Allstate Corporation

ALLSTATE CORP. (NYSE:ALL)
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Employees:	40,320
Revenue:	29,583.000,000
Net Income:	1,134.000,000
Assets	117,426.000,000
Liabilities :	99,788.000,000

(As of December 31, 2002)

Description : The "good hands" company is the second-largest US personal lines insurer, behind rival State Farm. The company sells auto, homeowners, and other property & casualty and life insurance products in Asia, Europe, and the Americas. The company's life insurance subsidiaries include Allstate Life, Northbrook Life, and Glenbrook Life. Allstate Financial provides life insurance and investment products, targeting affluent and middle-income consumers. Adding to its repertoire, Allstate has launched the nationwide

Asbestos Discussion from SEC filings:
From the Company's Form 10-K for the period ending December 31, 2002 at
http://www.sec.gov/Archives/edgar/data/899051/000104746903010828/a2104961z10-k.htm
Filed On: March 28, 2003

Although we no longer write excess general liability insurance, we still have exposure for environmental, asbestos and other discontinued lines claims. Our exposure to asbestos, environmental and other discontinued lines claims stems principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large United States companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on Fortune 500 companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Other discontinued lines exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

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 an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage. General liability policies issued in 1987 and thereafter contain annual aggregate limits for product liability coverage and annual aggregate limits on all coverages. Allstate's experience to date is that these policy form changes have limited its exposure to environmental and asbestos claim risks.

Further information about our Discontinued Lines and Coverages segment is set forth below in "Property-Liability Claims and Claims Expense Reserves."

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

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

We establish property-liability loss reserves to cover our estimated ultimate liability for losses and loss adjustment expenses with respect to reported claims and claims incurred but not yet reported ("IBNR") as of the end of each reporting period. In accordance with applicable insurance laws and regulations and generally accepted accounting principles (GAAP), no specific claim reserves are established until a loss occurs, including a loss from a catastrophe. Underwriting results of the two property-liability segments are significantly influenced by estimates of property-liability claims and claims expense reserves. (See Note 7 to the Consolidated Financial Statements beginning on page D-124 of Appendix D to the Proxy Statement. Note 7 is incorporated herein by reference.) These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR claims as of the reporting date. These reserve estimates are based on known facts and interpretations of circumstances, internal factors including Allstate's experience with similar cases, historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, loss management programs and product mix. In addition, the reserve estimates are influenced by external factors including changes in law, court decisions, changes to regulatory requirements, economic conditions and public attitudes. The effects of inflation are implicitly considered in the reserving process.

Allstate Protection

For the Allstate Protection segment, reserves are established for claims as they occur for each line of business based on estimates of the ultimate cost to settle the claims. The actual loss results are compared to prior estimates, and differences are recorded as reserve reestimates. The primary actuarial technique used to estimate reserves and provide for losses is a "chain ladder" estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves set by claim adjusters) for an accident year or a report year to create an estimate of how losses are likely to develop over time. An accident year refers to classifying claims based on the year in which claims occurred. A report year refers to classifying claims based on the year in which claims are reported. Both classifications are used to prepare estimates of required reserves for payments to be made in the future.

In the "chain ladder" estimation technique, a ratio (development factor) is calculated which compares current results to prior period results for each accident year. A three-year or two-year average development factor, based on historical results, is usually multiplied times the current experience to estimate the development of losses of each accident year from the current time period into the next time period. The development factors for the next time periods for each accident year are compounded over the remaining calendar years to calculate an estimate of ultimate losses for each accident year. Occasionally, unusual aberrations in loss patterns are caused by factors such as changes in claim reporting or settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analysis of alternate development factor selections is performed to evaluate the effect on these factors, and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses. Paid losses are subtracted from estimated ultimate losses to determine the indicated reserves. The difference between indicated reserves and recorded reserves is the amount of reserve reestimate.

Reserves are reestimated quarterly for the Allstate Protection segment. When new development factors are calculated from actual losses, and they differ from estimated development factors used in previous reserve estimates, assumptions about future losses and required reserves are revised based on the new development factors. Changes to reserves are recorded in the period in which development factor changes result in reserve reestimates. Over one thousand actuarial estimates of the types described above are prepared each quarter to monitor losses for each line of insurance, its major components (coverages and perils), major states, or groups of states, for reported losses and for IBNR. Often, several different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which reserve management selects its best estimate for each component, occasionally incorporating additional analysis and actuarial judgment, as described above. These estimates also incorporate the historical impact of inflation into reserve estimates, the implicit assumption being that a multi-year average development factor represents an adequate provision. Based on its review of these estimates, reserve management's best estimate of required reserves for each state/line/coverage component is recorded for each accident year, and the required reserves for each component are summed to create the reserve balances carried on our Consolidated Statements of Financial Position.

The facts and circumstances leading to management's reestimate of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual losses are different than those predicted by the estimated development factors used in prior reserve estimates.

Because reserves are based on estimations of future losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. The ultimate cost of losses may vary materially from the recorded amounts, which are based on management's best estimates of future losses. We regularly update our reserve estimates as new information becomes available and as events unfold that may have an impact on the resolution of unsettled claims. We reflect changes in prior year reserve estimates, which may be material, in the results of operations in the period in which such changes are determinable. At December 31, 2002, the impact of a reserve reestimation resulting in a one percent increase in our net reserves would be a decrease of $98 million in net income. A reserve reestimation resulting in a one percent decrease in net reserves would increase net income by $98 million.

Discontinued Lines and Coverages

Allstate's exposure to asbestos, environmental and other discontinued lines claims arises principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large United States companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on Fortune 500 companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Other discontinued lines exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

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 an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage. General liability policies issued in 1987 and thereafter contain annual aggregate limits for product liability coverage and annual aggregate limits on all coverages. Allstate's experience to date is that these policy form changes have limited its exposure to environmental and asbestos claim risks.

Allstate's exposure to liability for asbestos, environmental, and other discontinued lines losses manifests differently for assumed reinsurance, direct excess insurance, and direct primary commercial insurance. The direct insurance coverage Allstate provided for these exposures was substantially "excess" in nature.

Excess insurance, and reinsurance, involve coverage written by Allstate for specific layers of protection above retentions and other insurance plans. The nature of excess coverage and reinsurance provided to other insurers limits our exposure to loss to specific layers of protection in excess of policyholder retention or primary insurance plans. In addition, Allstate has purchased significant reinsurance on its excess business, further limiting its exposure.

Allstate's assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which Allstate participates may be a proportion of all eligible losses or eligible losses in excess of defined retentions. The majority of assumed reinsurance exposure, approximately 85%, is for excess of loss coverage, while the remaining 15% is for pro-rata coverage.

Liability for actual and potential asbestos losses has caused several major asbestos manufacturers to file for bankruptcy protection. Allstate has pending claims related to excess policies issued to seven large asbestos manufacturers that have filed for bankruptcy protection, four of which have not resolved payment plans within the bankruptcies. Reserves related to liability for these companies, whose claims are still in the process of adjudication, are appropriately established based on claims that have occurred and other related information. The process of adjudicating claims in the asbestos bankruptcies is lengthy and involves, among other factors, filing notices of claim by all current claimants, estimating the number and cost of resolving pre-petition and post-petition claims, negotiations among the various creditor groups and the debtors and, if necessary, evidentiary hearings by the bankruptcy court. We will continue to monitor the relevant bankruptcies.

Allstate's exposure, if any, to bankruptcies of major asbestos manufacturers, including any currently in bankruptcy, would also arise if assumed reinsurance was written for an insurer providing insurance protection to a major asbestos manufacturer, and then only in proportion to Allstate's participation share. Allstate assesses its potential liability to each of its reinsurance programs and adjusts reserves accordingly based on its knowledge of the losses of each reinsured exposure.

Allstate's direct primary commercial insurance business did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in all business sectors located throughout the country.

Establishing net loss reserves for asbestos, environmental and other discontinued lines 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, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, evolving and expanding theories of liability, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, and estimating the extent and timing of any contractual liability, and other uncertainties. There are complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premiums, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future and the ultimate cost may vary materially from amounts currently recorded, resulting in an increase in loss reserves.

Asbestos Discussion from SEC filings:
From the Company's Form 10-Q for the quarter ended March 31, 2003
http://www.sec.gov/Archives/edgar/data/899051/000104746903017741/a2110380z10-q.htm
Filed On: May 9, 2003

Allstate's reserves for asbestos claims were $646 million and $635 million, net of reinsurance recoverables of $298 million and $269 million at March 31, 2003 and December 31, 2002, respectively. Reserves for environmental claims were $294 million and $304 million, net of reinsurance recoverables of $86 million and $89 million at March 31, 2003 and December 31, 2002, respectively. Approximately 52% and 54% of the total net asbestos and environmental reserves at March 31, 2003 and December 31, 2002, respectively, were for incurred but not reported estimated losses.

Allstate's reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. Management is unable to determine the effect, if any, that such legislation will have on results of operations or financial position.

Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, unresolved legal issues regarding policy coverage, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, evolving and plaintiffs' expanded theories of liability, the risks inherent in major litigation, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, and estimating the extent and timing of any contractual liability, and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. 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.

Asbestos Discussion from SEC filings:
From the Company's Form 10-Q for the quarter ended September 30, 2002
http://www.sec.gov/Archives/edgar/data/899051/000091205702042237/a2092506z10-q.htm
Filed On: November 14, 2002

Allstate's exposure to asbestos, environmental and other mass tort claims stems principally from assumed reinsurance coverage written during the 1960's through the mid-1980's, including reinsurance on primary insurance written on large United States companies, and from direct excess and surplus insurance written from 1972 through 1985, including substantial excess and surplus general liability coverages on Fortune 500 companies. Additional exposure stems from direct primary commercial insurance written during that period. Other mass tort exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

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 product liability coverage. General liability policies issued in 1987, and thereafter, typically contain annual aggregate limits on 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. Allstate's exposure to liability for asbestos, environmental, and other mass tort losses manifests differently for assumed reinsurance, direct excess and surplus insurance, and direct primary commercial insurance. The direct insurance coverage Allstate provided for these exposures was generally "excess and surplus" in nature.

Excess and surplus insurance, and reinsurance, involve coverage written by Allstate for specific layers of protection above retentions and other insurance plans. The nature of excess and surplus lines coverage and reinsurance provided to other insurers limits the Company's exposure to loss to specific layers of protection in excess of policyholder retention or primary insurance plans. In addition, Allstate has purchased significant reinsurance on its excess and surplus business, further limiting its exposure.

Allstate's assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which Allstate participates may be a proportion of all eligible losses or eligible losses in excess of defined retentions.

Liability for actual and potential asbestos losses has caused several major asbestos manufacturers to file for bankruptcy protection. Allstate has pending claims related to excess and surplus policies issued to five large asbestos manufacturers that have filed for bankruptcy protection, and have not resolved payment plans within the bankruptcies. Reserves related to liability for these companies, whose claims are still in the process of adjudication, are appropriately established based on claims that have occurred and other related information. The process of adjudicating claims in the asbestos bankruptcies is lengthy and involves, among other factors, filing notices of claim by all current claimants, estimating the number and cost of resolving pre-petition and post-petition claims, negotiations among the various creditor groups and the debtors and, if necessary, evidentiary hearings by the bankruptcy court. We will continue to monitor the relevant bankruptcies.

Allstate's exposure, if any, to bankruptcies of major asbestos manufacturers, including any currently in bankruptcy, would also arise if assumed reinsurance was written for an insurer providing insurance protection to a major asbestos manufacturer, and then only in proportion to Allstate's participation share. Allstate assesses its potential liability to each of its reinsurance programs and adjusts reserves accordingly based on its knowledge of the losses of each reinsured exposure.

Allstate's direct primary commercial insurance business did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in all business sectors located throughout the country.

Establishing net loss reserves for asbestos, environmental and other 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 and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, and estimating the extent and timing of any contractual liability. There are complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

Allstate's reserve for asbestos and environmental claims was $1,080 million and $1,018 million, net of reinsurance recoverables of $385 million and $355 million at September 30, 2002 and December 31, 2001, respectively. Approximately 57% and 58% of the total net asbestos and environmental reserve at September 30, 2002 and December 31, 2001, respectively, is for incurred but not reported ("IBNR") estimated losses.

Management believes its net loss reserve for asbestos, environmental and other mass tort claims is appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistent conclusions reached in court coverage decisions, the difficulty of obtaining timely and accurate claims related information, plaintiffs' expanded theories of liability, the recent increase in asbestos-related bankruptcies, 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 reserve. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not presently practicable to develop a meaningful range for any such additional net loss reserve that may eventually be required.

Asbestos Discussion from SEC filings:
From the Company’s Form 10-Q for the quarter ended June 30, 2002
http://www.sec.gov/Archives/edgar/data/899051/000091205702031314/a2085461z10-q.htm
Filed On: August 13, 2002

Allstate's exposure to asbestos, environmental and other mass tort claims stems principally from assumed reinsurance coverage written during the 1960's through the mid-1980's, including reinsurance on primary insurance written on large United States companies, and from direct excess and surplus insurance written from 1972 through 1985, including substantial excess and surplus general liability coverages on Fortune 500 companies. Additional exposure stems from direct primary commercial insurance written during that period. Other mass tort exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

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 product liability coverage. General liability policies issued in 1987, and thereafter, typically contain annual aggregate limits on 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.

Allstate's exposure to liability for asbestos, environmental, and other mass tort losses manifests differently for assumed reinsurance, direct excess and surplus insurance, and direct primary commercial insurance. The direct insurance coverage Allstate provided for these exposures was generally "excess and surplus" in nature.

Excess and surplus insurance, and reinsurance, involve coverage written by Allstate for specific layers of protection above retentions and other insurance plans. The nature of excess and surplus lines coverage and reinsurance provided to other insurers limits the Company's exposure to loss to specific layers of protection in excess of policyholder retention or primary insurance plans. In addition, Allstate has purchased significant reinsurance on its excess and surplus business, further limiting its exposure. Allstate's assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which Allstate participates may be a proportion of all eligible losses or eligible losses in excess of defined retentions. Liability for actual and potential asbestos losses has caused several major asbestos manufacturers to file for bankruptcy protection. Allstate has pending claims related to excess and surplus policies issued to five large asbestos manufacturers that have filed for bankruptcy protection, and have not resolved payment plans within the bankruptcies. Reserves related to liability for these companies, whose claims are still in the process of adjudication, are appropriately established based on claims that have occurred and other related information. The process of adjudicating claims in the asbestos bankruptcies is lengthy and involves, among other factors, filing notices of claim by all current claimants, estimating the number and cost of resolving pre-petition and post-petition claims, negotiations among the various creditor groups and the debtors and, if necessary, evidentiary hearings by the bankruptcy court. We will continue to monitor the relevant bankruptcies.

Allstate's exposure, if any, to bankruptcies of major asbestos manufacturers, including any currently in bankruptcy, would also arise if assumed reinsurance was written for an insurer providing insurance protection to a major asbestos manufacturer, and then only in proportion to Allstate's participation share. Allstate assesses its potential liability to each of its reinsurance programs and adjusts reserves accordingly based on its knowledge of the losses of each reinsured exposure.

Allstate's direct primary commercial insurance business, which has to date given rise to limited asbestos-related exposure, did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in all business sectors located throughout the country.

Establishing net loss reserves for asbestos, environmental and other 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 and collectibility of reinsurance and estimating the extent and timing of any contractual liability. There are complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

Allstate's reserve for asbestos and environmental claims was $948 million and $1,018 million, net of reinsurance recoverables of $324 million and $355 million at June 30, 2002 and December 31, 2001, respectively. Approximately 52% and 58% of the total net asbestos and environmental reserve at June 30, 2002 and December 31, 2001, respectively, is for incurred but not reported ("IBNR") estimated losses.

Management believes its net loss reserve for asbestos, environmental and other mass tort claims is appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistent conclusions reached in court coverage decisions, the difficulty of obtaining timely and accurate claims related information, plaintiffs' expanded theories of liability, the recent increase in asbestos-related bankruptcies, 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 reserve. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not presently practicable to develop a meaningful range for any such additional net loss reserve that may eventually be required.

Asbestos Discussion from SEC filings:
From the Company's Form 10-Q for the quarter ended March 31, 2002
http://www.sec.gov/Archives/edgar/data/899051/000091205702019625/a2078645z10-q.htm
Filed On: May 10, 2002

Allstate's exposure to environmental, asbestos and other mass tort claims stems principally from excess and surplus business written from 1972 through 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 United States companies. Additional, although less material, exposure stems from direct commercial insurance written for small to medium-size companies. Other mass tort exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

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 product liability coverage. General liability policies issued in 1987, and thereafter, contain annual aggregate limits for 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.

Establishing net loss reserves for environmental, asbestos and other 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 and collectibility of reinsurance and the extent and timing of any such contractual liability. There are complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are, or were ever intended to be covered. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

Allstate's reserve for environmental and asbestos claims were $996 million and $1,018 million, net of reinsurance recoverables of $337 million and $355 million at March 31, 2002 and December 31, 2001, respectively. Approximately 54% and 58% of the total net environmental and asbestos reserve at March 31, 2002 and December 31, 2001, respectively, are for incurred but not reported ("IBNR") estimated losses.

Management believes its net loss reserve for environmental, asbestos and other mass tort claims 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 reserve. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. 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 reserve that may be required.

Asbestos Discussion from SEC filings:
From the Company's Form 10-Q for the quarter ended September 30, 2001
http://www.sec.gov/Archives/edgar/data/899051/000091205701538766/a2062362z10-q.htm
Filed On: November, 13, 2001

Allstate's exposure to environmental, asbestos and other mass tort claims stems principally from excess and surplus business written from 1972 through 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 United States companies. Additional, although less material, exposure stems from direct commercial insurance written for small to medium-size companies. Other mass tort exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

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 product liability coverage, and policies issued after 1986 also have an annual aggregate limit on 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.

Establishing net loss reserves for environmental, asbestos and other 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 those 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 insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

Allstate's reserve for environmental and asbestos claims were $1,049 million and $1,071 million, net of reinsurance recoverables of $368 million and $359 million at September 30, 2001 and December 31, 2000, respectively. Approximately 59% and 58% of the total net environmental and asbestos reserve at September 30, 2001 and December 31, 2000, respectively, are for incurred but not reported ("IBNR") estimated losses.

Management believes its net loss reserve for environmental, asbestos and other mass tort claims 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 reserve. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. 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 reserve that may be required.

Asbestos-Related News:

Allstate Takes $32M Charge for Asbestos Settlement (Published November 22, 2002)