.7%	5.6%	
Weighted average receive rate	7.5%	7.6%	6.6%	6.6%	7.3%	7.2%	7.1%	
Pay fixed rate, receive floating rate	-	-	$ 10	-	$ 28	$319	$ 357	$(2)
Weighted average pay rate	-	-	7.0%	-	6.1%	6.5%	6.5%	
Weighted average receive rate	-	-	5.6%	-	5.6%	5.6%	5.6%	
Pay floating rate, receive floating rate	-	$ 60	-	$ 7	-	-	$ 67	$(1)
Weighted average pay rate	-	5.7%	-	5.7%	-	-	5.7%	
Weighted average receive rate	-	5.8%	-	5.9%	-	-	5.8%	
INTEREST RATE CAP AGREEMENTS(2)								
Notional amount	$ 6	$ 439	$1,188	$ 85	$232	$181	$2,131	$ 4
Weighted average strike price	10.7%	8.4%	9.4%	8.5%	9.2%	10.7%	9.2%	
INTEREST RATE FLOOR AGREEMENTS(3)								
Notional amount	-	$ 20	-	$ 8	$ 30	$200	$ 258	$ 2
Weighted average strike price	-	6.9%	-	6.5%	6.5%	3.3%	4.0%	

(1) The floating rate side of substantially all interest rate swap agreements is referenced to one- three- or six-month LIBOR. At December 31, 1996, the one-, three- and six-month LIBOR rates were 5.5%, 5.6% and 5.6%, respectively.
(2) Substantially all interest rate cap agreements are referenced to one- and three-month LIBOR and five-year Constant Maturity Swap. At December 31, 1996, the five-year Constant Maturity Swap rate was 6.5%.
(3) Substantially all of the interest rate floor agreements are referenced to one-month LIBOR or five-year Constant Maturity Treasury. At December 31, 1996, the five-year Constant Maturity Treasury rate was 6.6%.

All of the Company's financial futures contracts outstanding at December 31, 1996 mature within one year. Based upon notional amounts outstanding at December 31, 1996, approximately 60.0% of the Company's options contracts (excluding interest rate caps and floors) mature within one year. The remaining 40.0% mature from one to five years.

OTHER DEVELOPMENTS

The initial draft of the NAIC's codification of statutory accounting practices will be distributed in March 1997 for a six-month public exposure period. Finalization of the codification is expected to occur in late 1997 or early 1998, with implementation tentatively planned for January 1, 1999. Due to the possible changes resulting from the public exposure of the codification, the potential impact to statutory surplus is not determinable at this time.

PENDING ACCOUNTING STANDARD

In June 1996, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities." This standard distinguishes between transfers of financial assets as sales versus financing transactions based upon relinquishment of control and addresses the accounting for securitizations, securities lending, repurchase agreements and insubstance defeasance transactions. The requirements of this statement that were effective on January 1, 1997 were adopted and are not expected to have a material impact on the results of operations or financial position of the Company.

CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions except per share data)	Year ended December 31, 1996	1995	1994
REVENUES			
Property-liability insurance premiums (net of reinsurance ceded of $479, $524 and $549)	$18,366	$17,540	$16,513
Life and annuity premiums and contract charges (net of reinsurance ceded of $96, $47 and $48)	1,336	1,368	1,053
Net investment income	3,813	3,627	3,343
Realized capital gains and losses	784	258	200
	24,299	22,793	21,109
COSTS AND EXPENSES			
Property-liability insurance claims and claims expense (net of reinsurance recoveries of $361, $607 and $292)	14,487	13,688	14,529
Life and annuity contract benefits (net of reinsurance recoveries of $43, $18 and $29)	2,313	2,381	2,031
Amortization of deferred policy acquisition costs	2,266	2,143	2,005
Operating costs and expenses	2,207	2,247	2,210
California Earthquake Authority assessment	150	-	-
Early retirement program	-	-	154
Interest expense	76	72	60
	21,499	20,531	20,989
(Loss) gain on disposition of operations	(131)	159	-
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT), DIVIDENDS ON PREFERRED SECURITIES, AND EQUITY IN NET INCOME OF UNCONSOLIDATED SUBSIDIARY	2,669	2,421	120
INCOME TAX EXPENSE (BENEFIT)	619	573	(278)
INCOME BEFORE DIVIDENDS ON PREFERRED SECURITIES AND EQUITY IN NET INCOME OF UNCONSOLIDATED SUBSIDIARY	2,050	1,848	398
DIVIDENDS ON PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	(4)	-	-
EQUITY IN NET INCOME OF UNCONSOLIDATED SUBSIDIARY	29	56	86
NET INCOME	$ 2,075	$ 1,904	$ 484
EARNINGS PER SHARE			
Net income	$4.63	$4.24	$ 1.08
Weighted average common and common equivalent shares outstanding	448.2	449.5	449.8

See notes to consolidated financial statements.

($ in millions)	December 31, 1996	1995
ASSETS		
Investments		
Fixed income securities, at fair value (amortized cost $45,057 and $41,907)	$47,095	$45,272
Equity securities, at fair value (cost $3,999 and $4,716)	5,561	6,150
Mortgage loans	3,146	3,280
Real estate	738	786
Short-term	1,278	548
Other	511	469
Total investments	58,329	56,505
Premium installment receivables, net	2,691	2,935
Deferred policy acquisition costs	2,614	2,004
Reinsurance recoverables, net	2,147	1,829
Property and equipment, net	714	724
Accrued investment income	715	750
Deferred income taxes	232	229
Cash	116	90
Other assets	1,399	1,154
Separate Accounts	5,551	3,809
Total assets	$74,508	$70,029
LIABILITIES		
Reserve for property-liability insurance claims and claims expense	$17,382	$17,687
Reserve for life-contingent contract benefits	6,287	6,071
Contractholder funds	20,120	19,146
Unearned premiums	6,174	6,188
Claim payments outstanding	594	568
Other liabilities and accrued expenses	2,824	2,663
Debt	1,386	1,228
Separate Accounts	5,539	3,798
Total liabilities	60,306	57,349
COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 3, 5, 6 AND 9)		
MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	750	-
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value, 25 million shares authorized, none issued	-	-
Common stock, $.01 par value, 1.0 billion shares authorized and 450 million issued, 442 million and 448 million shares outstanding	5	5
Additional capital paid-in	3,133	3,134
Unrealized net capital gains	2,003	2,636
Unrealized foreign currency translation adjustments	21	20
Retained income	8,958	7,261
Deferred ESOP expense	(280)	(300)
Treasury stock, at cost (8.5 million and 2.5 million shares)	(388)	(76)
Total shareholders' equity	13,452	12,680
Total liabilities and shareholders' equity	$74,508	$70,029

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($ in millions)	Year ended December 31, 1996	1995	1994
PREFERRED STOCK	$ -	$ -	$ -
COMMON STOCK	5	5	5
ADDITIONAL CAPITAL PAID-IN			
Balance, beginning of year	3,134	3,124	3,095
Interest on note receivable from Sears, net of tax	-	7	27
Other	(1)	3	2
Balance, end of year	3,133	3,134	3,124
UNREALIZED NET CAPITAL GAINS			
Balance, beginning of year	2,636	40	2,090
Net (decrease) increase	(633)	2,596	(2,050)
Balance, end of year	2,003	2,636	40
UNREALIZED FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
Balance, beginning of year	20	16	13
Net increase	1	4	3
Balance, end of year	21	20	16
RETAINED INCOME			
Balance, beginning of year	7,261	5,707	5,547
Net income	2,075	1,904	484
Dividends	(378)	(350)	(324)
Balance, end of year	8,958	7,261	5,707
DEFERRED ESOP EXPENSE			
Balance, beginning of year	(300)	-	
Payment to Sears for transfer of ESOP	-	(327)	
Reduction	20	27	
Balance, end of year	(280)	(300)	
TREASURY STOCK			
Balance, beginning of year	(76)	(16)	-
Shares acquired	(336)	(69)	(16)
Shares reissued	24	9	-
Balance, end of year	(388)	(76)	(16)
NOTE RECEIVABLE FROM SEARS			
Balance, beginning of year	-	(450)	(450)
Payment received	-	450	-
Balance, end of year	-	-	(450)
Total shareholders' equity	$13,452	$12,680	$8,426

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Year ended December 31, 1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$2,075	$1,904	$484
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and other non-cash items	(19)	(3)	47
Realized capital gains and losses	(784)	(258)	(200)
Loss (gain) on disposition of operations	131	(159)	-
Early retirement program	-	-	154
Interest credited to contractholder funds	1,196	1,191	1,079
Increase in policy benefit and other insurance reserves	1,004	721	1,090
Increase in unearned premiums	259	436	200
Increase in deferred policy acquisition costs	(565)	(343)	(264)
Change in premium installment receivables	57	(676)	(297)
Change in reinsurance recoverables	(435)	24	23
Change in deferred income taxes	250	122	(192)
Changes in other operating assets and liabilities	(133)	(231)	163
Net cash provided by operating activities	3,036	2,728	2,287
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales			
Fixed income securities	11,213	7,559	5,205
Equity securities	3,624	2,025	1,915
Investment collections			
Fixed income securities	4,370	3,161	3,930
Mortgage loans	557	325	399
Investment purchases			
Fixed income securities	(20,056)	(14,454)	(11,171)
Equity securities	(2,153)	(2,267)	(2,315)
Mortgage loans	(438)	(467)	(221)
Change in short-term investments, net	(764)	171	(79)
Change in other investments, net	12	52	(40)
Proceeds from disposition of operations	378	-	-
Purchases of property and equipment, net	(126)	(106)	(123)
Net cash used in investing activities	(3,383)	(4,001)	(2,500)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of short-term debt, net	152	-	-
Proceeds from issuance of long-term debt	9	361	19
Repayment of long-term debt	(3)	(2)	-
Contractholder fund deposits	3,036	3,637	3,475
Contractholder fund withdrawals	(2,861)	(3,168)	(2,956)
Proceeds from issuance of trust preferred securities	750	-	-
Dividends paid	(378)	(350)	(324)
Treasury stock purchases	(336)	(69)	(16)
Repayment of demand note by Sears	-	450	-
Proceeds from the sale of subsidiary's stock	-	784	-
Payment to Sears for transfer of ESOP	-	(327)	-
Other	4	(9)	-
Net cash provided by financing activities	373	1,307	198
NET INCREASE (DECREASE) IN CASH	26	34	(15)
CASH AT BEGINNING OF YEAR	90	56	71
CASH AT END OF YEAR	$116	$90	$56

See notes to consolidated financial statements.

1. GENERAL

BASIS OF PRESENTATION The accompanying consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company ("AIC"), a property-liability insurance company with various property-liability and life and annuity subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate"). On June 30, 1995, Sears, Roebuck and Co. ("Sears") distributed its 80.3% ownership in The Allstate Corporation to Sears common shareholders through a tax-free dividend (the "Distribution"). These consolidated financial statements have been prepared in conformity with generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated.

To conform with the 1996 presentation, certain items in the prior years' financial statements and notes have been reclassified.

NATURE OF OPERATIONS Allstate is engaged, principally in the United States and Canada, in the property-liability insurance and life and annuity businesses. Allstate's primary business is the sale of private passenger automobile and homeowners insurance, but the Company also sells life insurance, annuity and group pension products, and selected commercial property and casualty coverages including automobile insurance, property insurance, and general liability insurance.

Allstate's personal property and casualty ("PP&C") business, is principally engaged in private passenger automobile and homeowners insurance, writing approximately 76% of Allstate's total premiums, as determined under statutory accounting practices. Allstate was the country's second largest personal property and casualty insurer for both private passenger automobile and homeowners insurance in 1995.

Allstate has exposure to catastrophes, which are an inherent risk of the property-liability insurance business, which have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial condition. The Company also has exposure to environmental and asbestos claims, and mass tort exposures (see Note 6).

ALIC markets a broad line of life insurance, annuity and group pension products countrywide, accounting for approximately 22% of Allstate's 1996 statutory premiums, which include premiums and deposits for all products. Life insurance includes traditional products such as whole life and term life insurance, as well as universal life and other interest-sensitive life products. Annuities include deferred annuities, such as variable annuities and fixed rate single and flexible premium annuities, and immediate annuities such as structured settlement annuities. ALIC's group pension products include guaranteed investment contracts and retirement annuities. In 1996, annuity premiums and deposits represented approximately 57% of ALIC's total statutory premiums and deposits.

ALIC monitors economic and regulatory developments which have the potential to impact its business. There continues to be proposed federal legislation and regulation that would allow banks greater participation in securities and insurance businesses, which could present an increased level of competition for sales of ALIC's annuity contracts. Furthermore, the market for deferred annuities and interest-sensitive life insurance businesses which is enhanced by the tax incentives available under current law. Any legislative changes which lessen these incentives is likely to negatively impact the market for these products.

Allstate, through a variety of affiliated companies, is authorized to sell property-liability and life and annuity products in all 50 states, the District of Columbia, Puerto Rico and Canada. The top geographic locations for statutory premiums earned for the property-liability insurance business are New York, California, Florida, Illinois and Pennsylvania, and for the life and annuity business are California, Florida, Nebraska, Massachusetts, Texas, Pennsylvania and Illinois for the year ended December 31, 1996. No other jurisdiction accounted for more than 5% of statutory premiums for property-liability or life and annuity.

Allstate distributes the majority of its property-liability products through approximately 14,100 Allstate agents, primarily employee and non-employee exclusive agents, but also utilizes independent agents and specialized brokers to expand market reach including over 5,500 independent agents appointed to market non-standard auto business. ALIC distributes its products using a combination of Allstate agents including life specialists, banks, independent agents, brokers and direct response marketing.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS Fixed income securities include bonds, redeemable preferred stocks, and mortgage-backed and asset-backed securities. All fixed income securities are carried at fair value and may be sold prior to their contractual maturity ("available for sale"). The difference between amortized cost and fair value, net of deferred income taxes, certain life deferred policy acquisition costs and reserves for life and annuity policy benefits, is reflected as a component of shareholders' equity. Provisions are recognized for declines in the value of fixed income securities that are other than temporary. Such writedowns are included in realized capital gains and losses.

Equity securities include common and non-redeemable preferred stocks, and real estate investment trusts which are carried at fair value. The difference between cost and fair value of equity securities, less deferred income taxes, is reflected as a component of shareholders' equity.

Mortgage loans are carried at outstanding principal balance, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Valuation allowances for impaired loans reduce the carrying value to the fair value of the collateral or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Valuation allowances on loans not considered to be impaired are established based on consideration of the underlying collateral, borrower financial strength, current and expected market conditions, and other factors.

Real estate investments, including real estate acquired through foreclosure and held for investment, are accounted for by the equity method. Real estate for which the Company has an active plan to sell is carried at depreciated cost, net of valuation allowances. These allowances reduce the carrying value of properties to be sold to their estimated fair value less selling costs.

Short-term investments are carried at cost which approximates fair value. Other investments, which consist primarily of policy loans, are carried at the unpaid principal balances.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded on the date of declaration. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method, based on estimated principal repayments. Accrual of income is suspended for fixed income securities and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined on a specific identification basis.

DERIVATIVE FINANCIAL INSTRUMENTS Derivative financial instruments include swaps, futures, forwards, and options, including caps and floors. When derivatives meet specific criteria they may be designated as accounting hedges and accounted for on either a fair value, deferral or accrual basis, depending upon the nature of the hedge strategy, the method used to account for the hedged item and the derivative used. Derivatives that are not designated as accounting hedges are accounted for on a fair value basis.

If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished or the occurrence of a hedged anticipatory transaction is no longer probable), the Company terminates the derivative position. Gains and losses on these terminations are reported in realized capital gains and losses in the period they occur. The Company may also terminate derivatives as a result of other events or circumstances. Gains and losses on these terminations are either deferred and amortized over the remaining life of the hedged item or are reported in shareholders' equity, consistent with the accounting for the hedged item.

Fair Value Accounting Under fair value accounting, realized and unrealized gains and losses on derivatives are recognized in either earnings or shareholders' equity when they occur.

The Company accounts for interest rate swaps, certain equity-indexed options, equity futures and foreign currency swaps and forwards as hedges on a fair value basis when criteria are met. When the Company uses swaps or options as hedging instruments, the derivative must reduce the primary market risk exposure (e.g., interest rate risk or equity price risk) of the hedged item in conjunction with the specific hedge strategy; be designated as a hedge at the inception of the transaction; and have a notional amount and term that does not exceed the carrying value and expected maturity, respectively, of the hedged item. In addition, options must have a reference index (e.g., three-month LIBOR) that is the same as, or highly correlated with, the reference index of the hedged item.

When the Company uses futures or forward contracts as hedging instruments, the derivative must reduce the primary market risk exposure on an enterprise basis in conjunction with the hedge strategy; be designated as a hedge at the inception of the transaction; and be highly correlated with the fair value of, or interest income or expense associated with, the hedged item at inception and throughout the hedge period.

Changes in fair values of these derivatives are reported net of tax in shareholders' equity, exclusive of interest accruals. Accrued interest receivable and payable on swaps are reported in net investment income. Premiums paid for equity-indexed options are reported as equity securities and amortized to net investment income over the lives of the agreements.

The Company also has the following derivatives that are accounted for on a fair value basis but which are not designated as accounting hedges: 1) Certain interest rate futures contracts reported as other assets, where changes in fair value are reported in realized capital gains and losses; 2) Certain equity-indexed options, where changes in fair value are reported in shareholders' equity and premiums paid are reported as equity securities and amortized to realized capital gains and losses over the lives of the agreements; and 3) Commodity swaps reported as accrued investment income, where changes in fair value are reported in net investment income.

Deferral Accounting Under deferral accounting, gains and losses on derivatives are deferred on the statement of financial position and recognized in earnings in conjunction with earnings on the hedged item. The Company accounts for interest rate futures as hedges using deferral accounting for anticipatory investment purchases and sales when the criteria for futures (discussed above) are met. In addition, anticipated transactions must be probable of occurrence and their significant terms and characteristics identified.

Changes in fair values of these derivatives are initially deferred as other liabilities and accrued expenses. Once the anticipated transaction occurs, the deferred gains or losses are considered part of the cost basis of the asset and reported net of tax in shareholders' equity or recognized as a gain or loss from disposition of the asset, as appropriate. The Company reports initial margin deposits on futures in short-term investments. Fees and commissions paid on these derivatives are also deferred as an adjustment to the carrying value of the hedged item.

Accrual Accounting Under accrual accounting, interest income or expense related to the derivative is accrued and recorded as an adjustment to the interest income or expense on the hedged item. The Company accounts for interest rate caps and floors as hedges on an accrual basis when the criteria for options (discussed above) are met.

Premiums paid for these derivatives are reported as investments and amortized to net investment income over the lives of the agreements.

RECOGNITION OF PREMIUM REVENUES AND CONTRACT CHARGES Property-liability premiums are deferred and earned on a pro rata basis over the terms of the policies. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums. Premiums for traditional life insurance are recognized as revenue when due. Accident and disability premiums are earned on a pro rata basis over the policy period. Revenues on universal life-type contracts are comprised of contract charges and fees, and are recognized when assessed against the policyholder account balance. Revenues on investment contracts include contract charges and fees for contract administration and surrenders. These revenues are recognized when levied against the contract balances. Gross premium in excess of the net premium on limited payment contracts are deferred and recognized over the contract period.

DEFERRED POLICY ACQUISITION COSTS Certain costs of acquiring property-liability insurance business, principally agents' remuneration, premium taxes and inspection report costs are deferred and amortized to income as premiums are earned. Effective July 1, 1996, the Company changed the components of property-liability acquisition costs deferred to include all forms of agent remuneration which vary directly with premium production. This change was made to more appropriately match the costs of acquiring business to the related premium revenue and to increase the consistency of accounting for agent remuneration despite differing contractual agreements with agents. Future investment income is considered in determining the recoverability of deferred policy acquisition costs.

Certain costs of acquiring life and annuity business, principally agents' remuneration, premium taxes, certain underwriting costs and direct mail solicitation expenses are deferred and amortized to income. For traditional life insurance, limited payment contracts and accident and disability insurance, these costs are amortized in proportion to the estimated revenues on such business. For universal life-type and investment contracts, the costs are amortized in relation to the present value of estimated gross profits on such business. Changes in the amount or timing of estimated gross profits will result in adjustments in the cumulative amortization of these costs. To the extent that unrealized gains or losses on fixed income securities carried at fair value would result in an adjustment of deferred policy acquisition costs had those gains or losses actually been realized, the related unamortized deferred policy acquisition costs are recorded as a reduction of the unrealized gains or losses included in shareholders' equity.

PROPERTY AND EQUIPMENT Property and equipment is carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for equipment and 40 years for real property. Accumulated depreciation on property and equipment was $1.08 billion and $999 million at December 31, 1996 and 1995, respectively. Depreciation expense on property and equipment was $132 million, $151 million and $160 million for the years ended December 31, 1996, 1995 and 1994, respectively. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

INCOME TAXES The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities and enacted tax regulations. The principal assets and liabilities giving rise to such differences are insurance reserves, unearned premiums, deferred policy acquisition costs, and property and equipment. Deferred income taxes also arise from unrealized capital gains and losses on equity securities and fixed income securities carried at fair value, unrealized foreign currency translation adjustments and alternative minimum tax credit carryforwards.

SEPARATE ACCOUNTS The Company issues flexible premium deferred variable annuity, variable life and certain guaranteed investment contracts, the assets and liabilities of which are legally segregated and reflected in the accompanying consolidated statements of financial position as assets and liabilities of the Separate Accounts. The assets of the Separate Accounts are carried at fair value. Investment income and realized capital gains and losses of the Separate Accounts accrue directly to the contractholders and, therefore, are not included in the Company's consolidated statements of operations. Revenues to the Company from the Separate Accounts consist of contract maintenance fees, administration fees, and mortality and expense risk charges. The Company's participation in the Separate Accounts is carried at the fair value of its ownership interest in the net assets of the Separate Accounts.

RESERVES FOR CLAIMS AND CLAIMS EXPENSE AND LIFE-CONTINGENT CONTRACT BENEFITS The property-liability reserve for claims and claims expense is the estimated amount necessary to settle both reported and unreported claims of insured property-liability losses, based upon the facts in each case and the Company's experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserve for claims and claims expense. The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting adjustments are reflected in current operations (see Note 6). These adjustments may be material.

The reserve for life-contingent contract benefits, which relates to traditional life insurance, group retirement annuities and structured settlement annuities with life contingencies, disability insurance and accident insurance, is computed on the basis of assumptions as to future investment yields, mortality, morbidity, terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. Reserve interest rates ranged from 4.0% to 11.3% during 1996. To the extent that unrealized gains on available for sale securities would result in a premium deficiency had those gains actually been realized, the related increase in reserves is recorded as a reduction of the unrealized gains included in shareholders' equity.

CONTRACTHOLDER FUNDS Contractholder funds arise from the issuance of individual or group contracts that include an investment component, including most annuity, universal life and guaranteed investment contracts. Payments received are recorded as interest-bearing liabilities. Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less withdrawals, mortality charges and administrative expenses.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS Commitments to invest, commitments to extend mortgage loans and financial guarantees have only off-balance-sheet risk because their contractual amounts are not recorded in the Company's consolidated statements of financial position.

The Company's exposure to losses stemming from credit guarantees is limited to the carrying value of the underlying fixed income securities.

EARNINGS PER SHARE Earnings per share is computed based on the weighted average number of common and common equivalent shares (dilutive stock options) outstanding.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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3. DISPOSITIONS

In July 1996, Allstate completed the sale of Northbrook Holdings, Inc. and its wholly owned subsidiaries (collectively "Northbrook") to St. Paul Fire & Marine Insurance Company ("St. Paul"). Northbrook writes commercial insurance through its subsidiaries using independent agents. Allstate received gross proceeds of $189 million and recognized a gain of $18 million ($51 million after-tax) on the sale. The proceeds and gain are subject to a purchase price adjustment, expected to be finalized in 1997. In connection with the sale, Allstate entered into an agreement with St. Paul whereby Allstate and St. Paul will share in any development of the closing net loss reserves of Northbrook to be settled as of July 31, 2000. Under the agreement, if the development of ultimate net loss reserves exceeds net loss reserves at closing by more than $25 million, Allstate will be required to pay St. Paul a portion of the difference, limited to $100 million. If the development of ultimate net loss reserves is less than net loss reserves at closing, St. Paul will be required to pay Allstate a portion of the difference not to exceed $50 million. The Company does not expect unfavorable reserve development based on current trends, conditions and claim settlement processes. As a result of the sale, the Company's liability for claims and claims expense net of reinsurance was reduced by $1.01 billion and investments were reduced by $973 million.

In September 1996, the Company completed the sale of Allstate's U.S.-based reinsurance operations for policies written after 1984 ("Reinsurance") to SCOR U.S. Corporation ("SCOR"). The transaction consisted of the sale of certain non-insurance assets, non-insurance liabilities and renewal rights and a reinsurance transaction for the insurance liabilities.

The Company received gross proceeds of $152 million as a result of the sale and will realize a $79 million gain ($58 million after-tax). The Company recognized the portion of the gain, $15 million ($9 million after-tax), related to the sale of the renewal rights in 1996. The remaining $64 million gain ($49 million after-tax) was deferred and will be amortized through underwriting income over the reserve run-off period, approximately five years, in accordance with retroactive reinsurance accounting principles.

In November 1996, Allstate completed the sale of the common stock of its London-based reinsurance operations, Allstate Reinsurance Co. Limited ("ARCO") to QBE Insurance Group Limited of Sydney, Australia ("QBE"). The Company received proceeds of $37 million and recognized a $40 million loss ($41 million after-tax) on the sale. In connection with the sale, Allstate entered into an agreement with QBE whereby 80% of any ultimate adverse development on ARCO's December 31, 1995 net loss reserves will be reimbursed to QBE by Allstate. QBE will reimburse Allstate for 70% of any ultimate favorable net loss development. Development will be settled annually. At the closing, in addition to the $37 million cash proceeds, QBE deposited approximately $20 million in escrow related to this agreement, representing a contingent purchase payment. If 1996 net loss development is favorable, Allstate will receive the $20 million escrow deposit in addition to 70% of any redundancy. Allstate would report this as a purchase price adjustment in 1997. If 1996 net loss development is unfavorable, the amount held in escrow will be used to satisfy any of Allstate's obligation, with the excess, if any, paid to Allstate. In addition, the development of accident year 1996 underwriting results for QBE is limited to a combined ratio of 110 for contracts in place as of the closing date to be reviewed and settled annually.

Allstate entered into an agreement with Clarendon National Insurance Company to sell the renewal rights of up to 137,000 Florida property policies and as a result may non-renew up to 170,000 policies. Beginning with policies expiring after November 14, 1996, Allstate will no longer provide coverage for these policies as they expire over the next twelve months. In connection with the sale of the renewal rights of these policies, the Company recognized a loss of $37 million ($24 million after-tax) in 1996.

In 1995, the Company sold 70% of the common stock of The PMI Group, Inc. ("PMI Group"), a wholly owned subsidiary, in an initial public offering. Proceeds from the sale approximated $784 million, and a gain of $159 million ($93 million after-tax) was realized. Included in the determination of the gain was a provision for future losses on the run-off of the mortgage pool business of $119 million ($80 million after-tax). During 1996, the Company increased by $87 million ($55 million after-tax) the provision for future losses provided for the run-off of the mortgage pool business which is included in the loss on disposition of operations. The increase was due primarily to revised loss trend analyses based on continued weakness in economic conditions, including real estate prices and unemployment in Southern California where this business is highly concentrated. This business continues to be affected by these economic conditions, as well as interest rate volatility or a combination of such factors. These factors are considered in the periodic re-evaluation of the provision for future losses.

Concurrent with the PMI Group common stock offering, the Company issued 10.5 million of Automatically Convertible Equity Securities ("ACES") in the form of 6.76% Exchangeable Notes due April 15, 1998 which are mandatorily exchangeable into shares of common stock of PMI Group, subject to the Company's right to deliver cash in lieu of such shares (see Note 8).

The Company currently owns approximately 31% of PMI Group. The Company's equity in net income of PMI Group was $29 million, $56 million and $86 million for 1996, 1995 and 1994, respectively. The Company's investment in PMI Group, which is included in other assets in the consolidated statements of financial position, had a net book value of $305 million and $262 million at December 31, 1996 and 1995, respectively. The fair value of the Company's investment in PMI Group at December 31, 1996 was $581 million. See Note 8 for discussion of ACES terms.

4. INVESTMENTS

FAIR VALUES The amortized cost, gross unrealized gains and losses, and fair value for fixed income securities are as follows:

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized (Losses)	Fair value
AT DECEMBER 31, 1996				
U.S. government and agencies	$ 3,101	$ 250	$ (12)	$ 3,339
Municipal	13,705	832	(44)	14,493
Corporate	16,748	896	(86)	17,558
Foreign government	325	13	(1)	337
Mortgage-backed securities	8,434	216	(58)	8,592
Asset-backed securities	2,658	37	(4)	2,691
Redeemable preferred stock	86	-	(1)	85
Total fixed income securities	$45,057	$2,244	$(206)	$47,095
AT DECEMBER 31, 1995				
U.S. government and agencies	$ 2,443	$ 445	$ (19)	$ 2,869
Municipal	15,900	1,405	(29)	17,276
Corporate	14,437	1,213	(44)	15,606
Foreign government	453	10	(3)	460
Mortgage-backed securities	6,946	358	(22)	7,282
Asset-backed securities	1,606	52	(1)	1,657
Redeemable preferred stock	122	1	(1)	122
Total fixed income securities	$41,907	$3,484	$(119)	$45,272

SCHEDULED MATURITIES The scheduled maturities for fixed income securities are as follows at December 31, 1996:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 1,486	$ 1,518
Due after one year through five years	8,719	9,079
Due after five years through ten years	9,304	9,668
Due after ten years	14,456	15,547
	33,965	35,812
Mortgage-backed and asset-backed securities	11,092	11,283
Total	$45,057	$47,095

Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

NET INVESTMENT INCOME

($ in millions)	Year ended December 31, 1996	1995	1994
Fixed income securities	$3,302	$3,105	$2,864
Equity securities	118	139	132
Mortgage loans	291	303	320
Other	172	146	100
Investment income, before expense	3,883	3,693	3,416
Investment expense	70	66	73
Net investment income	$3,813	$3,627	$3,343

REALIZED CAPITAL GAINS AND LOSSES

($ in millions)	Year ended December 31, 1996	1995	1994
Fixed income securities	$ 40	$ 30	$ 31
Equity securities	784	274	238
Other investments	(40)	(46)	(69)
Realized capital gains and losses	784	258	200
Income taxes	274	90	70
Realized capital gains and losses, after tax	$510	$168	$130

Proceeds from sales of investments in fixed income securities were $11.21 billion, $7.56 billion and $5.21 billion in 1996, 1995 and 1994, respectively. Gross gains of $205 million, $144 million and $132 million and gross losses of $146 million, $103 million and $105 million were realized on sales of fixed income securities during 1996, 1995 and 1994, respectively.

UNREALIZED NET CAPITAL GAINS Unrealized net capital gains on fixed income and equity securities included in shareholders' equity at December 31, 1996 are as follows:

($ in millions)	Cost/ amortized cost	Fair value	Gross unrealized Gains	Gross unrealized (Losses)	Unrealized net gains
Fixed income securities	$45,057	$47,095	$2,244	$(206)	$2,038
Equity securities	3,999	5,561	1,639	(77)	1,562
Total	$49,056	$52,656	$3,883	$(283)	3,600
Deferred income taxes, deferred policy acquisition costs and other					(1,597)
Unrealized net capital gains					$2,003

At December 31, 1995, equity securities had gross unrealized gains of $1.51 billion and gross unrealized losses of $75 million.

CHANGE IN UNREALIZED NET CAPITAL GAINS

($ in millions)	Year ended December 31, 1996	1995	1994
Fixed income securities	$ (1,327)	$ 4,061	$(3,028)
Equity securities	128	874	(355)
Total	(1,199)	4,935	(3,383)
Deferred income taxes, deferred policy acquisition costs and other	566	(2,339)	1,333
Change in unrealized net capital gains	$ (633)	$ 2,596	$(2,050)

INVESTMENT LOSS PROVISIONS AND VALUATION ALLOWANCES Pretax provisions for investment losses, principally relating to other than temporary declines in value on fixed income securities and equity securities, and valuation allowances on mortgage loans, were $196 million, $207 million and $92 million in 1996, 1995 and 1994, respectively. Valuation allowances on real estate were $11 million and $25 million at December 31, 1996 and 1995, respectively.

MORTGAGE LOAN IMPAIRMENT A mortgage loan is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The components of impaired loans at December 31, 1996 and 1995 are as follows:

($ in millions)	1996	1995
Impaired loans		
With valuation allowances	$182	$183
Less: valuation allowances	(50)	(52)
Without valuation allowances	38	62
Net carrying value of impaired loans	$170	$193

The net carrying value of impaired loans at December 31, 1996 and 1995 was comprised of $115 million and $158 million, respectively, measured at the fair value of the collateral, and $55 million and $35 million, respectively, measured at the present value of the loan's expected future cash flows discounted at the loan's effective interest rate. Impaired loans without valuation allowances include collateral dependent loans where the fair value of the collateral is greater than the recorded investment in the loans.

Activity in the valuation allowance for all mortgage loans for the years ended December 31, 1996 and 1995 is summarized as follows:

($ in millions)	1996	1995
Balance at January 1	$75	$92
Additions	27	25
Direct write-downs	(37)	(42)
Balance at December 31	$65	$75

Included in the table above is $15 million and $23 million of valuation allowances on loans not considered to be impaired at December 31, 1996 and 1995, respectively.

Interest income is recognized on a cash basis for impaired loans carried at the fair value of the collateral, beginning at the time of impairment. For other impaired loans, interest is accrued based on the net carrying value. The Company recognized interest income of $22 million and $25 million on impaired loans during 1996 and 1995, respectively, of which $20 million and $21 million was received in cash during 1996 and 1995, respectively. The average balance of impaired loans was $203 million and $209 million during 1996 and 1995, respectively.

INVESTMENT CONCENTRATION FOR MUNICIPAL BOND AND COMMERCIAL MORTGAGE PORTFOLIOS AND OTHER INVESTMENT INFORMATION The Company maintains a diversified portfolio of municipal bonds. The largest concentrations in the portfolio are presented below. Except for the following, holdings in no other state exceeded 4.4% of the portfolio at December 31, 1996:

	At December 31,	
(% of municipal bond portfolio carrying value)	1996	1995
California	11.1%	10.4%
Texas	10.9	10.9
Illinois	9.8	9.7
New York	9.1	7.8
Florida	6.4	6.1

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The states with the largest portion of the commercial mortgage loan portfolio are listed below. Except for the following, holdings in no other state exceeded 4.9% of the portfolio at December 31, 1996:

(% of commercial mortgage portfolio carrying value)	At December 31, 1996	1995
California	22.1%	21.0%
New York	9.1	9.2
Illinois	6.9	5.8
Pennsylvania	6.7	6.6
Florida	5.4	6.1

The types of properties collateralizing the commercial mortgage loans are as follows:

(% of commercial mortgage portfolio carrying value)	At December 31, 1996	1995
Retail	35.8%	41.0%
Office buildings	22.1	17.5
Warehouse	17.6	19.3
Apartment complex	16.3	13.9
Industrial	2.1	2.5
Other	6.1	5.8
	100.0%	100.0%

The contractual maturities of the commercial mortgage loan portfolio as of December 31, 1996, for loans that were not in foreclosure are as follows:

($ in millions)	No. of loans	Carrying value	Percent
1997	88	$ 352	11.3%
1998	70	412	13.2
1999	54	262	8.4
2000	74	449	14.5
2001	61	281	9.0
Thereafter	266	1,357	43.6
Total	613	$3,113	100.0%

At December 31, 1996, the carrying value of investments, excluding equity securities, that were non-income producing during 1996 was $26 million.

At December 31, 1996, fixed income securities with a carrying value of $351 million were on deposit with regulatory authorities as required by law.

5. FINANCIAL INSTRUMENTS

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving derivative financial instruments and other off-balance-sheet financial instruments. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value. The disclosures that follow do not reflect the fair value of the Company as a whole since a number of the Company's significant assets (including deferred policy acquisition costs, property and equipment, reinsurance recoverables and deferred income taxes) and liabilities (including property-liability, and traditional life and universal life-type insurance reserves) are not considered financial instruments and are not carried at fair value. Other assets and liabilities considered financial instruments, premium installment receivables, accrued investment income, cash and claim payments outstanding are generally of a short-term nature. It is assumed that their carrying value approximates fair value.

FINANCIAL ASSETS

($ in millions)	At December 31, 1996		1995	
	Carrying value	Fair value	Carrying value	Fair value
Fixed income securities	$47,095	$47,095	$45,272	$45,272
Equity securities	5,561	5,561	6,150	6,150
Mortgage loans	3,146	3,221	3,280	3,435
Short-term investments	1,278	1,278	548	548
Policy loans	489	489	447	447
Separate Accounts	5,551	5,551	3,809	3,809

Carrying value and fair value include the effects of derivative financial instruments where applicable.

Fair values for fixed income securities are based on quoted market prices where available. Non-quoted securities are valued based on discounted cash flows using current interest rates for similar securities. Equity securities are valued based principally on quoted market prices. Mortgage loans are valued based on discounted contractual cash flows. Discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar properties as collateral. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral. Short-term investments are highly liquid investments with maturities of less than one year whose carrying value approximates fair value.

The carrying value of policy loans approximates its fair value. Assets of the Separate Accounts are carried in the consolidated statements of financial position at fair value.

FINANCIAL LIABILITIES AND TRUST PREFERRED SECURITIES

($ in millions)	At December 31, 1996		1995	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$16,501	$16,284	$15,568	$15,626
Short-term debt	152	152	-	-
Long-term debt	1,234	1,375	1,228	1,331
Separate Accounts	5,539	5,539	3,798	3,798
Mandatorily redeemable preferred securities of subsidiary trusts	750	747	-	-

The fair value of contractholder funds on investment contracts is based on the terms of the underlying contracts. Reserves on investment contracts with no stated maturities (single premium and flexible premium deferred annuities) are valued at the account balance less surrender charges. The fair value of immediate annuities and annuities without life contingencies with fixed terms is estimated using discounted cash flow calculations based on interest rates currently offered for contracts with similar terms and durations. Short-term debt is valued at carrying value due to its short-term nature. The fair value of long-term debt and trust preferred securities is based on quoted market prices. Separate Accounts liabilities are carried at the fair value of the underlying assets.

DERIVATIVE FINANCIAL INSTRUMENTS Derivative financial instruments include swaps, futures, forwards and options, including caps and floors. The Company primarily uses derivative financial instruments to reduce its exposure to market risk (principally interest rate and equity price risk), in conjunction with asset/liability management, in its life and annuity operations. The Company does not hold or issue these instruments for trading purposes. The following table summarizes the contract or notional amount, credit exposure, fair value and carrying value of the Company's derivative financial instruments:

At December 31, ($ in millions)	1996				1995			
	Contract/ notional amount	Credit exposure	Fair value	Carrying value assets/ (liabilities)	Contract/ notional amount	Credit exposure	Fair value	Carrying value assets/ (liabilities)
INTEREST RATE CONTRACTS								
Interest rate swap agreements								
Pay floating rate, receive fixed rate	$ 498	$ 19	$ 18	$ 18	$ 545	$ 35	$ 35	$34
Pay fixed rate, receive floating rate	357	-	(2)	(2)	172	-	(4)	(1)
Pay floating rate, receive floating rate	67	-	(1)	(1)	84	-	(1)	(1)
Financial futures and forward contracts	655	7	7	6	374	4	4	(8)
Interest rate cap and floor agreements	2,389	6	6	7	371	4	4	4
Total interest rate contracts	3,966	32	28	28	1,546	43	38	28
EQUITY AND COMMODITY CONTRACTS								
Commodity swap agreements	152	4	4	4	122	12	12	12
Financial futures	122	2	2	2	203	-	-	5
Options and warrants	691	149	149	149	402	88	88	75
Total equity and commodity contracts	965	155	155	155	727	100	100	92
FOREIGN CURRENCY CONTRACTS								
Foreign currency swap agreements	20	-	(3)	(3)	27	1	(3)	-
Foreign currency forward contracts	34	-	-	-	-	-	-	-
Total foreign currency contracts	54	-	(3)	(3)	27	1	(3)	-
Total derivative financial instruments	$4,985	$187	$180	$180	$2,300	$144	$135	$120

Credit exposure includes the effects of legally enforceable master netting agreements.
Credit exposure and fair value include accrued interest where applicable.
Carrying value is representative of deferred gains and losses, unamortized premium, or accrued interest, depending on the accounting for the derivative financial instrument.

The contract or notional amounts are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these agreements.

Credit exposure represents the Company's potential loss if all of the counterparties failed to perform under the contractual terms of the contracts and all collateral, if any, became worthless. This exposure is represented by the fair value of contracts with a positive fair value at the reporting date reduced by the effect, if any, of master netting agreements.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. To date, the Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance.

Fair value is the estimated amount that the Company would receive (pay) to terminate or assign the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer and exchange quotes are available for the Company's derivatives.

Interest rate swap agreements involve the exchange, at specified intervals, of interest payments calculated by reference to an underlying notional amount. The Company generally enters into swap agreements to change the interest rate characteristics of existing assets to more closely match the interest rate characteristics of the corresponding liabilities. The Company did not record any material deferred gains or losses on swaps in 1996, 1995 or 1994.

The Company did not realize any material gains or losses on swap terminations in 1996, 1995 or 1994. The Company paid a weighted average floating interest rate of 6.3% and received a weighted average fixed interest rate of 7.1% in 1996. The Company paid a weighted average fixed interest rate of 6.4% and received a weighted average floating interest rate of 6.5% in 1996.

Financial futures and forward contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price or yield. They may be settled in cash or through delivery. As part of its asset/liability management, the Company generally utilizes futures and forward contracts to manage its market risk related to fixed income securities, equity securities and anticipatory investment purchases and sales. Futures and forwards used as hedges of anticipatory transactions pertain to identified transactions which are probable to occur and are generally completed within 90 days. Futures contracts have limited off-balance-sheet credit risk as they are executed on organized exchanges and require security deposits, as well as the daily cash settlement of margins.

Interest rate cap and floor agreements give the holder the right to receive at a future date, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The Company purchases interest rate cap and floor agreements to reduce its exposure to rising or falling interest rates relative to certain existing assets and liabilities in conjunction with asset/liability management.

Commodity swap agreements involve the exchange of floating-rate interest payments for the total return on a commodity index. The Company enters into commodity swap transactions to mitigate market risk on the fixed income and equity securities owned.

Equity linked option contracts provide returns based on a specified equity index applied to the option's notional amount. The Company purchases equity linked options to achieve equity appreciation or to reduce the market risk associated with certain annuity contracts. Where required, counterparties post collateral to minimize credit risk. Debt warrants provide the right to purchase a specified new issue of debt at a predetermined price. The Company purchases debt warrants to protect against long-term call risk.

Foreign currency contracts involve the exchange or delivery of currencies. The Company enters into these agreements to manage the currency risk associated with foreign securities owned.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments that the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. The Company mitigates this risk through established risk limits set by senior management. In addition, the change in the value of the Company's derivative financial instruments designated as hedges are generally offset by the change in the value of the related assets and liabilities.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS A summary of the contractual amounts and fair values of off-balance-sheet financial instruments follows:

($ in millions)	At December 31, 1996		1995	
	Contractual amount	Fair value	Contractual amount	Fair value
Commitments to invest	$294	$ -	$223	$ -
Commitments to extend mortgage loans	72	1	88	1
Financial guarantees	25	(4)	28	(7)
Credit guarantees	100	-	50	-

Except for credit guarantees, the contractual amounts represent the amount at risk if the contract is fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Commitments to invest generally represent commitments to make equity investments in various limited partnerships. The Company enters these agreements to allow for additional participation in certain investments. Because the equity investments in limited partnerships are not actively traded, it is not practicable to estimate the fair value of these commitments.

Commitments to extend mortgage loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. The Company enters these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend mortgage loans, which are secured by the underlying properties, are valued based on estimates of fees charged by other institutions to make similar commitments to similar borrowers.

Financial guarantees represent conditional commitments to repurchase notes from a creditor upon default of the debtor. The Company enters into these agreements primarily to provide financial support for certain equity investees. Financial guarantees are valued based on estimates of payments that may occur over the life of the guarantees.

Credit guarantees represent conditional commitments to exchange identified AAA or AA rated credit risk for identified A rated credit risk upon bankruptcy or other event of default of the referenced credits. The Company receives fees for assuming the referenced credit risks, which are reported in net investment income when earned over the lives of the commitments. The Company enters into these transactions in order to achieve higher yields than if the referenced credits were directly owned.

The Company's maximum amount at risk, assuming bankruptcy or other default of the referenced credits and the value of the referenced credits become worthless, is the fair value of the identified AAA or AA rated securities. The identified AAA or AA rated securities had a fair value of $102 million at December 31, 1996. The Company includes the impact of credit guarantees in its analysis of credit risk, and the referenced credits were current with respect to their contractual terms at December 31, 1996.

6. RESERVE FOR PROPERTY-LIABILITY INSURANCE CLAIMS AND CLAIMS EXPENSE

As described in Note 2, the Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretation of circumstances, including the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes.

The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Allstate regularly updates its reserve estimates as new facts become known and further events occur which may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determined to be needed.

Activity in the reserve for property-liability insurance claims and claims expense is summarized as follows:

($ in millions)	1996	1995	1994
Balance at January 1	$17,687	$16,763	$15,521
Less reinsurance recoverables	1,531	1,357	1,402
Net balance at January 1	16,156	15,406	14,119
Incurred claims and claims expense related to:			
Current year	14,823	14,113	15,241
Prior years	(336)	(425)	(712)
Total incurred	14,487	13,688	14,529
Claims and claims expense paid related to:			
Current year	7,522	8,190	8,770
Prior years	5,787	4,748	4,472
Disposition of operations	1,736	-	-
Total paid	15,045	12,938	13,242
Net balance at December 31	15,598	16,156	15,406
Plus reinsurance recoverables	1,784	1,531	1,357
Balance at December 31(1)	$17,382	$17,687	$16,763

(1) Loss development information for ARCO (Allstate's wholly owned British reinsurance subsidiary which was sold in 1996) is not available on a comparable basis. This information is not material ($77 million in net claims and claims expense in 1995 and $48 million in net payments in 1995), and was treated as attributable to the current year.

Incurred claims and claims expense includes losses from catastrophes of $991 million, $934 million and $1.99 billion in 1996, 1995 and 1994, respectively. Catastrophes are an inherent risk of the property-liability insurance business which have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial position. As of December 31, 1996, Allstate had no reinsurance in place to lower its exposure to catastrophe losses on personal lines business. The Company entered into a three-year excess reinsurance contract covering Florida property policies, effective January 1, 1997, which provides up to $400 million of catastrophe reinsurance protection in excess of $1.00 billion, up to an aggregate limit of $800 million.

The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. For Allstate, major areas of potential losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. The major areas of exposure to potential losses due to earthquakes in California include population centers in and around Los Angeles and San Francisco. Other areas in the United States with exposure to potential earthquake losses include areas surrounding the New Madrid fault system in the midwest and faults in and surrounding Seattle, Washington.

Management believes that the reserve for claims and claims expense at December 31, 1996 is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by that date.

Favorable calendar year reserve development in 1996, 1995 and 1994 was the result of favorable severity trends (average cost per claim) in each of the three years, which more than offset adverse development in Discontinued Lines and Coverages and increases to reserves for claims expense which occurred in 1996. The favorable severity trend during this three-year period was largely due to lower than anticipated medical cost inflation for personal auto injury claims and improvements in the Company's claim settlement processes. The reduction in the anticipated medical cost inflation trend has emerged over time as actual claim settlements validated the effect of the steady decline in the rate of inflation. Although improvements in the Company's claim settlement process have contributed to favorable severity development of personal injury claims during the past three years, the new processes have caused an increase in the number of claims outstanding. The Company expects the rate of increase in claims outstanding to continue to decline in 1997; however, the number of outstanding claims may not be reduced to levels previously reported due to an increase in the time required to complete the new claim settlement processes. In addition, while the claim settlement process changes are believed to have contributed to favorable severity trends on closed claims, these changes introduce a greater degree of variability in reserve estimates for the remaining outstanding claims at December 31, 1996. Future reserve releases, if any, will depend on the continuation of the favorable loss trends.

Allstate's exposure to environmental, asbestos and mass tort claims stem principally from excess and surplus business written from 1972-1985, including substantial excess and surplus general liability coverages on Fortune 500 companies, and reinsurance coverage written during the 1960s through the 1980s, including reinsurance on primary insurance written on large U.S. companies. Mass tort exposures relate primarily to products liability claims, such as those for medical devices and other products, and general liabilities. Establishing net loss reserves for environmental, asbestos and mass tort claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are a lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, availability of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether these losses are, or were ever intended to be covered, are complex. 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 insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether environmental and asbestos clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

As the industry has gained experience evaluating environmental exposures, some actuarial firms have developed techniques and databases to estimate environmental liabilities. Allstate gained access to complex databases developed by outside experts to estimate the cost of liabilities for environmental claims. The databases contained lists of known potentially responsible parties ("PRP"), National Priority List ("NPL") sites, and the Environmental Protection Agency's estimates of clean-up costs. Allstate's policy files were compared to the databases, and factors to estimate growth of NPL sites, state sites, third party claims, natural resource damage, probability of coverage, and PRP's being named at future sites were applied to determine an estimate of the Company's potential environmental loss. The Company also refined its own estimation techniques, which were tested and validated by outside actuaries, to estimate environmental and asbestos losses. Allstate used a combination of these resources, along with an extensive internal review of its current claim exposures to estimate environmental and asbestos reserves. The Company also performed an in-depth analysis of its reinsurance recoverables and refined its process for estimating and identifying available reinsurance since some reinsurers have become insolvent or Allstate has commuted their agreements. During the third quarter of 1996, based upon the Company's re-evaluation, loss reserves, net of reinsurance for environmental and asbestos exposures were increased by $172 million and $72 million, respectively.

In addition to environmental and asbestos exposures, the studies also included an assessment of current claims for mass tort exposures. Based on the re-evaluation, loss reserves for mass tort exposures increased in the third quarter of 1996 by $60 million, net of reinsurance recoverables. This increase includes the reallocation of $103 million of general liability net loss reserves between 1985 and subsequent accident years to pre-1985 accident years.

In 1986, the general liability policy form used by Allstate and others in the property-liability industry was amended to introduce an "absolute pollution exclusion" which excluded coverage for environmental damage claims and added an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for products liability coverage, and policies issued after 1986 also have an annual aggregate limit as to all coverages. Allstate's experience to date is that these policy form changes have effectively limited its exposure to environmental and asbestos claim risks assumed, as well as primary commercial coverages written, for most policies written in 1986 and all policies written after 1986.

Reserves for environmental claims were $722 million and $520 million, net of reinsurance recoverables of $225 million and $424 million at December 31, 1996 and 1995, respectively. Reserves for asbestos claims were $510 million and $501 million, net of reinsurance recoverables of $264 million and $223 million at December 31, 1996 and 1995, respectively. Approximately 64% and 56% of the total net environmental and asbestos reserves at December 31, 1996 and 1995, respectively, represents IBNR. The survival ratios (ending reserves divided by claims and claims expense paid) for net environmental and asbestos reserves at December 31, 1996 and 1995, were 12.0 and 8.8, respectively.

Management believes its net loss reserves for environmental, asbestos and mass tort exposures are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, plaintiffs' expanded theories of liability, the risks inherent in major litigation and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in the loss reserves. In addition, while the Company believes the improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable loss. 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.

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7. REINSURANCE

The Company acquires reinsurance to limit aggregate and single exposures on large risks. Additionally, in connection with the sale to SCOR in 1996 (see Note 3), Allstate entered into a reinsurance agreement for the post-1984 reinsurance liabilities. The Company continues to have primary liability as a direct insurer for risks reinsured. This footnote should be read in connection with Note 6, Reserve for Property-Liability Insurance Claims and Claims Expense. The effects of reinsurance on premiums written and earned are as follows:

	Year ended December 31,		
($ in millions)	1996	1995	1994
PROPERTY-LIABILITY PREMIUMS WRITTEN			
Direct	$18,748	$17,598	$16,395
Assumed	382	903	899
Ceded	(544)	(536)	(555)
Property-liability premiums written, net of reinsurance	$18,586	$17,965	$16,739
PROPERTY-LIABILITY PREMIUMS EARNED			
Direct	$18,487	$17,178	$16,177
Assumed	358	886	885
Ceded	(479)	(524)	(549)
Property-liability premiums earned, net of reinsurance	$18,366	$17,540	$16,513
LIFE AND ANNUITY PREMIUMS AND CONTRACT CHARGES			
Direct	$1,415	$1,404	$1,092
Assumed	17	11	9
Ceded	(96)	(47)	(48)
Life and annuity premiums and contract charges, net of reinsurance	$1,336	$1,368	$1,053

The recoverable amounts at December 31, 1996 and 1995 include $190 million and $156 million, respectively, related to losses paid by the Company and billed to reinsurers, and $1.96 billion and $1.67 billion, respectively, estimated by the Company with respect to ceded unpaid losses (including IBNR) which are not billable until the losses are paid. The 1996 balance includes $489 million related to ceded unpaid losses on environmental and asbestos loss reserves. Amounts recoverable from pools, associations and facilities included above were $586 million and $387 million at December 31, 1996 and 1995, respectively. Recent developments in the insurance industry have resulted in environmental, asbestos and mass tort exposures being segregated into separate legal entities with dedicated capital. These actions have been supported by regulatory bodies in certain cases. The Company is unable to determine the impact, if any, that these developments will have on the collectibility of reinsurance recoverables in the future. The Company has a recoverable from Lloyd's of London of $127 million and $189 million at December 31, 1996 and 1995, respectively. Lloyd's of London implemented a restructuring plan in 1996 to solidify its capital base and to segregate claims for years before 1993. The impact, if any, of the restructuring on the collectibility of the recoverable from Lloyd's of London is uncertain at this time. The recoverable from Lloyd's of London is spread among thousands of investors (Names), who have unlimited liability. Excluding pools, associations and facilities, no other amount due or estimated due from any one property-liability reinsurer was in excess of $78 million and $79 million at December 31, 1996 and 1995, respectively.

Estimating amounts of reinsurance recoverable is also impacted by the uncertainties involved in the establishment of loss reserves. Management believes the recoverables are appropriately established; however, as the Company's underlying reserves continue to develop, the amount ultimately recoverable may vary from amounts currently recorded. The reinsurers and amounts recoverable therefrom are regularly evaluated by the Company and a provision for uncollectible reinsurance is recorded. The pretax provisions for uncollectible reinsurance were $18 million, $133 million and $26 million in 1996, 1995 and 1994, respectively. The increase in the provision for 1995 was primarily due to an increase in uncollectible reinsurance related to reserve increases for breast implant and environmental and asbestos claims. The allowance for uncollectible reinsurance was $163 million and $246 million at December 31, 1996 and 1995, respectively.

8. DEBT

Long-term and short-term debt consists of the following:

($ in millions)	At December 31, 1996	1995
5.875% Notes, due 1998	$300	$300
6.75% Notes, due 2003	300	300
7.5% Debentures, due 2013	250	250
Floating rate notes, due 2009 to 2011	27	21
6.76% ACES, due 1998	357	357
Total long-term debt	1,234	1,228
Short-term debt	152	-
Total debt	$1,386	$1,228

The ACES were issued in 1995 at a principal amount of $34.00 per security, which was equal to the initial public offering price of the common stock of PMI Group, resulting in net proceeds of $341 million. At maturity, the principal amount of each exchangeable note will be mandatorily exchanged by the Company into a number of shares of PMI Group common stock, or at the Company's option, cash with an equal value in lieu of such shares. The number of such shares or the amount of such cash exchanged at maturity of the ACES will be based on the average market price of PMI Group common stock on the 20 days immediately prior to maturity. If the Company elects to deliver shares of PMI Group common stock at maturity, the Company's holdings of 10.5 million of PMI Group common shares will be reduced to between zero (if the average market price of PMI Group common shares is at or below $34.00), and approximately 1.9 million shares (if the average market price of PMI Group common shares is at or above $41.50). At December 31, 1996, the fair value of the ACES was $496 million. At December 31, 1996, the closing price of PMI Group common shares was $55.375.

The Company maintains a bank line of credit totaling $1.50 billion, which expires on December 20, 2001. The bank line provides for loans at a spread above prevailing referenced interest rates. The Company pays commitment fees in connection with the line of credit. As of December 31, 1996, no amounts were outstanding under the bank line of credit.

The Company paid $64 million, $62 million and $59 million of interest on debt in 1996, 1995 and 1994, respectively.

The weighted average interest rates of outstanding short-term debt at December 31, 1996 was 5.7%.

9. COMMITMENTS AND CONTINGENT LIABILITIES

LEASES The Company leases certain office facilities and computer equipment. Total rent expense for all leases was $220 million, $270 million and $281 million in 1996, 1995 and 1994, respectively. Minimum rental commitments under noncancelable operating leases with an initial or remaining term of more than one year as of December 31, 1996 are as follows:

($ in millions) Year ended December 31,	
1997	$204
1998	174
1999	111
2000	46
2001	37
Thereafter	77
	$649

CALIFORNIA EARTHQUAKE AUTHORITY On December 2, 1996, the California Earthquake Authority ("CEA") commenced operations. The CEA is a privately-financed, publicly-managed state agency created to provide coverage for earthquake damage resulting from the movement of the earth. Insurers selling homeowners insurance in California are required to offer earthquake insurance to their customers either through their company or participation in the CEA. Beginning January 20, 1997, Allstate's traditional earthquake policies and mini-earthquake policies ("Mini-policy") began transferring to the CEA; this transfer will continue over the next year as these policies expire. Beginning late in the second quarter of 1996, Allstate's traditional earthquake policies were renewed as Mini-policies. The Mini-policy has higher deductibles, eliminates coverage for most non-dwelling structures and limits personal contents coverage, thereby significantly reducing Allstate's exposure to earthquake losses in California from what it was at the time of the Northridge earthquake in 1994.

Approximately $700 million of capital needed to create the CEA was obtained from assessments of participating insurance companies. Assessments were based on an insurer's proportionate share of earthquake coverage in the state. Allstate's pretax assessment, including related expenses, was approximately $150 million.

Additional capital needed to operate the CEA will be obtained through assessments of participating insurance companies, reinsurance and bond issuances funded by policyholder assessments. Allstate may be assessed in the future depending on the capital level of the CEA. Participating insurers are required to fund a second assessment, not to exceed $2.10 billion in total, if the capital of the CEA drops below $350 million. Participating insurers are required to fund a third assessment, after recovery of reinsurance and bond issuances, of up to $1.40 billion, if aggregate earthquake losses exceed $5.60 billion or the CEA's capital falls below $350 million. The authority of the CEA to assess participating insurers expires when the CEA has completed twelve years of operation. All assessments to participating CEA insurers are based on earthquake insurance market share, as of December 31 of the preceding year. Earthquake insurance market share is based on the percent of earthquake premium written by the CEA for which the insurer has written the underlying property policy. The aggregate amount of insurer assessments may change annually to reflect the market share of insurers entering and withdrawing from the CEA. Allstate does not expect its portion of these additional contingent assessments, if needed, to exceed $700 million, assuming its current earthquake insurance market share does not materially change.

PMI RUNOFF SUPPORT AGREEMENT The Company has certain limited rights and obligations under a capital support agreement ("Runoff Support Agreement") with PMI Mortgage Insurance Company ("PMI"), the primary operating subsidiary of PMI Group (see Note 3). Under the Runoff Support Agreement, the Company would be required to pay claims on PMI policies written prior to October 28, 1994 if PMI fails certain financial covenants and fails to pay such claims. In the event any amounts are so paid, the Company would receive a commensurate amount of preferred stock or subordinated debt of PMI Group or PMI. The Runoff Support Agreement also restricts PMI's ability to write new business and pay dividends under certain circumstances. Management does not believe this agreement will have a material adverse effect on results of operations or financial position of the Company.

REGULATION AND LEGAL PROCEEDINGS The Company's insurance businesses are subject to the effects of a changing social, economic and regulatory environment. Public regulatory initiatives have varied and have included efforts to restrict premium rates, restrict the Company's ability to cancel policies in connection with management of catastrophe exposure, impose underwriting standards and expand overall regulation. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Various other legal and regulatory actions are currently pending that involve Allstate and specific aspects of its conduct of business. In the opinion of management, the ultimate liability, if any, in one or more of these actions in excess of amounts currently reserved is not expected to have a material effect on results of operations, liquidity or capital resources.

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10. MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS

In November 1996, Allstate Financing I ("AF I"), a wholly owned subsidiary trust of the Company, issued 22 million shares of 7.95% Cumulative Quarterly Income Preferred Securities, Series A ("QUIPS"), at $25 per share. Proceeds of $550 million from the issuance of the QUIPS will be used for general corporate purposes including the Company's stock repurchase program. The QUIPS are callable beginning November 25, 2001, and mature on December 31, 2026, however, the Company may elect to extend their maturity to December 31, 2045.

In November 1996, Allstate Financing II ("AF II"), a wholly owned subsidiary trust of the Company, issued 200,000 shares of 7.83% Capital Securities ("Capital Securities") at $1,000 per share. Proceeds of $200 million from the issuance of the Capital Securities will be used for general corporate purposes including the Company's stock repurchase program. The Capital Securities are callable beginning December 1, 2006, and mature on December 1, 2045.

The Company has guaranteed AF I's and AF II's obligations under the respective securities issued including the payment of the liquidation or redemption price, and any accumulated and unpaid interest, but only to the extent of funds held by the trusts. The securities are classified in the Company's statement of financial position as mandatorily redeemable preferred securities of subsidiary trusts (representing the minority interest in the trusts) at their face value and redemption amount of $750 million. The securities have a liquidation value of $25 per share for the QUIPS and $1,000 per share for the Capital Securities. Dividends on the securities are cumulative, payable quarterly in arrears for the QUIPS and cumulative, payable semi-annually in arrears for the Capital Securities, and are deferrable at the Company's option for up to five years. The Company cannot pay dividends on its preferred and common stocks during such deferments. Dividends for the QUIPS and Capital Securities have been classified as dividends on preferred securities of subsidiary trusts in the statement of operations.

11. INCOME TAXES

Consolidated federal income tax returns are filed by the Company and its eligible subsidiaries. Tax liabilities and benefits realized by the consolidated group are allocated as generated by the respective entities.

Prior to the Distribution, the Company and all of its domestic subsidiaries (the "Allstate Group") joined with Sears and its domestic business units (the "Sears Group") in the filing of a consolidated federal income tax return (the "Sears Tax Group") and were parties to a federal income tax allocation agreement (the "Tax Sharing Agreement"). Under the Tax Sharing Agreement, the Company paid to or received from the Sears Group the amount, if any, by which the Sears Tax Group's federal income tax liability was affected by virtue of inclusion of the Allstate Group in the consolidated federal income tax return. Effectively, this resulted in the Company's annual income tax provision being computed as if the Company filed a separate return, except that items such as net operating losses, capital losses, alternative minimum tax ("AMT"), AMT credits, foreign tax credits or similar items, which might not be recognized in a separate return, were allocated according to the Tax Sharing Agreement.

The Allstate Group and Sears Group have entered into an agreement which governs their respective rights and obligations with respect to federal income taxes for all periods prior to the Distribution ("Consolidated Tax Years"). The agreement provides that all Consolidated Tax Years will continue to be governed by the Tax Sharing Agreement with respect to the Company's federal income tax liability.

The components of the deferred income tax assets and liabilities are as follows:

($ in millions)	At December 31, 1996	1995
DEFERRED ASSETS		
Discount on loss reserves	$ 578	$ 715
Unearned premium reserves	430	462
Life and annuity reserves	453	412
Alternative minimum tax credit carryforwards	229	316
Other postretirement benefits	226	225
Other assets	431	329
Total deferred assets	2,347	2,459
DEFERRED LIABILITIES		
Policy acquisition costs	(778)	(654)
Unrealized net capital gains	1,067)	(1,400)
Pension	(97)	(48)
Depreciation	(16)	(27)
Other liabilities	(157)	(101)
Total deferred liabilities	(2,115)	(2,230)
Net deferred asset	$ 232	$ 229

Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized based on the assumption that historical levels of income will be achieved.

The components of income tax expense (benefit) are as follows:

($ in millions)	Year ended December 31, 1996	1995	1994
Current	$407	$454	$ (84)
Deferred	212	119	(194)
Total income tax expense (benefit)	$619	$573	$(278)

The Company paid income taxes of $371 million and $463 million in 1996 and 1995, respectively, and recovered income taxes of $166 million in 1994. The Company had an income tax (liability) recoverable of $(15) million and $7 million at December 31, 1996 and 1995, respectively. The Internal Revenue Service ("IRS") has completed its review of AIC's and ALIC's tax returns for all years through 1985 and 1990, respectively. Any adjustments that may result from the IRS examination of tax returns are not expected to have a material impact on the financial statements of the Company.

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations is as follows:

	Year ended December 31, 1996	1995	1994
Statutory federal income tax rate	35.0%	35.0%	35.0%
Tax-exempt income	(11.2)	(13.6)	(280.0)
Dividends received deduction	(.9)	(1.1)	(17.2)
Net change in tax reserves	.6	1.5	24.8
Other	(.3)	1.8	5.7
Effective income tax (benefit) rate	23.2%	23.6%	(231.7)%

Prior to January 1, 1984, ALIC was entitled to exclude certain amounts from taxable income and accumulate such amounts in a "policyholder surplus" account. The balance in this account at December 31, 1996, approximately $82 million, will result in taxes payable of $29 million if distributed by ALIC to the Company. No provision for taxes has been made as ALIC has no plan to distribute amounts from this account. No further additions to the account are allowed under the Tax Reform Act of 1984.

12. STATUTORY FINANCIAL INFORMATION

The following table reconciles consolidated net income and shareholders' equity as reported herein in conformity with generally accepted accounting principles with combined statutory net income and capital and surplus of AIC, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities:

	Net income Year ended December 31,			Shareholders' equity At December 31,	
($ in millions)	1996	1995	1994	1996	1995
Balance per generally accepted accounting principles	$2,075	$1,904	$484	$13,452	$12,680
Corporate transactions	38	40	39	1,316	1,102
Unrealized gain/loss on fixed income securities	-	-	-	(1,599)	(2,800)
Deferred policy acquisition costs	(161)	(80)	(49)	(2,614)	(2,004)
Deferred income taxes	152	145	(215)	(232)	(229)
Note receivable from Sears	-	11	41	-	-
Other postretirement and postemployment benefits	(143)	(7)	(2)	334	490
Undistributed net income of certain subsidiaries	(250)	(297)	(207)	-	-
Financial statement impact of dispositions	220	370	(86)	296	195
Non-admitted assets and statutory reserves	-	-	-	(85)	(91)
Early retirement program	-	(19)	26	-	7
Other	40	8	(24)	147	59
Balance per statutory accounting practices	$1,971	$2,075	$ 7	$11,015	$ 9,409

PERMITTED STATUTORY ACCOUNTING PRACTICES AIC and each of its domestic property-liability and life and annuity subsidiaries prepare their statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. Certain domestic subsidiaries of the Company follow permitted statutory accounting practices which differ from those prescribed by regulatory authorities. The use of such permitted statutory accounting practices does not have a significant impact on statutory surplus.

The NAIC has authorized a project to codify statutory accounting practices. The timing of the finalization and subsequent adoption of these recommendations by the NAIC is not expected to occur until late 1997 or early 1998, with implementation tentatively planned for January 1, 1999. The impact to statutory surplus is not determinable at this time.

DIVIDENDS The ability of the Company to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends from AIC and other relevant factors. The payment of shareholder dividends by AIC without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus, determined in accordance with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months. The maximum amount of dividends that AIC can distribute during 1997 without prior approval of the Illinois Department of Insurance is $2.22 billion.

13. BENEFIT PLANS

PENSION PLANS Defined benefit pension plans cover domestic and Canadian full-time employees and certain part-time employees. Benefits under the pension plans are based upon the employee's length of service, average annual compensation and estimated social security retirement benefits. The Company's funding policy for the pension plans is to make annual contributions in accordance with accepted actuarial cost methods.

A summary of the components of net periodic pension expense for all plans follows:

($ in millions)	Year ended December 31, 1996	1995	1994
Service cost-benefits earned during the year	$129	$103	$131
Interest cost on projected benefit obligation	208	197	187
Actual return on plan assets	(397)	(391)	2
Net amortization and deferral	208	188	(211)
Total pension expense	$148	$ 97	$109

Net periodic pension expense in 1996 and 1995 includes settlement charges of $6 million and $21 million, respectively, as a result of retirees selecting lump sum distributions. Included in net periodic pension expense in 1995 are curtailment charges of $8 million and special termination benefits of $12 million related to a voluntary early retirement program.

Assumptions used in the determination of pension obligations and assets were:

	At December 31, 1996	1995	1994
Weighted average discount rate	7.75%	7.50%	9.00%
Rate of increase in compensation levels	4.50-5.00	4.50-5.00	5.50
Expected long-term rate of return on plan assets	9.50	9.50	9.50

The plans' funded status is as follows:

($ in millions)	At December 31, 1996		1995	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of benefit obligations				
Vested benefit obligation	$2,083	$ 47	$2,100	$ 59
Accumulated benefit obligation	$2,237	$ 52	$2,253	$ 61
Projected benefit obligation	$2,810	$ 77	$2,837	$ 84
Plan assets at fair value	2,650	-	2,481	-
Excess of projected benefit obligation over plan assets	(160)	(77)	(356)	(84)
Unrecognized net loss	353	33	586	45
Unrecognized prior service cost	(47)	(8)	(53)	(21)
Unrecognized transitional asset	(12)	-	(22)	-
Prepaid (accrued) pension cost	$ 134	$(52)	$ 155	$(60)

Plan assets at December 31, 1996 and 1995 were composed primarily of common stocks and long-term corporate and U.S. government obligations.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS The Company provides certain health care and life insurance benefits for retired employees. Qualified employees may become eligible for these benefits if they retire in accordance with the Company's established retirement policy and are continuously insured under the Company's group plans or other approved plans for 10 or more years prior to retirement. The Company shares the cost of the retiree medical benefits with retirees based on years of service, with the Company's share being subject to a 5% limit on annual medical cost inflation after retirement. The Company's postretirement benefit plans currently are not funded. The Company has the right to modify or terminate these plans.

Postretirement benefit expense is comprised of the following:

($ in millions)	Year ended December 31, 1996	1995	1994
Service cost-benefits earned during the year	$14	$16	$23
Interest cost on accumulated postretirement benefit obligation	47	52	45
Net amortization and deferral	1	-	2
Postretirement benefit expense	$62	$68	$70

The status of the plans is as follows:

($ in millions)	At December 31, 1996	1995
Accumulated postretirement benefit obligation		
Retirees	$352	$360
Fully eligible active plan participants	121	112
Other active plan participants	147	174
Accumulated postretirement benefit obligation	620	646
Unrecognized gain (loss)	63	(8)
Accrued postretirement benefit cost	$683	$638

The weighted average health care cost trend rate used in measuring the accumulated postretirement benefit cost was 7% for 1997, gradually declining to 5% in 2002 and remaining at that level thereafter. A one percentage point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation by $18 million and would increase the postretirement benefit expense by $3 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75% and 7.50% in 1996 and 1995, respectively.

PROFIT SHARING FUND Employees of the Company and its domestic subsidiaries are also eligible to become members of The Savings and Profit Sharing Fund of Allstate Employees ("Allstate Plan"). The Company contributions are based on the Company's matching obligation and performance. The Allstate Plan includes an Employee Stock Ownership Plan ("Allstate ESOP") to pre-fund a portion of the Company's anticipated contribution. The Allstate Plan and the Allstate ESOP split from The Savings and Profit Sharing Fund of Sears Employees ("Sears Plan") on the date of the Distribution. In connection with this, the Company paid Sears $327 million, and in return received a note from the Allstate ESOP for a like principal amount and 50% of the unallocated shares. The Company will make net contributions to the Allstate ESOP annually in the amount necessary to allow the Allstate ESOP to fund interest and principal payments on the note after considering the dividends paid on ESOP shares, which are available for debt service.

The Company's defined contribution to the Allstate Plan was $66 million in both 1996 and 1995. These amounts were reduced by the ESOP benefit computed as follows:

($ in millions)	Year ended December 31, 1996	1995
Interest expense recognized by ESOP	$ 29	$ 15
Less dividends accrued on ESOP shares	(19)	(9)
Cost of shares allocated	20	27
	30	33
Reduction of defined contribution due to ESOP	65	51
ESOP benefit	$(35)	$(18)

Net profit sharing expense was $31 million and $48 million for 1996 and 1995, respectively.

The Company contributed $26 million and $6 million to the ESOP in 1996 and 1995, respectively. At December 31, 1996, the total committed to be released, allocated and unallocated ESOP shares were 1.2 million, 1.6 million and 16.7 million, respectively.

The costs to the Company prior to the Distribution and the split from the Sears Plan were $25 million in 1994.

14. STOCK OPTION PLANS

The Company has two equity incentive plans which provide the Company the authority to grant nonqualified stock options, incentive stock options, and restricted or unrestricted shares of the Company's stock to certain employees and directors of the Company. A maximum of 20,300,000 shares of common stock will be subject to awards under the plans, subject to adjustment in accordance with the plans' terms.

Options are granted under the plans at exercise prices equal to the fair value of the Company's common stock on the applicable grant date. The options granted will vest ratably over a three-year period. The options granted may be exercised when vested and will expire ten years after the date of grant.

At the Distribution date, all Sears options and restricted Sears common shares held by current and former employees of the Company were canceled. Concurrently, the Company adopted the Employees Replacement Stock Plan under which the holders of such canceled awards were granted substantially similar awards relating to the Company's common stock. The replacement awards consisted of options to purchase approximately 1,000,000 shares of common stock and grants of approximately 183,000 shares of restricted stock.

Changes in stock options were as follows:

(thousands of shares)	1996	Year ended December 31, weighted average exercise price	1995	1994
Beginning balance	6,912	$26.22	3,011	2,669
Granted	785	44.83	4,373	461
Exercised	(679)	25.18	(137)	-
Canceled or expired	(124)	29.32	(335)	(119)
Ending balance	6,894	$28.40	6,912	3,011
Exercisable	3,886	$24.89	2,655	884

The weighted average fair value (at grant date) per option granted during 1996 is $13.12. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1996; dividend yield of 1.9%; volatility factor of 23%; risk-free interest rate of 6.21%; and expected life of seven years.

Information on the range of exercise prices for options outstanding as of December 31, 1996 is as follows:

(thousands of shares)	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at 12/31/96	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable at 12/31/96	Weighted average exercise price
$10.72-$25.92	2,198	$21.59	7 years	1,400	$19.30
$27.00-$57.38	4,696	31.58	8 years	2,486	28.04
$10.72-$57.38	6,894	$28.40	8 years	3,886	$24.89

The Company has adopted the financial disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" with respect to its employee plan. The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its employee equity incentive plan. Accordingly, no compensation cost has been recognized for its employee plans as the exercise price of the options equals the market price at the grant date. The effect of recording compensation cost for the Company's stock-based compensation plans based on SFAS No. 123's fair value method results in net income and earnings per share that are not materially different from amounts reported.

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15. BUSINESS SEGMENTS

The Company's two business segments are property-liability insurance and life and annuity. The property-liability segment has two areas of business. PP&C insurance provides primarily private-passenger auto and homeowners insurance to individuals. Discontinued lines and coverages consist of business no longer written by Allstate, including losses from environmental, asbestos and mass tort, and other commercial business in run-off, as well as the historical results of the mortgage pool business and businesses sold in 1996. Segment results have been restated for 1995 and 1994 to reflect the dispositions during 1996. The life and annuity segment consists of a broad line of life, annuity and group pension products.

Summarized financial data for each of the Company's business segments is as follows:

($ in millions)	Year ended December 31, 1996	1995	1994
REVENUES			
Property-liability operations			
PP&C	$17,708	$16,524	$15,452
Discontinued lines and coverages	658	1,016	1,061
Total premiums earned	18,366	17,540	16,513
Net investment income	1,758	1,630	1,515
Realized capital gains and losses	753	243	223
Total property-liability	20,877	19,413	18,251
Life and annuity operations			
Premiums and contract charges	1,336	1,368	1,053
Net investment income	2,045	1,992	1,827
Realized capital gains and losses	31	15	(23)
Total life and annuity	3,412	3,375	2,857
Corporate	10	5	1
Total	$24,299	$22,793	$21,109
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAX EXPENSE, DIVIDENDS ON PREFERRED SECURITIES AND EQUITY IN NET INCOME OF UNCONSOLIDATED SUBSIDIARY (1)			
Property-liability operations--underwriting (loss) income			
PP&C	$ 416	$ 300	$(1,584)
Discontinued lines and coverages	(501)	(363)	(285)
Total property-liability--underwriting loss	(85)	(63)	(1,869)
California Earthquake Authority assessment	(150)	-	-
Net investment income	1,758	1,630	1,515
Realized capital gains and losses	753	243	223
(Loss) gain on disposition of operations	(131)	159	-
Total property-liability	2,145	1,969	(131)
Life and annuity operations	587	518	312
Corporate	(63)	(66)	(61)
Total	$ 2,669	$ 2,421	$ 120
NET INCOME (LOSS) (1)			
Property-liability operations (2)	$ 1,725	$ 1,608	$ 312
Life and annuity operations	388	337	211
Corporate	(38)	(41)	(39)
Total	$ 2,075	$ 1,904	$ 484

(1) The 1994 results reflect an after-tax charge of $100 million ($154 million pretax) for an early retirement program. Of the total charge $86 million ($132 million pretax) was allocated to the property-liability segment and $14 million ($22 million pretax) to the life and annuity segment.
(2) Includes equity in net income of unconsolidated subsidiary of $29 million, $56 million and $86 million in 1996, 1995 and 1994, respectively.

($ in millions)	Year ended December 31, 1996	1995	1994
CAPITAL EXPENDITURES			
Property-liability operations	$ 126	$ 129	$ 122
Life and annuity operations	12	5	7
Corporate	-	-	-
Total	$ 138	$ 134	$ 129
ASSETS			
Property-liability operations	$37,950	$37,081	$32,230
Life and annuity operations	35,904	32,842	28,716
Corporate	654	106	42
Total	$74,508	$70,029	$60,988

16. QUARTERLY RESULTS (UNAUDITED)

($ in millions except per share data)	First quarter 1996	1995	Second quarter 1996	1995	Third quarter 1996	1995	Fourth quarter 1996	1995
Revenues	$5,903	$5,573	$6,324	$5,671	$6,015	$5,699	$6,057	$5,850
Net income	$ 424	$ 542	$ 764	$ 519	$ 292	$ 446	$ 595	$ 397
EARNINGS PER SHARE								
Net income	$ 0.94	$ 1.21	$ 1.71	$ 1.15	$ 0.65	$ 1.00	$ 1.33	$ 0.88

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND
SHAREHOLDERS OF THE ALLSTATE CORPORATION:

We have audited the accompanying Consolidated Statements of Financial Position of The Allstate Corporation and subsidiaries as of December 31, 1996 and 1995, and the related Consolidated Statements of Operations, Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Allstate Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/Deloitte & Touche LLP
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Deloitte & Touche LLP

Chicago, Illinois
February 21, 1997

Management is responsible for the integrity and objectivity of the accompanying financial statements, including the financial analysis and all other information in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles and include amounts based upon management's informed estimates and judgements. Management believes that these statements present fairly the Company's financial position and results of operations and that the other information contained in the annual report is consistent with the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition and that transactions are properly authorized, executed and recorded. The concept of reasonable assurance is based on the premise that the cost of internal controls should not exceed the benefits derived. The system of internal accounting controls includes the selection and training of qualified personnel, the appropriate division of responsibilities, and written policies and procedures, including a code of conduct. The Company's comprehensive internal audit program is designed for continual evaluation of the effectiveness of its system of internal controls and measures adherence to established policies and procedures.

Deloitte & Touche LLP, independent auditors, have audited the financial statements of the Company and their report appears on page 89. Their audit includes a study and evaluation of the Company's control environment, accounting systems and control procedures. The independent and internal auditors advise management of the results of their reviews and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

The Audit Committee of the Board of Directors is comprised entirely of directors who are not employees of the Company. The committee reviews audit plans, internal control reports, financial reports and related matters and meets regularly with the Company's management and independent and internal auditors. The independent and internal auditors advise the committee of any significant matters resulting from their work and have free access to the committee without management being present.

/s/Jerry D. Choate	/s/Thomas J. Wilson
Jerry D. Choate Chairman and Chief Executive Officer	Thomas J. Wilson Vice President and Chief Financial Officer
/s/Edward M. Liddy	/s/Samuel H. Pilch
Edward M. Liddy President and Chief Operating Officer	Samuel H. Pilch Controller

THE ALLSTATE CORPORATION BOARD OF DIRECTORS

James G. Andress
President and
Chief Executive Officer
Warner Chilcott PLC

Warren L. Batts
Chairman and
Chief Executive Officer
Tupperware Corporation

Edward A. Brennan
Former Chairman,
President and
Chief Executive Officer
Sears, Roebuck and Co.

Jerry D. Choate
Chairman and
Chief Executive Officer
Allstate Insurance
Company

James M. Denny
Managing Director
William Blair
Capital Partners, L.L.C.

Christopher F. Edley
President Emeritus
United Negro College
Fund, Inc.

Michael A. Miles
Special Limited Partner
Forstmann Little & Co.

Nancy C. Reynolds
Senior Consultant
The Wexler Group

Joshua I. Smith
Chairman and
Chief Executive Officer
The MAXIMA Corporation

Mary Alice Taylor
Executive Vice President-
Operations
Citicorp

Subsidiaries of the Registrant

WHOLLY-OWNED SUBSIDIARIES
(Listed by direct owner of stock)

THE ALLSTATE CORPORATION
Allstate Insurance Company (Illinois)

ALLSTATE INSURANCE COMPANY (Subsidiary of The Allstate Corporation)
AEI Group, Inc. (Delaware)
Allstate Holdings, Inc. (Delaware)
Allstate Indemnity Company (Illinois)
Allstate International Inc. (Delaware)
Allstate Investment Management Company (Delaware)
Allstate Life Insurance Company (Illinois)
Allstate Property and Casualty Insurance Company (Illinois)
Allstate Texas Lloyd's, Inc. (Texas)
Barrington Reinsurance Company, Ltd. (Bermuda)
Deerbrook Insurance Company (Illinois)
Forestview Mortgage Insurance Co. (California)
Forty Fifth & Main Redevelopment Corp. (Missouri)
General Underwriters Agency, Inc. (Illinois)
Omnitrust Merging Corp. (Delaware)
Tech-Cor, Inc. (Delaware)
The Northbrook Corporation (Nebraska)

ALLSTATE HOLDINGS, INC. (Subsidiary of Allstate Insurance Company)
Allstate Floridian Insurance Company (Illinois)

ALLSTATE LIFE INSURANCE COMPANY (Subsidiary of Allstate Insurance Company)
Allstate Insurance Company of Canada (Canada)
Allstate Life Financial Services, Inc. (Delaware)
Allstate Life Insurance Company of New York (New York)

Allstate Settlement Corporation (Delaware)
Glenbrook Life and Annuity Company (Illinois)
Glenbrook Life Insurance Company (Illinois)
Laughlin Group Holdings, Inc. (Delaware)
Lincoln Benefit Life Company (Nebraska)
Northbrook Life Insurance Company (Illinois)
Surety Life Insurance Company (Utah)

AEI GROUP, INC. (Subsidiary of Allstate Insurance Company)
Allstate Motor Club, Inc. (Delaware)
Direct Marketing Center, Inc. (Delaware)
Enterprises Services Corporation (Delaware)
Rescue Express, Inc. (Delaware)
Roadway Protection Auto Club, Inc. (Delaware)

ALLSTATE INTERNATIONAL INC. (Subsidiary of Allstate Insurance Company)
Karelian Timber Associates, Inc. (Delaware)
Allstate International Holding GmbH (Germany)

KARELIAN TIMBER ASSOCIATES, INC. (Subsidiary of Allstate International Inc.)
Karelian Timber Associates, Ltd. (U.K.)

ALLSTATE INSURANCE COMPANY OF CANADA (Subsidiary of Allstate Life Insurance Company)
Allstate Life Insurance Company of Canada (Canada)

LAUGHLIN GROUP HOLDINGS, INC. (Subsidiary of Allstate Life Insurance Company)
Bank Insurance Services, LLC (Oregon)
Florence Financial Services, Inc. (Alabama)
Investor Financial Services, Inc. (Nevada)
Laughlin Analytics, Inc. (Oregon)
Laughlin Direct Advantage Agency, Inc. (Delaware)
Laughlin Educational Services, Inc. (Oregon)
Laughlin Group Advisors, Inc. (Oregon)
Lee Financial Services, Inc. (Illinois)

Lifemark Financial and Insurance Agency, LLC (New York)
Lifemark Financial & Insurance Services, Inc.(California)
Lifemark Insurance Services of California, Inc. (California)
Provest Insurance Services, Inc. (Indiana)
Provest Insurance Services, Inc. (Kentucky)
Provest Insurance Services, Inc. (Pennsylvania)
Security Financial Network, Inc. (Florida)
Security Financial Network, Inc. (Georgia)
The Laughlin Group, Inc. (Oregon)

LINCOLN BENEFIT LIFE COMPANY (Subsidiary of Allstate Life Insurance Company)
Lincoln Benefit Financial Services, Inc.(Delaware)

ALLSTATE INTERNATIONAL HOLDING GMBH
Allstate Direct Versicherungs-Aktiengesellschaft

JOINT OWNERSHIP
Truswal Systems Corporation (Delaware)
    100% owned by Omnitrust Merging Corp. and
    Allstate Insurance Company
Truswal Systems of Canada, Ltd (Canada)
    100% owned by Truswal Systems Corporation

LESS THAN WHOLLY-OWNED SUBSIDIARIES(50% OR MORE)

After Six Holding Corporation (Delaware)

After Six Ltd. (Delaware)

Allstate Automobile and Fire Insurance Company, Ltd. (Japan)

A.S. Licensing (Delaware)

Cardiologic Systems, Inc. (Delaware)

FCOA Acquisition Corp. (Delaware)

Loan Guarantee Investment Corporation (Delaware)

NSI Management, Inc. L.P.S. (Delaware)

Saison Life Insurance Company, Ltd. (Japan)

Samshin Allstate Life Insurance Company, Ltd.(South Korea)

Saugatuck II Cellular Investment Corp. (Delaware)

Science Center Associates (Maryland)

Scripps Center Associates (California)

Tramed (Russia)

Allstate County Mutual Insurance Company (Texas)

Allstate Texas Lloyd's (Texas)

Fallowfield Developers Limited Partnership (Pennsylvania)

HNG Storage Co. (Texas)

Heard Energy Corp. (Delaware)

Quantitative Data Systems, Inc.(California)

Quantitative Data Systems, L.P. (California)

Washington Business Park Associates (Illinois)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ALLSTATE CORPORATION FINANCIAL STATEMENTS INCLUDED IN SUCH COMPANY'S ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

899051
THE ALLSTATE CORPORATION
1,000,000
U. S. Dollars

12-MOS
DEC-31-1996
JAN-01-1996
DEC-31-1996
1
47095
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0
5561
3146
738
58329
116
2147
2614
74508
23669
6174
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20120
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5
13447
74508
19702
3813
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16800
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2075
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4.62
16156
14823
336
7522
5787
15598
0