

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C.

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**FORM 8-K**

**CURRENT REPORT**

**PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported) April 23, 2008

**The Allstate Corporation**

(Exact name of registrant as specified in charter)

**Delaware**  
(State or other  
jurisdiction of  
incorporation)

**1-11840**  
(Commission  
file number)

**36-3871531**  
(IRS employer  
identification  
number)

**2775 Sanders Road, Northbrook, Illinois**  
(Address of principal executive offices)

**60062**  
(Zip code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Section 2. — Financial Information**

**Item 2.02. Results of Operations and Financial Condition.**

On April 23, 2008, the registrant issued a press release announcing its financial results for the first quarter of 2008. A copy of the press release is furnished as Exhibit 99 to this report.

**Section 9. — Financial Statements and Exhibits**

**Item 9.01. Financial Statements and Exhibits.**

- (d) Exhibits
- 99 Registrant's press release dated April 23, 2008

SIGNATURES

Pursuant to the requirements 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  
Name: Samuel H. Pilch  
Title: Controller

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Dated: April 23, 2008



Allstate Reports 2008 First Quarter Results  
*High Catastrophe Losses Offset Strong Underwriting Results;  
 Net Income Affected by Investment Valuations*

NORTHBROOK, Ill., April 23, 2008 — The Allstate Corporation (NYSE: ALL) today reported results for the first quarter of 2008:

(in millions, except per share amounts and ratios)	Consolidated Highlights Three Months Ended March 31,			
	Est. 2008	2007	Change	
			\$ Amt	%
<b>Consolidated revenues</b>	\$ 8,087	\$ 9,331	\$ (1,244)	(13.3)
<b>Net income</b>	348	1,495	(1,147)	(76.7)
<b>Net income per diluted share</b>	0.62	2.41	(1.79)	(74.3)
<b>Operating income*</b>	747	1,197	(450)	(37.6)
<b>Operating income per diluted share*</b>	1.33	1.93	(0.60)	(31.1)
<b>Return on equity</b>	16.3	23.6	—	(7.3) pts.
<b>Operating income return on equity*</b>	16.6	24.3	—	(7.7) pts.
<b>Book value per share</b>	36.45	36.54	(0.09)	(0.2)
<b>Book value per share, excluding the impact of unrealized net capital gains and losses on fixed income securities*</b>	37.37	34.93	2.44	7.0
<b>Catastrophe losses</b>	568	161	407	—
<b>Property-Liability combined ratio</b>	94.0	84.6	—	9.4 pts.
<b>Property-Liability combined ratio excluding the effect of catastrophes and prior year reserve reestimates (“underlying combined ratio”)*</b>	85.8	84.1	—	1.7 pts.

“Catastrophe losses offset the solid underlying performance of our insurance operations, where profitability exceeded the full year outlook we provided in January,” said Thomas J. Wilson, president, chief executive officer and chairman-elect of The Allstate Corporation. “Continued strong operating results enabled us to deliver a 16.6% operating income return on shareholders’ equity over the last 12 months.”

High catastrophe losses fueled by an unusual number of tornados contributed to a decline in the Corporation’s operating income to \$747 million, down \$450 million compared to the first quarter of 2007. Catastrophe losses for the quarter were \$568 million, a \$407 million increase over the first quarter of 2007. Operating income for the quarter also reflected a \$107 million decline in favorable non-catastrophe reserve re-estimates to \$16 million from \$123 million in the same quarter of 2007. For the quarter, the Property-Liability underlying combined ratio, which excludes the effects of catastrophes and prior year reserve re-estimates, was 85.8. Allstate Financial experienced a \$13 million decline in operating income compared to the same quarter prior year due to dividends paid last year, negative effects on investment spread by raising liquidity levels, and slightly unfavorable mortality levels.

\*Measures used in this release that are not based on accounting principles generally accepted in the United States (“non-GAAP”) are defined and reconciled to the most directly comparable GAAP measure and operating measures are defined in the “Definitions of Non-GAAP and Operating Measures” section of this document.

Net income for the quarter was \$348 million, down from \$1.5 billion in the first quarter of 2007, reflecting lower operating income and realized capital losses stemming from the current condition of the global capital markets. “Our investment portfolio is diversified and high quality,” Wilson said. “While we did write down the value of our fixed income securities by \$347 million, the majority of those securities are performing in accordance with contractual or expected cash flows.”

“Our cash flow and capital position remains strong and we continued our share repurchase program,” Wilson said. Book value per share was \$36.45, comparable to the first quarter of 2007. Book value per share, excluding the impact of unrealized net capital gains and losses on fixed income securities, was \$37.37, an increase of 7.0% from the first quarter last year.

### Consumer Focus

“Our unique mix of innovative products continues to differentiate us from the competition,” Wilson said. In addition to Allstate® Your Choice Auto Insurance (YCA), the company’s innovative auto insurance product, Allstate offers a number of consumer-focused products to attract new customers:

- Allstate’s product offering for higher risk drivers, Allstate Blue<sup>SM</sup>, was introduced in Arizona in the quarter, bringing the total number of states in which the product is available to 13.
- Encompass Edge<sup>SM</sup>, a new product sold through independent agents, contributed to positive premium written growth in the brand’s standard auto line. The product was introduced in four states in the quarter, bringing the total number of states in which Encompass Edge<sup>SM</sup> is available to 16.
- Allstate® Your Choice Home, the Company’s unique homeowners insurance product, is now available in 17 states.

Allstate Financial is preparing to launch a new line of target date mutual funds that will add to the number of consumer-friendly retirement products available through Allstate personal financial representatives. Approximately two-thirds of Allstate's agency force is licensed to sell mutual funds and variable annuities.

## Operational Excellence

"Operating excellence is the key to our success and is one of our core capabilities. Our balanced strategy of target marketing to high lifetime value customers, broad suite of innovative products, disciplined pricing and customer service is working in very competitive markets," Wilson said.

The company completed the countrywide expansion of the Ballpark Estimating Tool during the quarter, enabling consumers to get on-line auto insurance premium estimates in 2-3 minutes. As part of an effort to integrate Allstate's distribution channels, every Allstate-provided agency website now links to the Ballpark Estimating Tool. The company continued investments in claims and distribution systems aimed at improving customer service and loyalty.

During the quarter, Allstate adjusted pricing where needed and appropriate for an average rate increase of 4.5% for standard auto and 10.9% for homeowners in the states where rates were approved.

## Capital Management

"We remain focused on balancing three objectives: investing in the business to ensure future competitiveness, remaining financially strong for policyholders and returning capital to shareholders," Wilson said.

In February, Allstate announced a quarterly dividend of \$0.41 per share, representing a 7.9% increase over the first quarter 2007 dividend. The announcement marked the 14th consecutive year that Allstate increased its dividend. In the first quarter, the Corporation repurchased 8.8 million shares for \$424 million, completing its \$4.0 billion share repurchase program, and beginning a new \$2.0 billion share repurchase program announced in February that is expected to be completed by March 31, 2009.

## People

"People are the key to our success. It is the experience of our leadership team, the talent of our employees, and the dedication of our agency owners and their staff that will enable us to achieve our goal of reinventing protection and retirement for the consumer," Wilson said. Allstate added to its senior management team in March when James DeVries joined the company as senior vice president of human resources, replacing Joan Crockett who retired after 35 years of service.

## Outlook

"Our unique innovative products, disciplined pricing, financial strength and experienced management team give us an edge over the competition," continued Wilson. "We believe this environment, while challenging, plays to Allstate's strengths."

Although auto frequency was lower in the first quarter, Allstate is leaving in place the expectation that its Property-Liability combined ratio, excluding the effect of catastrophes and prior year reserve re-estimates, will be within the range of 87.0 and 89.0 for the full year 2008. The company will continue to monitor results and, if appropriate, will revise its 2008 combined ratio outlook.

## PERFORMANCE HIGHLIGHTS

### Consolidated

- Consolidated revenues were \$8.1 billion in the quarter, a decline from \$9.3 billion in the first quarter of 2007, reflecting net realized capital losses in the current year compared to net realized capital gains in the first quarter of 2007.
- Operating income per diluted share was \$1.33 in the quarter, a decline from \$1.93 in the first quarter of 2007, reflecting higher catastrophe losses, representing \$0.48 of the decline, and the effects of lower favorable prior year non-catastrophe reserve reestimates representing \$0.11 of the decline.
- Net income per diluted share was \$0.62 in the quarter, a decline from \$2.41 in the first quarter of 2007, reflecting after-tax net realized capital losses in the current year quarter compared to net realized capital gains in the first quarter of 2007, representing \$1.25 of the decline, and lower operating income, representing \$0.60 of the decline.

## BUSINESS HIGHLIGHTS

(in millions, except ratios)

	Three months ended March 31,		
	Est. 2008	2007	% Change
<b>Property-Liability</b>			
Premiums written	\$ 6,514	\$ 6,609	(1.4)
Underwriting income*	408	1,046	(61.0)
Net income	503	1,349	(62.7)
Combined Ratio	94.0	84.6	9.4 pts
<b>Allstate Financial</b>			
Premiums and deposits*	\$ 3,046	\$ 2,628	15.9
Operating income	143	156	(8.3)
Net (loss) income	(111)	164	(167.7)

## Investments

Net investment income	\$	1,526	\$	1,571	(2.9)
Realized capital gains and losses		(655)		471	—

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## Property-Liability

- Property-Liability premiums written declined 1.4% from the first quarter of 2007 reflecting a 0.6% increase in Allstate brand standard auto premiums written\* offset by a decline in homeowners premiums written due to catastrophe management actions including the increased cost of the catastrophe reinsurance program. The cost of the catastrophe reinsurance program was \$227 million in the first quarter of 2008 compared to \$216 million in the first quarter of 2007. We estimate that the total annualized cost of all catastrophe reinsurance programs for the year beginning June 1, 2008 will be approximately \$660 million compared to approximately \$900 million per year for the year beginning June 1, 2007.
- Allstate brand standard auto premiums written grew 0.6% in the first quarter of 2008 compared to the prior year quarter. Contributing to the overall change were the following:
  - 0.1% decrease in policies in force (“PIF”)
  - 0.8 point decline in the six month renewal ratio to 88.9%
  - 1.9% increase in six month average premium before reinsurance to \$428
  - 13.7% decrease in new issued applications
- Allstate brand homeowners premiums written declined 2.3% in the first quarter of 2008, compared to the prior year quarter, primarily due to our catastrophe risk management actions. Contributing to the overall change were the following:
  - 3.9% decrease in PIF
  - 0.3 point increase in the twelve month renewal ratio to 86.7%
  - 2.4% increase in twelve month average premium before reinsurance to \$867
  - 28.2% decrease in new issued applications
- Standard auto property damage frequencies decreased 2.4% and bodily injury frequencies decreased 6.5% compared to the first quarter of 2007. Auto property damage and bodily injury paid severities increased 4.1% and 8.6%, respectively. The Allstate brand standard auto loss ratio increased 1.9 points compared to the first quarter of 2007 to 65.5 in the first quarter of 2008, due to increased catastrophe losses and the absence of prior year reserve reestimates.
- Homeowners gross claim frequency excluding catastrophes increased 1.5% compared to the first quarter of 2007. Homeowners paid severity excluding catastrophes increased 3.1% compared to the first quarter of 2007. The Allstate brand homeowners loss ratio increased 25.0 points compared to the first quarter of 2007 to 80.2 in the first quarter of 2008, largely attributable to higher catastrophes. The effect of catastrophe losses on the Allstate brand homeowners loss ratio totaled 29.7 in the first quarter of 2008 compared to 8.3 in the first quarter of 2007.
- Property-Liability prior year reserve reestimates for the first quarter of 2008 were an unfavorable \$101 million, compared to favorable prior year reserve reestimates of \$129 million in the first quarter of 2007. The unfavorable prior year reserve reestimates for the quarter were primarily related to catastrophes totaling \$117 million, as discussed below.
- Catastrophe losses for the quarter totaled \$568 million, compared to \$161 million in the first quarter of 2007, impacting the combined ratio by 8.4 points in the quarter and 2.4 points in the first quarter of 2007. This increase was primarily related to severe winter weather experienced across the country, including tornado activity, resulting in 27 catastrophe events in the first quarter of 2008 compared to 18 in the first quarter of 2007. Catastrophe losses, excluding prior year reserve reestimates, were \$451 million in the quarter compared to \$167 million in the first quarter of 2007. Unfavorable reserve reestimates related to catastrophes from prior years totaled \$117 million in the quarter, impacting the combined ratio by 1.7 points, primarily related to litigation in Louisiana for Hurricane Katrina, compared to favorable reserve reestimates related to catastrophes from prior years of \$6 million in the first quarter of 2007.

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- Underwriting income was \$408 million during the first quarter of 2008 compared to \$1.0 billion in the same period of 2007. The decrease was primarily due to higher catastrophe losses and an unfavorable change in prior year reserve reestimates.
- Allstate expects the Property-Liability underlying combined ratio will be within the range of 87.0 and 89.0 for the full year 2008. The calculation of the underlying combined ratio for the three months ended March 31 is shown in the table below.

	Three months ended March 31,	
	Est. 2008	2007
<b>Combined ratio excluding the effect of catastrophes and prior year reserve reestimates (“underlying combined ratio”)</b>	85.8	84.1
Effect of catastrophe losses	8.4	2.4
Effect of prior year non-catastrophe reserve reestimates	(0.2)	(1.9)
<b>Combined ratio (GAAP)</b>	<b>94.0</b>	<b>84.6</b>
Effect of prior year catastrophe reserve reestimates	1.7	—

## Allstate Financial

- Premiums and deposits in the first quarter of 2008 were \$3.0 billion, an increase of 15.9% from the prior year quarter. This increase is primarily due to deposits on institutional products during the first quarter of 2008 and increased premiums on life products.
- Operating income for the first quarter of 2008 was \$143 million, \$13 million lower than the prior year quarter. The decline was primarily due to lower investment spread, slightly unfavorable mortality levels and slightly increased operating expenses. Favorably impacting operating income was lower amortization of deferred acquisition costs ("DAC") and the absence of a prior year litigation settlement. The decline in investment spreads was driven by lower net investment income resulting from lower investment balances reflecting dividends paid by Allstate Life Insurance Company in 2007, increased short-term investment balances to offset reduced liquidity in some asset classes, and lower investment yields.
- Net loss for the first quarter of 2008 was \$111 million compared to net income of \$164 million in the prior year quarter. The decline was due to net realized capital losses, lower operating income and a loss on disposition of operations. Net realized capital losses were driven by \$209 million in impairment write-downs, \$202 million decline in the valuation of derivative instruments, which includes the change in fair value of embedded options (derivatives) in equity-linked notes and convertible bonds, and \$66 million in dispositions. For further information on write-downs and the valuation of derivative instruments, see the Realized Capital Gains and Losses Analysis section.

## Investments

- Net realized capital losses were \$655 million on a pre-tax basis for the quarter, due to \$415 million of impairment write-downs and \$300 million of net losses related to the settlement and valuation of derivative instruments, partly offset by net gains totaling \$60 million on dispositions.
- Impairment write-downs totaled \$415 million, comprised \$347 million on fixed income securities, primarily related to residential mortgages and other structured securities, \$52 million on equity securities, \$13 million on limited partnership interests and \$3 million on other investments. Approximately 70% of the fixed income write-downs relate to impaired securities that are currently performing in line with anticipated or contractual cash flows, but which were written down primarily because of expected deterioration in the performance of the underlying collateral. The remaining 30% are primarily related to securities currently experiencing a significant departure from anticipated residual cash flows.

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For further information on the types of securities experiencing write-downs, see the Realized Capital Gains and Losses Analysis section.

- Net realized capital losses on the valuation and settlement of derivative instruments totaled \$300 million for the quarter, primarily comprised \$162 million for the valuation of embedded equity options in fixed income securities and \$105 million for the valuation of risk reduction programs. For further information on the impact from the valuation and settlement of derivatives, see the Realized Capital Gains and Losses Analysis section.
- Allstate's investment portfolios totaled \$115.5 billion as of March 31, 2008, a decline of \$3.5 billion from the end of 2007, due to unrealized net capital losses and net realized capital losses.
- Unrealized net capital losses totaled \$570 million as of March 31, 2008, compared to unrealized net capital gains of \$1.9 billion at December 31, 2007. The decline was primarily due to unrealized net capital losses on investment grade fixed income securities as the yields supporting fair values increased, resulting from widening credit spreads that more than offset the effects of declining risk free interest rates, and lower unrealized net capital gains on equity securities totaling \$598 million. As of March 31, 2008, unrealized net capital losses in our asset-backed securities ("ABS") and commercial mortgage-backed securities ("CMBS") totaled \$1.5 billion and \$868 million, respectively, partly offset by unrealized net capital gains on U.S. government and agencies securities totaling \$1.0 billion, municipal securities of \$342 million and equity securities of \$392 million. We continue to experience volatility in the balance of our unrealized net capital gains and losses as we did between the years 2004/2005 and 2006/2007. For further information on our sub-prime residential and commercial mortgage loan portfolio, see the Securities Experiencing Illiquid Markets section.
- Net investment income decreased 2.9% to \$1.5 billion compared to the prior year quarter. Property-Liability net investment income decreased 4.3% to \$470 million, compared to the prior year quarter, due to decreased income on limited partnership interests, lower average asset balances and portfolio yields. Allstate Financial net investment income declined 3.3% to \$1.0 billion, compared to the prior year quarter, due to lower portfolio yields and lower average asset balances, partly offset by increased income from limited partnership interests.

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## THE ALLSTATE CORPORATION CONSOLIDATED AND SEGMENT HIGHLIGHTS

(\$ in millions, except per share amounts, return data and ratios)	Three Months Ended March 31,		Change	Percent Change
	Est. 2008	2007		
<b>Consolidated Highlights</b>				
Revenues	\$ 8,087	\$ 9,331	(1,244)	(13.3)
Net income	348	1,495	(1,147)	(76.7)
Operating income	747	1,197	(450)	(37.6)
Income per diluted share				
Net	0.62	2.41	(1.79)	(74.3)
Operating	1.33	1.93	(0.6)	(31.1)
Weighted average shares outstanding (diluted)	561.6	621.6	(60.0)	(9.7)
Net shares outstanding	554.1	610.9	(56.8)	(9.3)
Return on equity				

Net income	16.3	23.6	—	(7.3) pts.
Operating income	16.6	24.3	—	(7.7) pts.
Book value per diluted share	36.45	36.54	(0.1)	(0.2)
Book value per diluted share, excluding the impact of unrealized net capital gains and losses on fixed income securities	37.37	34.93	2.44	7.0

#### Property-Liability Highlights

Property-Liability premiums written	\$ 6,514	\$ 6,609	(95)	(1.4)
Property-Liability revenues	7,040	7,741	(701)	(9.1)
Net income	503	1,349	(846)	(62.7)
Underwriting income	408	1,046	(638)	(61.0)
Net investment income	470	491	(21)	(4.3)
Operating income	629	1,062	(433)	(40.8)
Catastrophe losses	568	161	407	—
Ratios:				
Allstate Protection loss ratio	69.1	61.1	—	8.0 pts.
Allstate Protection expense ratio	24.8	24.1	—	0.7 pts.
Allstate Protection combined ratio	93.9	85.2	—	8.7 pts.
Effect of Discontinued Lines and Coverages on combined ratio	0.1	(0.6)	—	0.7 pts.
Property-Liability combined ratio	94.0	84.6	—	9.4 pts.
Effect of catastrophe losses on combined ratio	8.4	2.4	—	6.0 pts.
Property-Liability combined ratio excluding effect of catastrophes	85.6	82.2	—	3.4 pts.
Effect of prior year reserve reestimates on combined ratio	1.5	(1.9)	—	3.4 pts.
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(1.7)	—	—	(1.7) pts.
Property-Liability combined ratio excluding effect of catastrophes and prior year reserve reestimates	85.8	84.1	—	1.7 pts.

#### Allstate Financial Highlights

Premiums and deposits	\$ 3,046	\$ 2,628	418	15.9
Allstate Financial revenues	1,035	1,556	(521)	(33.5)
Realized Capital Gains and Losses (Pre-tax)	(432)	23	(455)	—
Net (loss) income	(111)	164	(275)	(167.7)
Operating income	143	156	(13)	(8.3)
Net Income Analysis				
Benefit spread	111	110	1	0.9
Investment spread	253	264	(11)	(4.2)

#### Investment Highlights

Net Investment Income	\$ 1,526	\$ 1,571	(45)	(2.9)
Realized Capital Gains and Losses (Pre-tax)	(655)	471	(1,126)	—
Total Investments	115,470	122,382	(6,912)	(5.6)

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### THE ALLSTATE CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except per share data)	Three Months Ended March 31,		Percent Change
	Est. 2008	2007	
<b>Revenues</b>			
Property-liability insurance premiums	\$ 6,764	\$ 6,806	(0.6)
Life and annuity premiums and contract charges	452	483	(6.4)
Net investment income	1,526	1,571	(2.9)
Realized capital gains and losses	(655)	471	—
Total revenues	8,087	9,331	(13.3)
<b>Costs and expenses</b>			
Property-liability insurance claims and claims expense	4,676	4,117	13.6
Life and annuity contract benefits	397	428	(7.2)
Interest credited to contractholder funds	624	649	(3.9)
Amortization of deferred policy acquisition costs	1,075	1,153	(6.8)
Operating costs and expenses	792	727	8.9
Restructuring and related charges	(1)	(1)	—
Interest expense	88	72	22.2
Total costs and expenses	7,651	7,145	7.1
Loss on disposition of operations	(9)	—	—

Income from operations before income tax expense	427	2,186	(80.5)
Income tax expense	<u>79</u>	<u>691</u>	(88.6)
Net income	<u>\$ 348</u>	<u>\$ 1,495</u>	(76.7)
Net income per share - Basic	<u>\$ 0.62</u>	<u>\$ 2.42</u>	
Weighted average shares - Basic	<u>558.9</u>	<u>616.8</u>	
Net income per share - Diluted	<u>\$ 0.62</u>	<u>\$ 2.41</u>	
Weighted average shares - Diluted	<u>561.6</u>	<u>621.6</u>	
Cash dividends declared per share	<u>\$ 0.41</u>	<u>\$ 0.38</u>	

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**THE ALLSTATE CORPORATION  
CONTRIBUTION TO INCOME**

(\$ in millions, except per share data)	Three Months Ended March 31,		Percent Change
	Est. 2008	2007	
<b>Contribution to income</b>			
Operating income before the impact of restructuring and related charges	\$ 746	\$ 1,196	(37.6)
Restructuring and related charges, after-tax	<u>(1)</u>	<u>(1)</u>	—
Operating income	747	1,197	(37.6)
Realized capital gains and losses, after-tax	(425)	305	—
DAC and DSI amortization relating to realized capital gains and losses, after-tax	39	—	—
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(7)	(8)	12.5
(Loss) gain on disposition of operations, after-tax	<u>(6)</u>	<u>1</u>	—
Net income	<u>\$ 348</u>	<u>\$ 1,495</u>	(76.7)
<b>Income per share - Diluted</b>			
Operating income before the impact of restructuring and related charges	\$ 1.33	\$ 1.93	(31.1)
Restructuring and related charges, after-tax	<u>—</u>	<u>—</u>	—
Operating income	1.33	1.93	(31.1)
Realized capital gains and losses, after-tax	(0.76)	0.49	—
DAC and DSI amortization relating to realized capital gains and losses, after-tax	0.07	—	—
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(0.01)	(0.01)	—
Loss on disposition of operations, after-tax	<u>(0.01)</u>	<u>—</u>	—
Net income	<u>\$ 0.62</u>	<u>\$ 2.41</u>	(74.3)

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**THE ALLSTATE CORPORATION  
SEGMENT RESULTS**

(\$ in millions, except ratios)	Three Months Ended March 31,	
	Est. 2008	2007
<b>Property-Liability</b>		
Premiums written	<u>\$ 6,514</u>	<u>\$ 6,609</u>
Premiums earned	\$ 6,764	\$ 6,806
Claims and claims expense	4,676	4,117
Amortization of deferred policy acquisition costs	1,011	1,024



Operating costs and expenses (1)	670	620
Restructuring and related charges	(1)	(1)
Underwriting income	<u>408</u>	<u>1,046</u>
Net investment income	470	491
Periodic settlements and accruals on non-hedge derivative instruments	1	—
Income tax expense on operations	<u>250</u>	<u>475</u>
Operating income	629	1,062
Realized capital gains and losses, after-tax	(125)	287
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	<u>(1)</u>	<u>—</u>
Net income	<u>\$ 503</u>	<u>\$ 1,349</u>
Catastrophe losses	<u>\$ 568</u>	<u>\$ 161</u>
Operating ratios:		
Claims and claims expense ratio	69.1	60.5
Expense ratio (1)	<u>24.9</u>	<u>24.1</u>
Combined ratio	<u>94.0</u>	<u>84.6</u>
Effect of catastrophe losses on combined ratio	<u>8.4</u>	<u>2.4</u>
Effect of prior year reserve reestimates on combined ratio	<u>1.5</u>	<u>(1.9)</u>
Effect of catastrophe losses included in prior year reserve reestimate on combined ratio	<u>1.7</u>	<u>—</u>
Effect of Discontinued Lines and Coverages on combined ratio	<u>0.1</u>	<u>(0.6)</u>
<b>Allstate Financial</b>		
Premiums and deposits	<u>\$ 3,046</u>	<u>\$ 2,628</u>
Investments	<u>\$ 73,023</u>	<u>\$ 77,727</u>
Premiums and contract charges	\$ 452	\$ 483
Net investment income	1,015	1,050
Periodic settlements and accruals on non-hedge derivative instruments	9	12
Contract benefits	397	428
Interest credited to contractholder funds	630	649
Amortization of deferred policy acquisition costs	117	129
Operating costs and expenses	118	105
Income tax expense on operations	<u>71</u>	<u>78</u>
Operating income	143	156
Realized capital gains and losses, after-tax	(281)	15
DAC and DSI amortization relating to realized capital gains and losses, after-tax	39	—
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(6)	(8)
(Loss) gain on disposition of operations, after-tax	<u>(6)</u>	<u>1</u>
Net (loss) income	<u>\$ (111)</u>	<u>\$ 164</u>
<b>Corporate and Other</b>		
Net investment income	\$ 41	\$ 30
Operating costs and expenses	92	74
Income tax benefit on operations	<u>(26)</u>	<u>(23)</u>
Operating loss	(25)	(21)
Realized capital gains and losses, after-tax	<u>(19)</u>	<u>3</u>
Net loss	<u>\$ (44)</u>	<u>\$ (18)</u>
<b>Consolidated net income</b>	<u>\$ 348</u>	<u>\$ 1,495</u>

(1) The increase was due to higher employee compensation, agent remuneration and the net cost of benefits.

(\$ in millions, except ratios)	Three Months Ended March 31,		Percent Change
	Est. 2008	2007	
<b>Property-Liability Underwriting Summary</b>			
Allstate Protection	\$ 415	\$ 1,006	(58.7)
Discontinued Lines and Coverages	(7)	40	(117.5)
Underwriting income	<u>\$ 408</u>	<u>\$ 1,046</u>	(61.0)
<b>Allstate Protection Underwriting Summary</b>			
Premiums written	\$ 6,514	\$ 6,609	(1.4)
Premiums earned	\$ 6,764	\$ 6,806	(0.6)
Claims and claims expense	4,671	4,159	12.3
Amortization of deferred policy acquisition costs	1,011	1,024	(1.3)
Operating costs and expenses	668	618	8.1
Restructuring and related charges	(1)	(1)	—
Underwriting income	<u>\$ 415</u>	<u>\$ 1,006</u>	(58.7)
Catastrophe losses	<u>\$ 568</u>	<u>\$ 161</u>	—
Operating ratios:			
Claims and claims expense ratio	69.1	61.1	
Expense ratio	24.8	24.1	
Combined ratio	<u>93.9</u>	<u>85.2</u>	
Effect of catastrophe losses on combined ratio	<u>8.4</u>	<u>2.4</u>	
<b>Discontinued Lines and Coverages</b>			
<b>Underwriting Summary</b>			
Premiums written	\$ —	\$ —	—
Premiums earned	\$ —	\$ —	—
Claims and claims expense	5	(42)	111.9
Operating costs and expenses	2	2	—
Underwriting (loss) income	<u>\$ (7)</u>	<u>\$ 40</u>	(117.5)
Effect of Discontinued Lines and Coverages on the Property-Liability combined ratio	<u>0.1</u>	<u>(0.6)</u>	

**THE ALLSTATE CORPORATION**  
**PROPERTY-LIABILITY PREMIUMS WRITTEN BY MARKET SEGMENT**

(\$ in millions)	Three Months Ended March 31,		Percent Change
	Est. 2008	2007	
<b>Allstate brand</b>			
Standard auto	\$ 4,077	\$ 4,051	0.6
Non-standard auto	274	321	(14.6)
Involuntary auto	16	22	(27.3)
Commercial lines	167	194	(13.9)
Homeowners	1,185	1,213	(2.3)
Other personal lines	<u>371</u>	<u>365</u>	1.6
	6,090	6,166	(1.2)
<b>Encompass brand</b>			
Standard auto (1)	270	266	1.5
Non-standard auto	12	21	(42.9)
Involuntary auto	3	6	(50.0)
Homeowners	113	123	(8.1)
Other personal lines	<u>26</u>	<u>27</u>	(3.7)
	<u>424</u>	<u>443</u>	(4.3)
<b>Allstate Protection</b>	6,514	6,609	(1.4)
<b>Discontinued Lines and Coverages</b>	<u>—</u>	<u>—</u>	—
<b>Property-Liability</b>	<u>\$ 6,514</u>	<u>\$ 6,609</u>	(1.4)

**Allstate Protection**

Standard auto	\$	4,347	\$	4,317	0.7
Non-standard auto		286		342	(16.4)
Involuntary auto		19		28	(32.1)
Commercial lines		167		194	(13.9)
Homeowners		1,298		1,336	(2.8)
Other personal lines		397		392	1.3
	\$	<u>6,514</u>	\$	<u>6,609</u>	(1.4)

(1) Encompass Edge, a new independent agency product, contributed to growth. It is now available in 16 states.

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**THE ALLSTATE CORPORATION**  
**PROPERTY-LIABILITY**  
**ANNUAL IMPACT OF NET RATE CHANGES APPROVED ON PREMIUMS WRITTEN (1)**

	Number of States	Three Months Ended March 31, 2008 (Est.)	
		Countrywide (%) (2)	State Specific (%) (3)
<b>Allstate brand</b>			
Standard auto	12	0.8	4.5
Non-standard auto	2	0.2	3.0
Homeowners	9	1.3	10.9
<b>Encompass brand</b>			
Standard auto	17	0.3	1.4
Non-standard auto	—	—	—
Homeowners	9	0.6	7.5

(1) Rate increases that are indicated based on a loss trend analysis to achieve a targeted return will continue to be pursued in all locations and for all products. Rate changes include changes approved based on our net cost of reinsurance. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing new business. Rate changes approved are estimated to total \$217 million in premiums written.

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

(3) Represents the impact in the states where rate changes were approved during 2008 as a percentage of total prior year-end premiums written in those states.

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**THE ALLSTATE CORPORATION**  
**ALLSTATE PROTECTION MARKET SEGMENT ANALYSIS**

(\$ in millions, except ratios)	Three Months Ended March 31,							
	Est. 2008	2007	Est. 2008	2007	Est. 2008	2007	Est. 2008	2007
	Premiums Earned		Loss Ratio (2)		Effect of Catastrophe Losses on the Loss Ratio		Expense Ratio	
<b>Allstate brand</b>								
Standard auto	\$ 4,011	\$ 3,951	65.5	63.6	1.4	0.3	24.1	23.4
Non-standard auto	278	322	65.1	60.3	0.7	—	23.7	21.7
Homeowners	1,426	1,438	80.2	55.2	29.7	8.3	24.6	24.8
Other (1)	<u>592</u>	<u>611</u>	69.6	60.1	10.0	3.6	28.0	26.0
Total Allstate brand	6,307	6,322	69.2	61.2	8.6	2.4	24.6	23.9
<b>Encompass brand</b>								
Standard auto (3)	280	284	51.1	64.8	0.4	0.4	26.4	26.4
Non-standard auto	14	22	71.4	77.3	—	—	35.7	22.7
Homeowners	133	142	65.4	49.3	18.8	4.9	30.8	28.9
Other (1) (3)	<u>30</u>	<u>36</u>	220.0	52.8	6.7	2.8	30.0	25.0
Total Encompass brand	<u>457</u>	<u>484</u>	67.0	59.9	6.1	1.9	28.2	26.9

- (1) Other includes commercial lines, condominium, renters, involuntary auto and other personal lines.
- (2) Loss Ratio comparisons are impacted by the relative level of prior year reserve reestimates. Please refer to the "Effect of Pre-tax Prior Year Reserve Reestimates on the Combined Ratio" table for detailed reserve reestimate information.
- (3) During the first quarter of 2008, \$45 million of incurred losses related to IBNR were reclassified from the standard auto line to the other line to be consistent with the recording of excess policies premiums and losses.

**THE ALLSTATE CORPORATION**  
**PROPERTY-LIABILITY**  
**EFFECT OF PRE-TAX PRIOR YEAR RESERVE REESTIMATES ON THE COMBINED RATIO**

(\$ in millions, except ratios)	Three Months Ended March 31,			
	Pre-tax Reserve Reestimates (1)		Effect of Pre-tax Reserve Reestimates on the Combined Ratio	
	Est. 2008	2007	Est. 2008	2007
Auto (3)	\$ (54)	\$ (66)	(0.8)	(1.0)
Homeowners	78	(3)	1.1	—
Other (3)	<u>72</u>	<u>(18)</u>	<u>1.1</u>	<u>(0.3)</u>
Allstate Protection (2)	96	(87)	1.4	(1.3)
Discontinued Lines and Coverages	<u>5</u>	<u>(42)</u>	<u>0.1</u>	<u>(0.6)</u>
Property-Liability	<u>\$ 101</u>	<u>\$ (129)</u>	<u>1.5</u>	<u>(1.9)</u>
Allstate brand	\$ 96	\$ (79)	1.4	(1.2)
Encompass brand	<u>—</u>	<u>(8)</u>	<u>—</u>	<u>(0.1)</u>
Allstate Protection (2)	<u>\$ 96</u>	<u>\$ (87)</u>	<u>1.4</u>	<u>(1.3)</u>

- (1) Favorable reserve reestimates are shown in parentheses.
- (2) Unfavorable reserve reestimates included in catastrophe losses totaled \$117 million in the three months ended March 31, 2008 and favorable reserve reestimates included in catastrophe losses totaled \$6 million in the three months ended March 31, 2007.
- (3) During the first quarter of 2008, \$45 million of incurred losses related to IBNR were reclassified from the Encompass standard auto line to the Encompass other line to be consistent with the recording of excess policies premiums and losses.

**THE ALLSTATE CORPORATION**  
**ALLSTATE FINANCIAL PREMIUMS AND DEPOSITS**

(\$ in millions)	Three Months Ended March 31,			Percent Change
	Est. 2008	2007	2007	
<b>Life Products</b>				
Interest-sensitive life	\$ 364	\$ 362		0.6
Traditional	89	92		(3.3)
Other	<u>101</u>	<u>89</u>		13.5
	554	543		2.0
<b>Annuities</b>				
Indexed annuities	133	141		(5.7)
Fixed deferred annuities	<u>516</u>	<u>480</u>		7.5
Sub-total	649	621		4.5
Fixed immediate annuities	<u>67</u>	<u>152</u>		(55.9)
	716	773		(7.4)
<b>Institutional Products</b>				
Funding agreements backing medium-term notes (1)	1,660	1,200		38.3

Bank Deposits	116	112	3.6
<b>Total</b>	<b>\$ 3,046</b>	<b>\$ 2,628</b>	<b>15.9</b>

(1) Funding agreements backing medium term notes include an issuance during the first quarter of 2008 totaling \$1.36 billion of extendible securities with an initial maturity of March 20, 2009 and a final maturity of March 20, 2013. Quarterly, beginning on June 20, 2008, investors have the right to extend the maturity date of all or a portion of these notes by three additional months, up to, and in no event later than, the final maturity date. Additionally, during the first quarter of 2008, Allstate Financial acquired and retired \$1.25 billion of its outstanding extendible securities, which had elected to non-extend, in the secondary market.

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**THE ALLSTATE CORPORATION**  
**ALLSTATE FINANCIAL ANALYSIS OF NET INCOME**

(\$ in millions)	Three Months Ended March 31,		Percent Change
	Est. 2008	2007	
<b>Benefit spread</b>			
Premiums	\$ 198	\$ 242	(18.2)
Cost of insurance contract charges (1)	172	159	8.2
Contract benefits excluding the implied interest on immediate annuities with life contingencies (2)	(259)	(291)	11.0
Benefit spread	<u>111</u>	<u>110</u>	0.9
<b>Investment spread</b>			
Net investment income	1,015	1,050	(3.3)
Implied interest on immediate annuities with life contingencies (2)	(138)	(137)	(0.7)
Interest credited to contractholder funds	(624)	(649)	3.9
Investment spread	<u>253</u>	<u>264</u>	(4.2)
Surrender charges and contract maintenance expense fees (1)	82	82	—
Realized capital gains and losses	(432)	23	—
Amortization of deferred policy acquisition costs	(64)	(129)	50.4
Operating costs and expenses	(118)	(105)	(12.4)
Loss on disposition of operations	(9)	—	—
Income tax benefit (expense) on operations	66	(81)	181.5
<b>Net (loss) income</b>	<b><u>\$ (111)</u></b>	<b><u>\$ 164</u></b>	<b>(167.7)</b>
<b>Benefit spread by product group</b>			
Life insurance	\$ 129	\$ 118	9.3
Annuities	(18)	(8)	(125.0)
Benefit spread	<u>\$ 111</u>	<u>\$ 110</u>	0.9
<b>Investment spread by product group</b>			
Annuities	\$ 115	\$ 129	(10.9)
Life insurance	19	19	—
Institutional products	27	25	8.0
Bank	5	4	25.0
Net investment income on investments supporting capital	87	87	—
Investment spread	<u>\$ 253</u>	<u>\$ 264</u>	(4.2)
<b>(1) Reconciliation of contract charges</b>			
Cost of insurance contract charges	\$ 172	\$ 159	8.2
Surrender charges and contract maintenance expense fees	82	82	—
Total contract charges	<u>\$ 254</u>	<u>\$ 241</u>	5.4
<b>(2) Reconciliation of contract benefits</b>			
Contract benefits excluding the implied interest on immediate annuities with life contingencies	\$ (259)	\$ (291)	11.0
Implied interest on immediate annuities with life contingencies	(138)	(137)	(0.7)
Total contract benefits	<u>\$ (397)</u>	<u>\$ (428)</u>	7.2

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(\$ in millions)	Three Months Ended March 31,	
	Est. 2008	2007
<b>NET INVESTMENT INCOME</b>		
Fixed income securities:		
Tax exempt	\$ 240	\$ 244
Taxable	1,039	1,102
Equity securities	32	27
Mortgage loans	160	143
Limited partnership interests	60	70
Short-term	40	49
Other	26	45
Investment income	1,597	1,680
Less: Investment expense	71	109
Net investment income	<u>\$ 1,526</u>	<u>\$ 1,571</u>
<b>REALIZED CAPITAL GAINS AND LOSSES (PRE-TAX)</b>		
Investment write-downs	\$ (415)	\$ (5)
Dispositions	60	450
Valuation of derivative instruments	(325)	(12)
Settlements of derivative instruments	25	38
Realized capital gains and losses (pre-tax)	<u>\$ (655)</u>	<u>\$ 471</u>
	<b>March 31, 2008 (Est.)</b>	<b>Dec. 31, 2007</b>
<b>INVESTMENTS</b>		
Fixed income securities		
Available for sale, at fair value		
Tax exempt	\$ 19,149	\$ 19,038
Taxable	68,935	75,413
Total fixed income securities	88,084	94,451
Equity securities, at fair value	4,379	5,257
Mortgage loans	11,107	10,830
Limited partnership interests (1)	2,706	2,501
Short-term	6,572	3,058
Other	2,622	2,883
Total Investments	<u>\$ 115,470</u>	<u>\$ 118,980</u>
<b>FIXED INCOME SECURITIES BY TYPE</b>		
U.S. government and agencies	\$ 4,304	\$ 4,421
Municipal	25,041	25,307
Corporate	35,862	38,467
Asset-backed securities	7,297	8,679
Commercial mortgage-backed securities	6,195	7,617
Mortgage-backed securities	6,500	6,959
Foreign government	2,842	2,936
Redeemable preferred stock	43	65
Total fixed income securities	<u>\$ 88,084</u>	<u>\$ 94,451</u>
<b>FIXED INCOME SECURITIES BY CREDIT QUALITY</b>		
<b>NAIC Rating</b>	<b>Moody's Equivalent</b>	
1	Aaa/Aa/A	\$ 65,932
2	Baa	18,095
3	Ba	2,599
4	B	1,045
5	Caa or lower	362
6	In or near default	51
Total		<u>\$ 88,084</u>
		<u>\$ 94,451</u>
<b>AMORTIZED COST</b>		
Fixed income securities		
Available for sale, at amortized cost		
Tax exempt	\$ 18,865	\$ 18,393
Taxable	70,142	75,102
Total fixed income securities	89,007	93,495
Equity securities, at cost	\$ 3,987	\$ 4,267

(1) We have commitments to invest in additional limited partnerships totaling \$1.8 billion at March 31, 2008.

**THE ALLSTATE CORPORATION**  
**COMPONENTS OF REALIZED CAPITAL GAINS AND LOSSES (PRE-TAX)**

(\$ in millions)	Three Months Ended March 31, 2008 (Est.)			
	Property- Liability	Allstate Financial	Corporate and Other	Total
Investment write-downs	\$ (175)	\$ (209)	\$ (31)	\$ (415)
Dispositions (1)	124	(66)	2	60
Valuation of derivative instruments	(123)	(202)	—	(325)
Settlements of derivative instruments	(20)	45	—	25
<b>Total</b>	<b>\$ (194)</b>	<b>\$ (432)</b>	<b>\$ (29)</b>	<b>\$ (655)</b>

  

(\$ in millions)	Three Months Ended March 31, 2007			
	Property- Liability	Allstate Financial	Corporate and Other	Total
Investment write-downs	\$ (4)	\$ (1)	\$ —	\$ (5)
Dispositions	411	35	4	450
Valuation of derivative instruments	8	(20)	—	(12)
Settlements of derivative instruments	29	9	—	38
<b>Total</b>	<b>\$ 444</b>	<b>\$ 23</b>	<b>\$ 4</b>	<b>\$ 471</b>

(1) In the first quarter of 2008, the Company recognized \$75 million of losses related to a change in our intent to hold certain securities with unrealized losses until they recover in value. The change in our intent was due to strategic asset allocation strategies and ongoing comprehensive reviews of the Property-Liability and Allstate Financial portfolios as well as a liquidity strategy in Allstate Financial. The Company identified \$1.69 billion of securities, which we did not have the intent to hold until recovery to achieve these objectives.

**THE ALLSTATE CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(\$ in millions, except par value data)	March 31, 2008 (Est.)	December 31, 2007
<b>Assets</b>		
<b>Investments</b>		
Fixed income securities, at fair value (amortized cost \$89,007 and \$93,495)	\$ 88,084	\$ 94,451
Equity securities, at fair value (cost \$3,987 and \$4,267)	4,379	5,257
Mortgage loans	11,107	10,830
Limited partnership interests	2,706	2,501
Short-term	6,572	3,058
Other	2,622	2,883
<b>Total investments (1) (2)</b>	<b>115,470</b>	<b>118,980</b>
Cash	370	422
Premium installment receivables, net	4,851	4,879
Deferred policy acquisition costs	6,275	5,768
Reinsurance recoverables, net	5,828	5,817
Accrued investment income	1,067	1,050
Deferred income taxes	1,307	467
Property and equipment, net	1,025	1,062
Goodwill	825	825
Other assets	2,103	2,209
Separate Accounts	13,132	14,929
<b>Total assets</b>	<b>\$ 152,253</b>	<b>\$ 156,408</b>
<b>Liabilities</b>		
Reserve for property-liability insurance claims and claims expense	\$ 18,848	\$ 18,865
Reserve for life-contingent contract benefits	13,214	13,212
Contractholder funds	61,727	61,975
Unearned premiums	10,112	10,409
Claim payments outstanding	761	748
Other liabilities and accrued expenses	8,514	8,779
Short-term debt	2	—
Long-term debt	5,640	5,640
Separate Accounts	13,132	14,929
<b>Total liabilities</b>	<b>131,950</b>	<b>134,557</b>
<b>Shareholders' equity</b>		

Preferred stock, \$1 par value, 25 million shares authorized, none issued	—	—
Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 554 million and 563 million shares outstanding	9	9
Additional capital paid-in	3,075	3,052
Retained income (4)	32,902	32,796
Deferred ESOP expense	(49)	(55)
Treasury stock, at cost (346 million and 337 million shares)	(14,997)	(14,574)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses (3)	(280)	888
Unrealized foreign currency translation adjustments	63	79
Net funded status of pension and other postretirement benefit obligation (4)	(420)	(344)
<b>Total accumulated other comprehensive (loss) income</b>	<u>(637)</u>	<u>623</u>
<b>Total shareholders' equity</b>	<u>20,303</u>	<u>21,851</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 152,253</u>	<u>\$ 156,408</u>

- (1) Total investments include \$38,469 for Property-Liability, \$73,023 for Allstate Financial and \$3,978 for Corporate and Other investments at March 31, 2008. Total investments include \$40,905 for Property-Liability, \$74,256 for Allstate Financial and \$3,819 for Corporate and Other investments at December 31, 2007.
- (2) Pre-tax unrealized net capital gains and losses at March 31, 2008 and December 31, 2007 include net gains and losses on fixed income securities and derivative instruments of \$(962) million and \$923 million, respectively, and net gains and losses on equity securities of \$392 million and \$990 million, respectively.
- (3) After-tax unrealized net capital gains and losses at March 31, 2008 and December 31, 2007 include net gains and losses on fixed income securities and derivative instruments of \$(539) million and \$244 million, respectively, and net gains and losses on equity securities of \$259 million and \$644 million, respectively.
- (4) As a result of the adoption of SFAS No. 158, the Company recorded a decrease of \$13 million, after-tax, to beginning retained income representing the net periodic benefit cost for the period between October 31, 2007 and December 31, 2007, and a decrease of \$80 million, after-tax, to beginning net funded status of pension and other postretirement benefit obligations to reflect changes in the fair value of plan assets and the benefit obligations between October 31, 2007 and January 1, 2008 and for amortization of actuarial gains and losses and prior service cost between October 31, 2007 and December 31, 2007.

## Investments

### Securities Experiencing Illiquid Markets

During the first quarter of 2008, certain financial markets continued to experience decreased liquidity. We experienced this illiquidity particularly in our asset-backed residential mortgage-backed securities ("ABS RMBS"), asset-backed collateralized debt obligations ("ABS CDO"), Alt-A residential mortgage-backed securities ("Alt-A") and commercial real estate collateralized debt obligations ("CRE CDO") portfolios. These portfolios totaled \$4.8 billion, or less than 5% of our total investments at March 31, 2008. Certain other asset-backed and real estate-backed securities markets experienced illiquidity, but to a lesser degree.

We determine the fair values of securities comprising the illiquid portfolios by obtaining information from an independent third-party valuation service provider and brokers. We confirmed the reasonableness of the fair value of these portfolios as of March 31, 2008 by analyzing available market information including, but not limited to, collateral quality, anticipated cash flows, credit enhancements, default rates, loss severities, the securities' relative position within their respective capital structures, and credit ratings from statistical rating agencies.

Impairment write-downs for the first quarter of 2008 included write-downs on our Alt-A totaling \$89 million, ABS RMBS totaling \$35 million and ABS CDO totaling \$60 million.

Unrealized net capital losses as of March 31, 2008 included \$870 million on the ABS RMBS, \$223 million on the Alt-A and \$274 million on the CRE CDO. We continue to believe that the unrealized losses on these securities are not necessarily predictive of the ultimate performance of the underlying collateral. In the absence of further deterioration in the collateral relative to our positions in the securities' respective capital structures, which could be other-than-temporary, the unrealized losses should reverse over the remaining lives of the securities.

Information about certain of our collateralized securities and their financial ratings is presented in the table below.

(in millions)	Est. Fair value at March 31, 2008	% to Total Investments	Aaa	Aa	A	Baa	Ba or lower
<b>Mortgage-backed securities</b>							
U.S. Agency	\$ 4,253	3.7%	100.0%	—	—	—	—
Prime	1,186	1.0	99.4	0.6%	—	—	—
Alt-A	1,056	0.9	95.1	4.1	0.8%	—	—
Other	5	—	—	100.0	—	—	—
Total Mortgage-backed securities	<u>\$ 6,500</u>	<u>5.6%</u>					
<b>Commercial mortgage-backed securities</b>							
CRE CDO	\$ 438	0.4	35.0	30.1	24.4	10.5	—
Total Commercial mortgage-backed securities		%					



	\$ 6,195	5.4						
<b>Asset-backed securities</b>								
ABS RMBS	\$ 3,335	2.9%	64.7	20.4	6.7	5.9	2.3%	
ABS CDO	17	—	—	—	—	35.3	64.7	
Total asset-backed securities collateralized by sub- prime residential mortgage loans	3,352	2.9						
Other collateralized debt obligations	1,740	1.5	36.5	25.9	26.1	8.2	3.3	
Other asset-backed securities	2,205	1.9	69.1	4.7	14.0	10.3	1.9	
Total Asset-backed securities	\$ 7,297	6.3%						

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Alt-A mortgage-backed securities are at fixed or variable rates and include certain securities that are collateralized by residential mortgage loans issued to borrowers with stronger credit profiles than sub-prime borrowers, but who do not qualify for prime financing terms due to high loan-to-value ratios or limited supporting documentation. Changes during the first quarter of 2008 in our Alt-A holdings and characteristics of the portfolio:

- \$801 million or 75.9% of the Alt-A holdings were issued during 2005, 2006 and 2007.
- We collected \$41 million of principal repayments consistent with the expected cash flows.
- \$89 million of impairment write-downs were recorded due to expected deterioration in the performance of the underlying collateral.
- As of March 31, 2008, unrealized losses on Alt-A mortgage-backed securities totaled \$223 million.
- Fair value represents 82.6% of the amortized cost of these securities.

CRE CDO are investments secured primarily by commercial mortgage-backed securities and other commercial mortgage debt obligations. These securities are generally less liquid and have a higher risk profile than other commercial mortgage-backed securities. Changes during the first quarter of 2008 in our CRE CDO holdings and characteristics of the portfolio:

- We collected \$1 million of principal repayments consistent with the expected cash flows.
- We sold \$9 million recognizing a loss of \$2 million.
- There were no impairment write-downs during the first quarter of 2008.
- As of March 31, 2008, unrealized losses on CRE CDO totaled \$274 million.
- Fair value represents 61.5% of the amortized cost of these securities.

ABS RMBS includes securities that are collateralized by mortgage loans issued to borrowers that cannot qualify for prime or Alt-A financing terms due in part to an impaired or limited credit history. Changes during the first quarter of 2008 in our ABS RMBS holdings and characteristics of the portfolio:

- \$2.8 billion or 82.8% were issued during 2005, 2006 and 2007, with 73.2% of these securities rated Aaa, 14.4% rated Aa, 3.1% rated A and 9.3% rated Baa or lower.
- We collected \$150 million of principal repayments consistent with the expected cash flows.
- We sold \$19 million upon which we recognized a loss of \$17 million.
- \$35 million of impairment write-downs were recorded due to expected deterioration in the performance of the underlying collateral.
- As of March 31, 2008, net unrealized losses on sub-prime RMBS totaled \$870 million.
- Fair value represents 79.3% of the amortized cost of these securities.

ABS CDO are securities collateralized by a variety of residential mortgage-backed securities and other securities, which may include sub-prime RMBS. Changes during the first quarter of 2008 in our ABS CDO holdings and characteristics of this portfolio:

- \$60 million of impairment write-downs were recorded due to expected deterioration in the performance of the underlying collateral.
- As of March 31, 2008, unrealized gains on ABS CDO totaled \$1 million.
- Fair value represents 106.3% of the amortized cost of these securities.

### Bond Insurers

Approximately \$12.9 billion or 51.6% of our municipal bond portfolio is insured by bond insurers. Our practices for acquiring and monitoring municipal bonds primarily are based on the quality of the underlying security. As of March 31, 2008, we believe that the current valuations already reflect a decline in the value of the insurance, and further such declines if any, are not expected to be material. While the valuation of these holdings may be temporarily impacted by negative and rapidly changing market developments, we continue to have the intent and ability to hold the bonds and expect to receive all of the contractual cash flows. As of March 31, 2008, 33.1% of our insured municipal bond portfolio was insured by MBIA, 25.1% by AMBAC,

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18.8% by FSA and 18.1% by FGIC. In addition, we hold securities totaling \$21 million that were directly issued by these bond insurers.

### Auction Rate Securities

Included in our municipal bond portfolio at March 31, 2008 are \$2.2 billion of auction rate securities ("ARS") that have long-term stated maturities, with the interest rate reset based on auctions every 7, 28 or 35 days depending on the specific security. This is compared to a balance of ARS at December 31, 2007 of \$2.6 billion, with the decline representing sales and redemptions during the first quarter of 2008. Our holdings primarily have a Moody's equivalent rating of Aaa and fair value is estimated at the corresponding par value based on market observable inputs. During the first quarter of 2008, all of our ARS holdings

experienced failed auctions and we are currently receiving the maximum interest rate. We anticipate that failed auctions may persist and most of our holdings will continue to reset at the maximum rate. Auctions continue to be conducted as scheduled for each of the securities.

## Realized Capital Gains and Losses Analysis

The net realized capital losses in the quarter were the result of \$415 million in impairment writedowns and \$300 million related to the settlement and valuation of derivatives, partly offset by \$60 million in net realized capital gains from dispositions, including sales related to a reallocation of our mid and small-cap equity portfolio.

Net realized capital losses from impairment writedowns comprised \$347 million from fixed income securities, \$52 million from equity securities, \$13 million from limited partnership interests and \$3 million from other investments. The fixed income securities writedowns were related to residential mortgages and other structured securities. \$246 million of the fixed income writedowns relate to impaired securities that are currently performing in line with anticipated or contractual cash flows, but which were written down primarily because of expected deterioration in the performance of the underlying collateral. For these securities, there have been no defaults or defaults have occurred lower in the capital structure. \$101 million of the fixed income writedowns are primarily related to securities currently experiencing a significant departure from anticipated residual cash flows. While \$83 million of these fixed income securities writedowns were valued at a significant discount to cost, we believe these securities retain economic value.

Notwithstanding our intent and ability to hold such securities indefinitely, we concluded that we could not reasonably assert that the recovery period would be temporary.

Impairment writedowns for the three months ended March 31, 2008 were as follows:

(\$ in millions)	Est. 2008
<b>Performing in accordance with anticipated or contractual cash flows</b>	
Prime	\$ (9)
Alt-A	
No defaults in underlying collateral	(77)
Defaults lower in capital structure	(12)
Subtotal	(89)
ABS RMBS	(35)
ABS CDO	(60)
Corporate	
Mortgage lender	(20)
Bond insurer	(10)
Bond reinsurer – convertible to perpetual security	(20)
Other	(3)
<b>Subtotal</b>	<b>(246)</b>
<b>Departure from anticipated or contractual cash flows</b>	
Future cash flows expected –	
Residual interest trust security(1)	(82)
Other	(1)
Subtotal	(83)
Future cash flows very uncertain -	
Other CDO	(18)
<b>Subtotal</b>	<b>(101)</b>
<b>Total fixed income securities</b>	<b>\$ (347)</b>
<b>Total equity securities</b>	<b>\$ (52)</b>
<b>Total limited partnership interests</b>	<b>\$ (13)</b>
<b>Total other investments</b>	<b>\$ (3)</b>

(1) Anticipated cash flow on unwind of trust is extended and contingent on recovery to par of the underlying perpetual preferred.

Net realized capital losses on the valuation and settlement of derivative instruments totaled \$300 million for the quarter, primarily comprised \$162 million for the valuation of embedded equity options (derivatives) in fixed income securities and \$105 million for the valuation of risk reduction programs.

- At March 31, 2008, our securities with embedded options totaled \$2.1 billion and decreased in fair value from December 31, 2007 by \$132 million, primarily comprising a realized capital loss related to the valuation of embedded options of \$162 million and an unrealized net capital gain reported in other comprehensive income (“OCI”) of \$28 million for the host security. The change in the fair value of embedded options is bifurcated from the host securities, separately valued and reported in realized capital gains and losses, while the change in value of the host securities is reported in OCI. Total fair value exceeded total amortized cost by \$52 million at March 31, 2008. Valuation gains and losses are converted into cash for securities with embedded options upon our election to sell these securities. In the event the economic value of the options is not realized, we will recover the par value if held to maturity. Total fair value exceeded par value by \$84 million at March 31, 2008.
- Losses from the risk reduction programs, primarily in our duration management programs, were related to changing interest rates and credit spreads as rates declined during the period.



Conversion options in fixed income securities				
Property–Liability Allstate Financial	(51)	—	(51)	8
	(25)	—	(25)	2
<b>Total</b>	<b>(76)</b>	<b>—</b>	<b>(76)</b>	<b>10</b>

Convertible bonds are fixed income securities that contain embedded options. Changes in valuation of the embedded option are reported in realized capital gains and losses. The results generally track the performance of underlying equity indices. Valuation gains and losses are converted into cash upon our election to sell these securities. In the event the economic value of the options is not realized, we will recover the par value if held to maturity. Fair value exceeded par value by \$19 million at March 31, 2008. The following table compares the March 31, 2008 holdings to their December 31, 2007 values.

(\$ in millions)	March 31, 2008		March 31, 2008 holdings @ December 31, 2007		Change
Par value	\$	1,231	\$	1,231	\$ —
Amortized cost of host contract	\$	856	\$	857	\$ (1)
Fair value of conversion option		371		447	(76)
Total amortized cost	\$	1,227	\$	1,304	\$ (77)
Total Fair value	\$	1,250	\$	1,323	\$ (73)
Unrealized gain/loss	\$	23	\$	19	\$ 4

<b>Total Accounting</b>	<b>\$ (162)</b>	<b>\$ —</b>	<b>\$ (162)</b>	<b>\$ 6</b>
<b>Total</b>	<b>\$ (325)</b>	<b>\$ 25</b>	<b>\$ (300)</b>	<b>\$ 26</b>

The breakout by operating segment for realized capital gains and losses from derivatives for the three months ended March 31, 2008 and 2007, respectively, were as follows:

(\$ in millions)	Est. 2008	2007
Allstate Financial	\$ (157)	\$ (11)
Property–Liability	(143)	37
Corporate and Other	—	—
<b>Total</b>	<b>\$ (300)</b>	<b>\$ 26</b>

**Adoption of SFAS No. 157 “Fair Value Measurements” (“SFAS No. 157”)**

We adopted the provisions of SFAS No. 157 as of January 1, 2008 for our financial assets and liabilities that are measured at fair value.

SFAS No. 157:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation as of the measurement date;
- Expands disclosures about financial instruments measured at fair value.

We are responsible for determining the value of the financial assets and liabilities carried at fair value and the supporting assumptions and methodologies. In certain situations, we employ independent third-party valuation service providers to gather, analyze, and provide market information and derive fair values based upon relevant assumptions and methodologies for individual instruments. In situations where our valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote, or internally determined by employing valuation models that are widely accepted in the financial services industry. We determine if the fair value estimates provided are appropriate based upon our own independent assessment of their values. Changing market conditions in the first quarter of 2008 were incorporated into valuation assumptions and reflected in the fair values which were validated by calibration and other analytical techniques to available market observable data.

We categorize our financial assets and liabilities measured at fair value based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as required by SFAS No. 157. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities which we can access (Level 1); the second highest priority for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets, or valuation models whose inputs are observable (Level 2); and the lowest priority to unobservable inputs (Level 3). If inputs used to measure financial instruments fall within different levels of the fair value hierarchy, the categorization is based on the lowest level input significant to the fair value measurement of the entire instrument.

(\$ in millions)	Est. March 31, 2008	% to Total
<b>Financial Assets</b>		
Level 1: Includes actively traded exchange listed equity securities in the U.S. and internationally, U.S. Treasury securities, money market funds, certain exchange listed actively traded derivatives.	\$ 5,236	4.5%
Level 2: Includes fixed income securities: corporate, including certain privately placed, municipal, foreign government, U.S. government and agencies, certain mortgage-backed securities (“MBS”) excluding Alt-A, certain CMBS, and certain ABS with underlying collateral such as credit card	70,764	61.3

and auto loans; commercial paper; certain derivatives that are exchange traded and traded over-the-counter (“OTC”); and preferred stock.

Level 3:	Includes privately placed fixed income securities valued by internal models and non-binding broker quotes, ABS RMBS and Alt-A securities valued by third party valuation service providers and certain other securities whose principal valuation input is a non-binding broker quote, including ABS such as collateralized loan obligations (“CLO”), ABS CDO, synthetic collateralized debt obligations, and certain CMBS.	22,679	19.6
	Includes mortgage loans and other investments with impairment writedowns and change in intent dispositions that are held at fair value on a non-recurring basis.	258	0.3
	Investments valued at cost, amortized cost and using the equity method	<u>16,533</u>	<u>14.3</u>
	Total Investments	<u>\$ 115,470</u>	<u>100.0%</u>
Level 1:	Separate account assets	<u>\$ 13,132</u>	

#### Financial Liabilities

Level 1:		\$ 0
Level 2:	Includes derivatives embedded in equity index annuity contracts sold through the Allstate Financial segment and certain derivatives that are exchange traded and traded OTC.	\$ 490
Level 3:	Includes derivatives associated with contractholder liabilities in the Allstate Financial segment, such as guaranteed minimum accumulation benefits and guaranteed minimum withdrawal benefits related to variable annuity contracts that are reinsured through an unrelated third party. This also includes certain derivatives traded OTC.	\$ 30
	Includes certain reserves related to a closed block of policies expected to be transferred through a future reinsurance agreement to an unrelated third party that are held at fair value on a non-recurring basis.	\$ 87

#### Privately Placed Fixed Income Securities

Privately placed fixed income securities totaling \$16.8 billion are reported in Level 2 and 3 at March 31, 2008. On \$4.7 billion of the portfolio, we received indicative values from our valuation service provider, and they are reported in Level 2 primarily due to the existence of market observable inputs in the form of external ratings from independent third party rating agencies. The \$12.1 billion of privately placed fixed income securities included in Level 3 primarily comprise \$10.4 billion valued using an internal model and \$1.4 billion valued using non-binding valuation broker quotes. The internally modeled securities are valued based on internal ratings, which are not observable in the market.

#### Non-Binding Broker Quotes

Where our valuation service providers cannot provide fair value determinations, we obtain non-binding valuation quotes from brokers familiar with the security who may consider transactions or activity in similar securities, as applicable, among other information. The brokers providing valuation quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise.

#### Definitions of GAAP Operating Ratios and Impacts of Specific Items on the GAAP Operating Ratios

**Claims and claims expense (“loss”) ratio** is the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.

**Expense ratio** is the ratio of amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned.

**Combined ratio** is the ratio of claims and claims expense, amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income (loss) as a percentage of premiums earned.

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

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

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

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

#### Definitions of Non-GAAP and Operating Measures

We believe that investors' understanding of Allstate's performance is enhanced by our disclosure of the following non-GAAP financial measures. Our methods of calculating these measures may differ from those used by other companies and therefore comparability may be limited.

**Operating income** is net income, excluding:

- realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in operating income,
- amortization of DAC and DSI, to the extent they resulted from the recognition of certain realized capital gains and losses,
- gain (loss) on disposition of operations, after-tax, and
- adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years.

Net income is the GAAP measure that is most directly comparable to operating income.

We use operating income as an important measure to evaluate our results of operations. We believe that the measure provides investors with a valuable measure of the Company's ongoing performance because it reveals trends in our insurance and financial services business that may be obscured by the net effect of realized capital gains and losses, gain (loss) on disposition of operations and adjustments for other significant non-recurring, infrequent or unusual items. Realized capital gains and losses and gain (loss) on disposition of operations may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions, the timing of which is unrelated to the insurance underwriting process. Consistent with our intent to protect results or earn additional income, operating income includes periodic settlements and accruals on certain derivative instruments that are reported in realized capital gains and losses because they do not qualify for hedge accounting or are not designated as hedges for accounting purposes. These instruments are used for economic hedges and to replicate fixed income securities, and by including them in operating income, we are appropriately reflecting their trends in our performance and in a manner consistent with the economically hedged investments, product attributes (e.g. net investment income and interest credited to contractholder funds) or replicated investments. Non-recurring items are excluded because, by their nature, they are not indicative of our business or economic trends. Accordingly, operating income excludes the effect of items that tend to be highly variable from period to period and highlights the results from ongoing operations and the underlying profitability of our business. A byproduct of excluding these items to determine operating income is the transparency and understanding of their significance to net income variability and profitability while recognizing these or similar items may recur in subsequent periods. Operating income is used by management along with the other components of net income to assess our performance. We use adjusted measures of operating income and operating income per diluted share in incentive compensation. Therefore, we believe it is useful for investors to evaluate net income, operating income and their components separately and in the aggregate when reviewing and evaluating our performance. We note that investors, financial analysts, financial and business media organizations and rating agencies utilize operating income results in their evaluation of our and our industry's financial performance and in their investment decisions, recommendations and communications as it represents a reliable, representative and consistent measurement of the industry and the Company and management's performance. We note that the price to earnings multiple commonly used by insurance investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income and does not reflect the overall profitability of our business.

The following table reconciles operating income and net income (loss) for the three months ended March 31, 2008 and 2007.

(\$ in millions, except per share data)	Property-Liability		Allstate Financial		Consolidated		Per diluted share	
	Est. 2008	2007	Est. 2008	2007	Est. 2008	2007	Est. 2008	2007
<b>Operating income</b>	\$ 629	\$ 1,062	\$ 143	\$ 156	\$ 747	\$ 1,197	\$ 1.33	\$ 1.93
Realized capital gains and losses	(194)	444	(432)	23	(655)	471		
Income tax benefit (expense)	69	(157)	151	(8)	230	(166)		
Realized capital gains and losses, after-tax	(125)	287	(281)	15	(425)	305	(0.76)	0.49
DAC and DSI amortization relating to realized capital gains and losses, after-tax	—	—	39	—	39	—	0.07	—
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(1)	—	(6)	(8)	(7)	(8)	(0.01)	(0.01)
(Loss) gain on disposition of operations, after-tax	—	—	(6)	1	(6)	1	(0.01)	—
<b>Net income (loss)</b>	<u>\$ 503</u>	<u>\$ 1,349</u>	<u>\$ (111)</u>	<u>\$ 164</u>	<u>\$ 348</u>	<u>\$ 1,495</u>	<u>\$ 0.62</u>	<u>\$ 2.41</u>

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

**Combined ratio excluding the effect of catastrophes** is a non-GAAP ratio, which is computed as the difference between two GAAP operating ratios: the combined ratio and the effect of catastrophes on the combined ratio. The most directly comparable GAAP measure is the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our Property-Liability business that may be obscured by catastrophe losses. These catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude and can have a significant impact on the combined ratio. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. The combined ratio excluding the effect of catastrophes should not be considered a substitute for the combined ratio and does not reflect the overall underwriting profitability of our business. A reconciliation of combined ratio excluding the effect of catastrophes to combined ratio is provided in the Property-Liability Highlights section of the Consolidated and Segments Highlights table.

**Combined ratio excluding the effect of catastrophes and prior year reserve reestimates (“underlying combined ratio”)** is a non-GAAP ratio, which is computed as the difference between three GAAP operating ratios: the combined ratio, the effect of catastrophes on the combined ratio and the effect of prior year reserve reestimates on the combined ratio. The most directly comparable GAAP measure is the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our Property-Liability business that may be obscured by catastrophe losses and prior year reserve reestimates. These catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude and can have a significant impact on the combined ratio. Prior year reserve reestimates are caused by unexpected loss development on historical reserves. We believe it is useful for

investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. We also provide it to facilitate a comparison to our outlook on the 2008 combined ratio excluding the effect of catastrophe losses and prior year reserve reestimates. The combined ratio excluding the effect of catastrophes and prior year reserve reestimates should not be considered a substitute for the combined ratio and does not reflect the overall underwriting profitability of our business. A reconciliation of combined ratio excluding the effect of catastrophes and prior year reserve reestimates to combined ratio is provided in the Property-Liability Highlights section of the Consolidated and Segments Highlights table.

In this press release, we provide our outlook on the 2008 combined ratio excluding the effect of catastrophe losses and prior year reserve reestimates. A reconciliation of this measure to the combined ratio is not possible on a forward-looking basis because it is not possible to provide a reliable forecast of catastrophes. Future prior year reserve reestimates are expected to be zero because reserves are determined based on our best estimate of ultimate loss reserves as of the reporting date.

**Operating income return on equity** is a ratio that uses a non-GAAP measure. It is calculated by dividing the rolling 12-month operating income by the average of shareholders’ equity at the beginning and at the end of the 12-months, after excluding the effect of unrealized net capital gains and losses. Return on equity is the most directly comparable GAAP measure. We use operating income as the numerator for the same reasons we use operating income, as discussed above. We use average shareholders’ equity excluding the effect of unrealized net capital gains and losses for the denominator as a representation of shareholder’s equity primarily attributable to the Company’s earned and realized business operations because it eliminates the effect of items that are unrealized and vary significantly between periods due to external economic developments such as capital market conditions like changes in equity prices and interest rates, the amount and timing of which are unrelated to the insurance underwriting process. We use it to supplement our evaluation of net income and return on equity because it excludes the effect of items that tend to be highly variable from period to period. We believe that this measure is useful to investors and that it provides a valuable tool for investors when considered along with net income return on equity because it eliminates the effect of items that can fluctuate significantly from period to period and that are driven by economic developments, the magnitude and timing of which are generally not influenced by management: the after-tax effects of realized and unrealized net capital gains and losses, and the cumulative effect of change in accounting principle. In addition, it eliminates non-recurring items that are not indicative of our ongoing business or economic trends. A byproduct of excluding the items noted above to determine operating income return on equity from return on equity is the transparency and understanding of their significance to return on equity variability and profitability while recognizing these or similar items may recur in subsequent periods. Therefore, we believe it is useful for investors to have operating income return on equity and return on equity when evaluating our performance. We note that investors, financial analysts, financial and business media organizations and rating agencies utilize operating income return on equity results in their evaluation of our and our industry’s financial performance and in their investment decisions, recommendations and communications as it represents a reliable, representative and consistent measurement of the industry and the Company and management’s utilization of capital. Operating income return on equity should not be considered as a substitute for return on equity and does not reflect the overall profitability of our business.

The following table shows the reconciliation.

(\$ in millions)	For the twelve months ended March 31,	
	Est. 2008	2007
<b>Return on equity</b>		
Numerator:		
Net income	\$ 3,489	\$ 5,073
Denominator:		
Beginning shareholders’ equity	22,491	20,545
Ending shareholders’ equity	20,303	22,491
Average shareholders’ equity	\$ 21,397	\$ 21,518
Return on equity	16.3%	23.6%
	For the twelve months ended March 31,	
	Est. 2008	2007
<b>Operating income return on equity</b>		
Numerator:		
Operating income	\$ 3,413	\$ 4,781
Denominator:		
Beginning shareholders’ equity	22,491	20,545
Unrealized net capital gains and losses	2,058	1,634
Adjusted beginning shareholders’ equity	20,433	18,911
Ending shareholders’ equity	20,303	22,491
Unrealized net capital gains and losses	(280)	2,058
Adjusted ending shareholders’ equity	20,583	20,433

Average adjusted shareholders' equity  
Operating income return on equity

\$	20,508	\$	19,672
	16.6%		24.3%

**Book value per share, excluding the impact of unrealized net capital gains and losses on fixed income securities**, is a ratio that uses a non-GAAP measure. It is calculated by dividing shareholders' equity after excluding the impact of unrealized net capital gains and losses on fixed income securities and related DAC and life insurance reserves by total shares outstanding plus dilutive potential shares outstanding. Book value per share is the most directly comparable GAAP measure.

We use the trend in book value per share, excluding unrealized net capital gains and losses on fixed income securities, in conjunction with book value per share to identify and analyze the change in net worth attributable to management efforts between periods. We believe the non-GAAP ratio is useful to investors because it eliminates the effect of items that can fluctuate significantly from period to period and are generally driven by economic developments, primarily capital market conditions, the magnitude and timing of which are generally not influenced by management, and we believe it enhances understanding and comparability of performance by highlighting underlying business activity and profitability drivers. We note that book value per share, excluding unrealized net capital gains and losses on fixed income securities, is a measure commonly used by insurance investors as a valuation technique. Book value per share, excluding unrealized net capital gains and losses on fixed income securities, should not be considered as a substitute for book value

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per share, and does not reflect the recorded net worth of our business. The following table shows the reconciliation.

(\$ in millions, except per share data)	As of March 31,	
	Est. 2008	2007
<b>Book value per share</b>		
Numerator:		
Shareholders' equity	\$ 20,303	\$ 22,491
Denominator:		
Shares outstanding and dilutive potential shares outstanding	557.0	615.5
Book value per share	\$ 36.45	\$ 36.54
<b>Book value per share, excluding the impact of unrealized net capital gains and losses on fixed income securities</b>		
Numerator:		
Shareholders' equity	\$ 20,303	\$ 22,491
Unrealized net capital gains and losses on fixed income securities	(514)	991
Adjusted shareholders' equity	\$ 20,817	\$ 21,500
Denominator:		
Shares outstanding and dilutive potential shares outstanding	557.0	615.5
Book value per share, excluding the impact of unrealized net capital gains and losses on fixed income securities	\$ 37.37	\$ 34.93

### Operating Measures

We believe that investors' understanding of Allstate's performance is enhanced by our disclosure of the following operating financial measures. Our method of calculating these measures may differ from those used by other companies and therefore comparability may be limited.

**Premiums written** is the amount of premiums charged for policies issued during a fiscal period. Premiums earned is a GAAP measure. Premiums are considered earned and are included in financial results on a pro-rata basis over the policy period. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums on our Consolidated Statements of Financial Position. A reconciliation of premiums written to premiums earned is presented in the following table.

(\$ in millions)	Three Months Ended March 31,	
	Est. 2008	2007
<b>Premiums written</b>	\$ 6,514	\$ 6,609
Decrease in Property-Liability unearned premiums	294	203
Other	(44)	(6)
<b>Premiums earned</b>	\$ 6,764	\$ 6,806

**Premiums and deposits** is an operating measure that we use to analyze production trends for Allstate Financial sales. It includes premiums on insurance policies and annuities and all deposits and other funds received from customers on deposit-type products including the net new deposits of Allstate Bank, which we account for under GAAP as increases to liabilities rather than as revenue.

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The following table illustrates where premiums and deposits are reflected in the consolidated financial statements.

(\$ in millions)	Three Months Ended March 31,	
	Est.	2007



