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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004**

**OR**

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

**Commission file number 1-11840**

**THE ALLSTATE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**36-3871531**  
(I.R.S. Employer Identification No.)

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

**60062**  
(Zip Code)

Registrant's telephone number, including area code: **847/402-5000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 30, 2004, the registrant had 692,987,884 common shares, \$.01 par value, outstanding.

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**THE ALLSTATE CORPORATION**  
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**June 30, 2004**

	<b>PAGE</b>
<b>PART I</b>	<b>FINANCIAL INFORMATION</b>
Item 1.	Financial Statements
	Condensed Consolidated Statements of Operations for the Three-Month and Six-Month Periods Ended June 30, 2004 and 2003 (unaudited)
	1
	Condensed Consolidated Statements of Financial Position as of June 30, 2004 (unaudited) and December 31, 2003
	2
	Condensed Consolidated Statements of Cash Flows for the Six-Month Periods Ended June 30, 2004 and 2003 (unaudited)
	3
	Notes to Condensed Consolidated Financial Statements (unaudited)
	4
	Report of Independent Registered Public Accounting Firm
	20
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	Highlights
	21
	Property-Liability Highlights
	22
	Allstate Protection Segment
	24
	Discontinued Lines and Coverages Segment
	34
	Allstate Financial Highlights
	36
	Allstate Financial Segment
	37
	Investments
	46
	Capital Resources and Liquidity
	48
	Forward-Looking Statements
	50
Item 4.	Controls and Procedures
	51
<b>PART II</b>	<b>OTHER INFORMATION</b>
Item 1.	Legal Proceedings
	52
Item 2.	Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities
	52
Item 4.	Submission of Matters to a Vote of Security Holders
	52
Item 6.	Exhibits and Reports on Form 8-K
	53

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
<b>Revenues</b>				
Property-liability insurance premiums earned	\$ 6,460	\$ 6,146	\$ 12,831	\$ 12,145
Life and annuity premiums and contract charges	504	533	1,000	1,172
Net investment income	1,299	1,229	2,573	2,451
Realized capital gains and losses	41	(9)	211	(8)
	<u>8,304</u>	<u>7,899</u>	<u>16,615</u>	<u>15,760</u>
<b>Costs and expenses</b>				
Property-liability insurance claims and claims expense	4,021	4,527	8,007	8,678
Life and annuity contract benefits	378	426	773	956
Interest credited to contractholder funds	480	460	950	913
Amortization of deferred policy acquisition costs	1,072	961	2,127	1,974
Operating costs and expenses	770	728	1,503	1,481
Restructuring and related charges	16	14	27	37
Interest expense	73	67	147	134
	<u>6,810</u>	<u>7,183</u>	<u>13,534</u>	<u>14,173</u>
(Loss) gain on disposition of operations	(8)	3	(11)	3
Income from operations before income tax expense, dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	1,486	719	3,070	1,590
Income tax expense	452	129	912	332
	<u>1,034</u>	<u>590</u>	<u>2,158</u>	<u>1,258</u>
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	1,034	590	2,158	1,258
Dividends on preferred securities of subsidiary trust	—	(2)	—	(5)
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
	<u>1,034</u>	<u>588</u>	<u>1,983</u>	<u>1,253</u>
Net income	\$ 1,034	\$ 588	\$ 1,983	\$ 1,253
<b>Earnings per share:</b>				
Net income per share—basic	\$ 1.47	\$ 0.84	\$ 2.82	\$ 1.78
Weighted average shares—basic	700.0	704.0	702.3	703.7
Net income per share—diluted	\$ 1.47	\$ 0.84	\$ 2.81	\$ 1.78
Weighted average shares—diluted	704.5	706.6	706.8	705.9

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2004	December 31, 2003
(in millions, except par value data)	(Unaudited)	
<b>Assets</b>		
<b>Investments</b>		
Fixed income securities, at fair value (amortized cost \$87,177 and \$82,607)	\$ 90,155	\$ 87,741
Equity securities, at fair value (cost \$4,404 and \$4,028)	5,576	5,288
Mortgage loans	7,153	6,539
Short-term	2,972	1,815
Other	1,727	1,698
	107,583	103,081
Cash	295	366
Premium installment receivables, net	4,632	4,386
Deferred policy acquisition costs	5,065	4,842
Reinsurance recoverables, net	3,506	3,121
Accrued investment income	996	1,068
Property and equipment, net	1,011	1,046
Goodwill	878	929
Other assets	2,278	1,878
Separate Accounts	13,564	13,425
	139,808	134,142
<b>Total assets</b>	<b>\$ 139,808</b>	<b>\$ 134,142</b>
<b>Liabilities</b>		
Reserve for property-liability insurance claims and claims expense	\$ 17,975	\$ 17,714
Reserve for life-contingent contract benefits	11,069	11,020
Contractholder funds	51,457	47,071
Unearned premiums	9,464	9,187
Claim payments outstanding	628	698
Other liabilities and accrued expenses	9,758	8,283
Deferred income taxes	358	1,103
Short-term debt	202	3
Long-term debt	4,650	5,073
Separate Accounts	13,564	13,425
	119,125	113,577
<b>Total liabilities</b>	<b>119,125</b>	<b>113,577</b>
<b>Commitments and Contingent Liabilities (Note 7)</b>		
<b>Shareholders' equity</b>		
Preferred stock, \$1 par value, 25 million shares authorized, none issued	—	—
Common stock, \$.01 par value, 2 billion shares authorized and 900 million issued, 695 million and 704 million shares outstanding	9	9
Additional capital paid-in	2,668	2,614
Retained income	23,231	21,641
Deferred compensation expense	(175)	(194)
Treasury stock, at cost (205 million and 196 million shares)	(6,710)	(6,261)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses and net gains and losses on derivative financial instruments	2,035	3,125
Unrealized foreign currency translation adjustments	(16)	(10)
Minimum pension liability adjustment	(359)	(359)
	1,660	2,756
<b>Total accumulated other comprehensive income</b>	<b>1,660</b>	<b>2,756</b>
<b>Total shareholders' equity</b>	<b>20,683</b>	<b>20,565</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 139,808</b>	<b>\$ 134,142</b>

See notes to condensed consolidated financial statements.

**THE ALLSTATE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,	
(in millions)	2004	2003
	(Unaudited)	
<b>Cash flows from operating activities</b>		
Net income	\$ 1,983	\$ 1,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	13	10
Realized capital gains and losses	(211)	8
Cumulative effect of change in accounting principle	175	—
Interest credited to contractholder funds	950	913
Changes in:		
Policy benefit and other insurance reserves	261	341
Unearned premiums	284	210
Deferred policy acquisition costs	(219)	(164)
Premium installment receivables, net	(267)	(122)
Reinsurance recoverables, net	(242)	(40)
Income taxes payable	56	369
Other operating assets and liabilities	117	349
	2,900	3,127
<b>Cash flows from investing activities</b>		
Proceeds from sales		
Fixed income securities	9,470	9,056
Equity securities	1,538	1,242
Investment collections		
Fixed income securities	3,047	3,163
Mortgage loans	335	290
Investment purchases		
Fixed income securities	(17,323)	(16,512)
Equity securities	(1,660)	(1,714)
Mortgage loans	(991)	(484)
Change in short-term investments, net	5	712
Change in other investments, net	(9)	(30)
Purchases of property and equipment, net	(78)	(87)
	(5,666)	(4,364)
<b>Cash flows from financing activities</b>		
Change in short-term debt, net	199	(184)
Proceeds from issuance of long-term debt	4	395
Repayment of long-term debt	(6)	(329)
Contractholder fund deposits	6,560	4,535
Contractholder fund withdrawals	(3,231)	(2,775)
Dividends paid	(366)	(310)
Treasury stock purchases	(574)	(62)
Other	109	12
	2,695	1,282
<b>Net (decrease) increase in cash</b>	(71)	45
<b>Cash at beginning of period</b>	366	462
<b>Cash at end of period</b>	\$ 295	\$ 507

See notes to condensed consolidated financial statements.

**THE ALLSTATE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company, a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate").

The condensed consolidated financial statements and notes as of June 30, 2004, and for the three-month and six-month periods ended June 30, 2004 and 2003 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

To conform to the 2004 presentation, certain amounts in the prior year's condensed consolidated financial statements and notes have been reclassified.

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled \$59 million and \$45 million for the six months ended June 30, 2004 and 2003, respectively.

**Adopted accounting standards**

*Financial Accounting Standards Board ("FASB") Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP FAS 106-1")*

In January 2004, the FASB issued FSP FAS 106-1 to address the accounting implications of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act"). The Act, which was signed into law on December 8, 2003, provides, among other things, a federal subsidy to plan sponsors who maintain postretirement health care plans ("plans") that provide prescription drug benefits and meet certain equivalency qualifications. The FSP allowed reporting entities to make a one-time election to defer recognizing the impact of the Act on their accumulated postretirement benefit obligation ("APBO") determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" until sufficient guidance is developed to permit a determination of both the qualification for the subsidy and how to recognize the impact of the subsidy on its APBO or net periodic postretirement benefit cost. The Company adopted FSP FAS 106-1 in the first quarter of 2004 and elected to defer recognition of the accounting impact of the Act as information was not available to determine with sufficient certainty whether the Company's plans meet the equivalency criteria, and if so, how to recognize the impact of the subsidy on its APBO or net periodic postretirement benefit cost. In May 2004, the FASB issued FSP FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which supercedes FSP FAS 106-1. (See "Pending accounting standards" below for further discussion.)

*Statement of Position No. 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1")*

On January 1, 2004, the Company adopted SOP 03-1. The major provisions of the SOP affecting the Company require:

- Establishment of reserves primarily related to death benefit and income benefit guarantees provided under variable annuity contracts;
- Deferral of sales inducements that meet certain criteria, and amortization using the same method used for deferred policy acquisition costs ("DAC"); and

- Reporting and measuring assets and liabilities of certain separate accounts products as investments and contractholder funds rather than as separate accounts assets and liabilities when specified criteria are present.

### **Effects of adoption**

The cumulative effect of the change in accounting principle from implementing SOP 03-1 was a loss of \$175 million, after-tax (\$269 million, pre-tax). It was comprised of an increase in benefits reserves (primarily for variable annuity contracts) of \$145 million, pre-tax, and a reduction in DAC and deferred sales inducements ("DSI") of \$124 million, pre-tax.

The SOP requires consideration of a range of potential results to estimate the cost of variable annuity death benefits and income benefits, which generally necessitates the use of stochastic modeling techniques. To maintain consistency with the assumptions used in the establishment of reserves for variable annuity guarantees, the Company utilized the results of this stochastic modeling to estimate expected gross profits, which form the basis for determining the amortization of DAC and DSI. This new modeling approach resulted in a lower estimate of expected gross profits, and therefore resulted in a write-down of DAC and DSI.

In 2004, DSI and related amortization is classified within the Condensed Consolidated Statements of Financial Position and Operations as other assets and interest credited to contractholder funds, respectively. The amounts are provided below.

The Company reclassified \$204 million of separate accounts assets and liabilities to investments and contractholder funds, respectively.

### **Liabilities for contract guarantees**

The Company offers various guarantees to variable contractholders including a return of no less than (a) total deposits made on the contract less any customer withdrawals, (b) total deposits made on the contract less any customer withdrawals plus a minimum return or (c) the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (death benefits), upon annuitization (income benefits), or at specified dates during the accumulation period (accumulation benefits). To manage the risk associated with a portion of its minimum guaranteed death and income benefits, the Company acquired reinsurance for policies issued prior to January 1, 2000. Additionally, the Company hedges death benefits for substantially all contracts issued since January 1, 2003 and accumulation benefits for all contracts issued.

The table below presents information regarding the Company's variable contracts with guarantees. The Company's variable annuity contracts may offer more than one type of guarantee in each contract; therefore, the sum of amounts listed exceeds the total account balances of variable annuity contracts' separate accounts with guarantees.

(\$ in millions)	June 30, 2004
<i>In the event of death</i>	
Account value	\$ 13,330
Net amount at risk(1)	\$ 2,284
Average attained age of contractholders	63 years
<i>At annuitization</i>	
Account value	\$ 3,710
Net amount at risk(2)	\$ 70
Weighted average waiting period until annuitization options available	8 years
<i>Accumulation at specified dates</i>	
Account value	\$ 86
Net amount at risk(3)	\$ —
Weighted average waiting period until guarantee date	11 years

- (1) Defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date.
- (2) Defined as the present value of the minimum guaranteed annuity payments determined in accordance with the terms of the contract in excess of the current account balance.
- (3) Defined as the present value of the guaranteed minimum accumulation balance in excess of the current account balance.

Account balances of variable contracts' separate accounts with guarantees were invested as follows:

(in millions)	June 30, 2004
Equity securities (including mutual funds)	\$ 12,694
Cash and cash equivalents	636
Total variable contracts' separate account assets with guarantees	\$ 13,330

The following table summarizes the liabilities for guarantees:

(in millions)	Liability for guarantees related to death benefits	Liability for guarantees related to income benefits	Total
Balance at January 1, 2004	\$ 117	\$ 41	\$ 158
Less reinsurance recoverables	(11)	(2)	(13)
Net balance at January 1, 2004	106	39	145
Incurred guaranteed benefits	17	3	20
Paid guarantee benefits	(30)	—	(30)
Net change	(13)	3	(10)
Net balance at June 30, 2004	93	42	135
Plus reinsurance recoverables	9	—	9
Balance, June 30, 2004(1)	\$ 102	\$ 42	\$ 144

- (1) Included in the total reserve balance are reserves for variable annuity death benefits of \$87 million, variable annuity income benefits of \$16 million and other guarantees of \$41 million.

The liability for death and income benefit guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. For guarantees in the event of death, benefits represent the current guaranteed minimum death payments in excess of the current account balance. For guarantees at annuitization, benefits represent the present value of the minimum guaranteed annuity benefits in excess of the current account balance.

Projected benefits and contract charges used in determining the liability for guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected gross profits.



Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based on factors such as the extent of benefit to the potential annuitant, eligibility conditions and the annuitant's attained age.

The liability for guarantees will be re-evaluated periodically, and adjustments will be made to the liability balance through a charge or credit to life and annuity contract benefits.

### Deferred sales inducements

Costs related to sales inducements offered on sales to new customers, principally on investment contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contractholder funds on the Condensed Consolidated Statements of Operations. DSI is amortized to income using the same methodology and assumptions as DAC and is included in interest credited to contractholder funds. DSI is periodically reviewed for recoverability and written down when necessary.

DSI activity for the six months ended June 30, 2004 was as follows:

(in millions)

Balance, January 1, 2004	\$	182
Sales inducements deferred		25
Amortization charged to income		(21)
Effects of unrealized gains and losses		(32)
		<hr/>
Balance, June 30, 2004	\$	154
		<hr/>

### Pending Accounting Standards

*Emerging Issues Task Force Topic No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1")*

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF 03-1, which is effective for fiscal periods beginning after June 15, 2004. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value an impairment exists for which a determination must be made as to whether the impairment is other-than-temporary. An impairment loss should be recognized equal to the difference between the investment's carrying value and its fair value when an impairment is other-than-temporary. Subsequent to an other-than temporary impairment loss, a debt security should be accounted for in accordance with Statement of Position No. 03-3, "Accounting for Loans and Certain Debt Securities Acquired in a Transfer", which allows the accretion of the discount between the carrying value and expected value of a security if the amount and timing of the recognition of that difference in cash is reasonably estimable. EITF 03-1 also indicates that although not presumptive a pattern of selling investments prior to the forecasted recovery may call into question an investor's intent to hold the security until it recovers in value.

The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and to investment securities accounted for under the cost method to the extent an impairment indicator exists or the reporting entity has estimated the fair value of the investment security in connection with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments".

The final consensus on EITF 03-1 included additional disclosure requirements incremental to those adopted by the Company effective December 31, 2003 that are effective for fiscal years ending after June 15, 2004.

The Company is currently evaluating the impact of EITF 03-1 on its process for determining other-than-temporary impairment for the affected securities. More specifically, the Company is analyzing whether subsequent to adoption its portfolio management practices for certain securities classified as available-for-sale pursuant to SFAS No. 115 could be interpreted as a pattern of selling thereby affecting its designated intent to hold such investments for the period necessary to allow for the forecasted recovery of fair value pursuant to the requirements of EITF 03-1. As a result of this analysis, the Company may potentially reclassify to realized capital gains and losses the unrealized net capital gains and losses associated with certain securities classified as available-for-sale.

Adoption of this standard may:

- Accelerate the timing of recognition of certain impairment losses or otherwise result in impairment losses being recognized when they previously may not have been;
- Result in the designation of certain investment securities as trading;
- Increase the volatility of net income due to:
  - The potential recognition of unrealized losses in situations where the Company anticipates a full recovery of certain unrealized losses but does not desire to elect a permanent intent to hold the affected securities, regardless of internal and external facts and circumstances, until such time as they fully recover or mature; and
  - Changes in the timing of the recognition of the difference between carrying value and expected settlement value of those debt securities for which an other-than-temporary impairment is taken.

Adoption of this standard is not expected to have a material impact on shareholders' equity since fluctuations in fair value are already recorded in accumulated other comprehensive income.

*FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP FAS 106-2")*

In May 2004, the FASB issued FSP FAS 106-2 to provide guidance on accounting for the effects of the Act that supercedes the guidance provided by FSP FAS 106-1, which was adopted by the Company in the first quarter of 2004. (See preceding section on adopted accounting standards.) FSP FAS 106-2 requires reporting entities that elected deferral under FSP FAS 106-1 to recognize the impact of the Act no later than the first interim or annual reporting period beginning after June 15, 2004 if actuarial equivalence can be determined. The Company is in the process of determining the impact of FSP FAS 106-2, which is not expected to be material to the condensed consolidated financial statements.

## **2. Earnings per share**

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of the common shares underlying outstanding stock options.

The computations of basic and diluted earnings per share are presented in the following table:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>(in millions, except per share data)</b>				
<b>Numerator (applicable to common shareholders):</b>				
Income before dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax	\$ 1,034	\$ 590	\$ 2,158	\$ 1,258
Dividends on preferred securities of subsidiary trust	—	(2)	—	(5)
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
<b>Net income applicable to common shareholders</b>	<b>\$ 1,034</b>	<b>\$ 588</b>	<b>\$ 1,983</b>	<b>\$ 1,253</b>
<b>Denominator:</b>				
Weighted average common shares outstanding	700.0	704.0	702.3	703.7
Effect of potential dilutive securities:				
Stock options	4.5	2.6	4.5	2.2
<b>Weighted average common and dilutive potential common shares outstanding</b>	<b>704.5</b>	<b>706.6</b>	<b>706.8</b>	<b>705.9</b>
<b>Earnings per share—Basic:</b>				
Income before dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax	\$ 1.47	\$ 0.84	\$ 3.07	\$ 1.78
Dividends on preferred securities of subsidiary trust	—	—	—	—
Cumulative effect of change in accounting principle, after-tax	—	—	(0.25)	—
<b>Net income applicable to common shareholders</b>	<b>\$ 1.47</b>	<b>\$ 0.84</b>	<b>\$ 2.82</b>	<b>\$ 1.78</b>
<b>Earnings per share—Diluted:</b>				
Income before dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax	\$ 1.47	\$ 0.84	\$ 3.06	\$ 1.78
Dividends on preferred securities of subsidiary trust	—	—	—	—
Cumulative effect of change in accounting principle, after-tax	—	—	(0.25)	—
<b>Net income applicable to common shareholders</b>	<b>\$ 1.47</b>	<b>\$ 0.84</b>	<b>\$ 2.81</b>	<b>\$ 1.78</b>

Options to purchase 4.0 million and 11.3 million Allstate common shares, with exercise prices ranging from \$45.61 to \$50.72 and \$36.30 to \$50.72, were outstanding at June 30, 2004 and 2003, respectively, but were not included in the computation of diluted earnings per share for the three-month periods ended June 30, 2004 and 2003 since inclusion of these options would have an anti-dilutive effect as the options' exercise prices exceeded the average market price of Allstate common shares in the three-month period. Options to purchase 4.2 million and 11.3 million Allstate common shares, with exercise prices ranging from \$45.29 to \$50.72 and \$35.17 to \$50.72, were outstanding at June 30, 2004 and 2003, respectively, but were not included in the computation of diluted earnings per share for the six-month periods ended June 30, 2004 and 2003 since inclusion of these options would have an anti-dilutive effect.

### 3. Disposition

In February 2004, the Company disposed of a portion of its equity investment in a consolidated investment management variable interest entity ("VIE"). This action triggered, under FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", a reconsideration of whether the Company remains the primary beneficiary of the VIE. After such reconsideration, the Company determined it was no longer the primary beneficiary of the affected investment management VIE, and accordingly, the VIE was deconsolidated as of the disposition date in the first quarter of 2004. The deconsolidation of the investment management VIE resulted in a decrease in assets of \$428 million and a decrease in long-term debt of \$412 million at June 30, 2004.

#### 4. Reserve for Property-Liability Insurance Claims and Claims Expense

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretations of circumstances and internal factors including the Company'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 law changes, court decisions, changes to regulatory requirements, economic conditions, and public attitudes. The Company, in the normal course of business, may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of losses that have occurred, including incurred but not reported ("IBNR") losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. Allstate regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determinable.

Management believes that the reserve for claims and claims expense, net of reinsurance recoverables, at June 30, 2004 is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by that date.

#### 5. Reinsurance

Property-liability insurance premiums and life and annuity premiums and contract charges are net of the following reinsurance ceded:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(in millions)				
Property-liability insurance premiums earned	\$ 95	\$ 67	\$ 181	\$ 143
Life and annuity premiums and contract charges	121	118	283	239

Property-liability insurance claims and claims expense and life and annuity contract benefits are net of the following reinsurance recoveries:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(in millions)				
Property-liability insurance claims and claims expense	\$ 367	\$ 60	\$ 410	\$ 149
Life and annuity contract benefits	129	99	222	175

#### 6. Company Restructuring

In 2003, the Company completed the restructuring program initiated in 2001 to improve the efficiency of its claims handling and certain other back-office processes primarily through a consolidation and reconfiguration of field claim offices, customer information centers and satellite offices ("2001 program"). The 2001 program resulted in a reduction of the total number of field claim offices and an increase in the average size of individual claim offices. In addition, two customer information centers and two satellite offices were closed. As part of the 2001 program, employees working in facilities selected for closure were given the option to either relocate or collect severance benefits. As a result of the 2001 program, \$96 million was accrued for certain employee termination

costs and qualified exit costs. The Company realized approximately \$175 million of annual pre-tax expense savings as a result of implementing the 2001 program.

In addition, the Company undertakes various initiatives to reduce expenses and/or increase productivity ("other programs"). The other programs generally involve a reduction in staffing levels, and in certain cases, office closures.

The following table illustrates the inception to date change in the restructuring liability at June 30, 2004:

(in millions)	Employee costs	Exit costs	Total liability
2001 program adjustments:			
Addition to liability for 2001 program	\$ 17	\$ 79	\$ 96
Net adjustments to liability	5	2	7
Payments applied against the liability	(22)	(67)	(89)
2001 program liability at June 30, 2004	—	14	14
Other programs:			
Addition to liability for other programs	21	16	37
Payments applied against the liability	(18)	(4)	(22)
Other programs liability at June 30, 2004	3	12	15
Balance at June 30, 2004	\$ 3	\$ 26	\$ 29

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties.

## 7. Guarantees and Contingent Liabilities

### Shared markets

As a condition of maintaining its licenses to write personal property and casualty insurance in various states, the Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the results of operations.

### Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective June 30, 2004, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$18 million at June 30, 2004. The remaining term of each residual value guarantee is equal to the term of the underlying lease that range from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities, as measured by the par value was \$101 million at June 30, 2004. The obligations associated with these fixed income securities expire at various times during the next seven years.

Lincoln Benefit Life Company ("LBL"), a wholly owned subsidiary of ALIC, has issued universal life insurance contracts to third parties who finance the premium payments on the universal life insurance contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance that is fully collateralized by the cash surrender value of the universal life insurance contracts. At June 30, 2004, the amount due under the commercial paper program is \$300 million and the cash surrender value of the policies is \$309 million. The repayment guarantee expires April 30, 2006.

In the normal course of business, the Company provides standard indemnifications to counterparties in

contracts in connection with numerous transactions, including indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Because the obligated amounts of the indemnifications are not explicitly stated in many cases, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of June 30, 2004.

## **Regulation**

The Company is subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to influence and restrict premium rates in a manner adverse to insurers, restrict the ability of insurers to cancel policies, limit insurers' ability to impose underwriting standards, remove barriers preventing banks from engaging in the securities and insurance businesses, change tax laws affecting the taxation of insurance companies and the tax treatment of insurance products or competing non-insurance products that may impact the relative desirability of various personal investment products and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company's business, if any, are uncertain.

Regulatory bodies have contacted various subsidiaries of the Company and have requested information relating to variable insurance products, including such areas as market timing and late trading and sales practices. The Company believes that these inquiries are similar to those made to many financial services companies as part of an industry-wide investigation by various regulatory agencies into the practices, policies and procedures relating to variable insurance products sales and subaccount trading practices. The various subsidiaries of the Company have and will continue to respond to these information requests and investigations. The Company at the present time is not aware of any systemic problems with respect to such matters that may have a material adverse effect on the Company's condensed consolidated financial position.

## **Legal proceedings**

### ***Background***

The Company and certain of its subsidiaries are named as defendants in a number of lawsuits and other legal proceedings arising out of various aspects of its business. As background to the "proceedings" described below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the timing of their resolutions relative to other similar cases brought against other companies, the fact that many of these matters are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined, the fact that many of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies.
- In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought include punitive or treble damages or are not specified. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In those cases where plaintiffs have made a specific demand for monetary damages, they often specify damages just below a jurisdictional limit regardless of the facts of the case. This represents the maximum they can seek without risking removal from state court to federal

court. In our experience, monetary demands in plaintiffs' court pleadings bear little relation to the ultimate loss, if any, to the Company.

- For the reasons specified above, it is not possible to make meaningful estimates of the amount or range of loss that could result from these matters at this time. The Company reviews these matters on an on-going basis and follows the provisions of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.
- In the opinion of the Company's management, while some of these matters may be material to the Company's operating results for any particular period if an unfavorable outcome results, none will have a material adverse effect on the consolidated financial condition of the Company.

### ***Proceedings***

There are two active nationwide class action lawsuits against Allstate regarding its specification of after-market (non-original equipment manufacturer) replacement parts in the repair of insured vehicles. One of these suits alleges that the specification of such parts constitutes breach of contract and fraud, and this suit mirrors to a large degree lawsuits filed against other carriers in the industry. These plaintiffs allege that after-market parts are not "of like kind and quality" as required by the insurance policy, and they are seeking actual and punitive damages. In the second lawsuit, plaintiffs allege that Allstate and three co-defendants have violated federal antitrust laws by conspiring to manipulate the price of auto physical damage coverages in such a way that not all savings realized by the use of aftermarket parts are passed on to the policyholders. The plaintiffs seek actual and treble damages. In November 2002, a nationwide class was certified in this case. The defendants filed a petition to appeal the certification, and the Eleventh Circuit Court of Appeals recently heard oral arguments. The parties are now awaiting a decision on the appeal. The Company has been vigorously defending both of these lawsuits, and their outcome is uncertain.

There are several statewide and nationwide class action lawsuits pending against Allstate alleging that its failure to pay "inherent diminished value" to insureds under the collision, comprehensive, uninsured motorist property damage, or auto property damage liability provisions of auto policies constitutes breach of contract and fraud. Plaintiffs define "inherent diminished value" as the difference between the market value of the insured automobile before an accident and the market value after repair. Plaintiffs allege that they are entitled to the payment of inherent diminished value under the terms of the policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. These lawsuits are pending in various state and federal courts, and they are in various stages of development. Classes have been certified in two cases. Both are multi-state class actions. A trial in one of these multi-state class action cases involving collision and comprehensive coverage concluded on April 29, 2004, with a jury verdict in favor of the Company. The Company is awaiting a ruling on plaintiffs' motion for a new trial. In the other certified class action lawsuit, which involves uninsured motorist property damage coverage, the appellate court has granted the Company's petition for review of the order of certification. The Company has been vigorously defending all of these lawsuits and, since 1998, has been implementing policy language in more than 40 states reaffirming that its collision and comprehensive coverages do not include diminished value claims. The outcome of these disputes is currently uncertain.

There are a number of state and nationwide class action lawsuits pending in various state courts challenging the legal propriety of Allstate's medical bill review processes on a number of grounds, including, among other things, the manner in which Allstate determines reasonableness and necessity. One nationwide class action has been certified. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes result in a breach of the insurance policy as well as fraud. Plaintiffs seek monetary damages in the form of contractual and extra-contractual damages. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

A number of nationwide and statewide putative class actions are pending against Allstate, which challenge Allstate's use of certain automated database vendors in valuing total loss automobiles. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Plaintiffs allege that flaws in these

databases result in valuations to the detriment of insureds. The plaintiffs are seeking actual and punitive damages. The lawsuits are in various stages of development and Allstate has been vigorously defending them, but the outcome of these disputes is currently uncertain.

One putative statewide and a number of putative nationwide class action lawsuits have been filed in various courts seeking actual and punitive damages from Allstate alleging that Allstate violated the Fair Credit Reporting Act or state law by failing to provide appropriate notices to applicants and/or policyholders when adverse action was taken as a result of information in a consumer report or by ordering consumer reports without a permissible purpose. These cases have been centralized in the federal court in Nashville, Tennessee. The Company is also defending a putative nationwide class action that alleges that the Company discriminates against non-Caucasian policyholders, through underwriting and rate-making practices including the use of credit by charging them higher premiums. The plaintiffs seek both monetary relief, in the form of actual and punitive damages, and equitable relief, in the form of injunctive and other remedies. The Company is also defending two putative statewide class actions challenging its use of credit under certain state insurance statutes. These plaintiffs seek monetary and equitable relief. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a number of putative class actions and one certified class action challenging the overtime exemption claimed by the Company under the Fair Labor Standards Act or state wage and hour laws. In the one certified class action, the trial court has found Allstate liable and the case will proceed to trial on damages. In these cases, Plaintiffs seek monetary relief, such as penalties and liquidated damages, and non-monetary relief, such as injunctive relief and an accounting. These class actions mirror similar lawsuits filed recently against other carriers in the industry and other employers. A putative nationwide class action filed by former employee agents also includes a worker classification issue; these agents are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. Allstate has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is also defending certain matters relating to the Company's agency program reorganization announced in 1999. These matters include an investigation by the U.S. Department of Labor, a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") alleging retaliation under federal civil rights laws and a class action filed in August 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act, breach of contract and ERISA violations. In April 2004, the U.S. Department of Labor notified the Company that it has closed its investigation and contemplates no further action on this matter at this time. In late March 2004, in the EEOC and class action lawsuits, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release for purposes of effecting the court's declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to Allstate "any and all benefits received by the [agent] in exchange for signing the release." The court also "concluded that, on the undisputed facts of record, there is no basis for claims of age discrimination." The EEOC and plaintiffs have asked the court to clarify and/or reconsider its memorandum and order. The case otherwise remains pending. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA. This matter was dismissed with prejudice in late March 2004 by the trial court but will be the subject of further proceedings on appeal. In these matters, plaintiffs seek compensatory and punitive damages, and equitable relief. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, Allstate is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the EEOC with respect to allegations of age discrimination and retaliation. Allstate is cooperating fully with the agency investigation and will continue to vigorously defend these and other claims related to the life agency program reorganization. The outcome of these disputes is currently uncertain.

The Company is defending various lawsuits and regulatory proceedings that allege that it engaged in business or sales practices inconsistent with state or federal law. In addition, the company is defending several lawsuits brought by annuitants challenging trading restrictions the company adopted to limit market-timing activity. Plaintiffs seek a variety of remedies including monetary and equitable relief. The Company has been vigorously



defending these matters, but their outcome is currently uncertain.

### Other Actions

Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts. This litigation is based on a variety of issues including insurance and claim settlement practices. The outcome of these disputes is currently unpredictable. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

### Asbestos and environmental

Allstate's reserves for asbestos claims were \$1.26 billion and \$1.08 billion, net of reinsurance recoverables of \$834 million and \$504 million at June 30, 2004 and December 31, 2003, respectively. Reserves for environmental claims were \$248 million and \$257 million, net of reinsurance recoverables of \$53 million and \$58 million at June 30, 2004 and December 31, 2003, respectively. Approximately 63% and 60% of the total net asbestos and environmental reserves at June 30, 2004 and December 31, 2003, respectively, were for incurred but not reported estimated losses.

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, plaintiffs' evolving and 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.

### 8. Components of Net Periodic Pension and Postretirement Benefit Costs

The components of net periodic cost for the Company's pension and postretirement benefit plans for the six months ended June 30 are as follows:

	Pension benefits		Postretirement benefits	
	2004	2003	2004	2003
(in millions)				
Service cost	\$ 78	\$ 67	\$ 14	\$ 9
Interest cost	132	127	36	35
Expected return on plan assets	(144)	(111)	—	—
Amortization of:				
Prior service costs	(1)	(2)	(1)	—
Unrecognized transition obligation	—	—	—	—
Net loss (gain)	58	46	6	4
Settlement loss	23	30	—	—
Net periodic cost	\$ 146	\$ 157	\$ 55	\$ 48

## 9. Equity Incentive Plans

The following table illustrates the effect on net income and earnings per share as if the fair value based method, adopted prospectively by the Company on January 1, 2003, had been applied to all outstanding and unvested awards in each period.

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>(in millions, except per share data)</b>				
Net income, as reported	\$ 1,034	\$ 588	\$ 1,983	\$ 1,253
Add: Employee stock option expense included in reported net income, after-tax	6	3	9	4
Deduct: Total employee stock option expense determined under fair value based method for all awards, after-tax	(11)	(12)	(20)	(22)
Pro forma net income	\$ 1,029	\$ 579	\$ 1,972	\$ 1,235
Earnings per share—Basic:				
As reported	\$ 1.47	\$ 0.84	\$ 2.82	\$ 1.78
Pro forma	1.47	0.82	2.81	1.76
Earnings per share—Diluted:				
As reported	\$ 1.47	\$ 0.84	\$ 2.81	\$ 1.78
Pro forma	1.46	0.82	2.79	1.75

## 10. Business Segments

Summarized revenue data for each of the Company's business segments are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
<b>Revenues</b>				
<i>Property-Liability</i>				
Property-liability insurance premiums				
Standard auto	\$ 3,847	\$ 3,627	\$ 7,633	\$ 7,163
Non-standard auto	508	574	1,025	1,158
Auto	4,355	4,201	8,658	8,321
Homeowners	1,449	1,329	2,877	2,624
Other	654	609	1,293	1,191
Allstate Protection	6,458	6,139	12,828	12,136
Discontinued Lines and Coverages	2	7	3	9
Total property-liability insurance premiums	6,460	6,146	12,831	12,145
Net investment income	443	417	867	825
Realized capital gains and losses	109	31	300	68
Total Property-Liability	7,012	6,594	13,998	13,038
<i>Allstate Financial</i>				
Life and annuity premiums and contract charges				
Traditional life	85	96	159	187
Immediate annuities with life contingencies	66	68	143	251
Accident, health and other	101	133	196	271
Total premiums	252	297	498	709
Interest-sensitive life	161	154	321	304
Fixed annuities	14	11	28	18
Variable annuities	61	50	121	97
Institutional products	—	3	—	6
Accident, health and other	16	18	32	38
Total contract charges	252	236	502	463
Total life and annuity premiums and contract charges	504	533	1,000	1,172
Net investment income	833	797	1,654	1,596
Realized capital gains and losses	(61)	(39)	(84)	(75)
Total Allstate Financial	1,276	1,291	2,570	2,693
<i>Corporate and Other</i>				
Service fees	3	3	6	7
Net investment income	23	15	52	30
Realized capital gains and losses	(7)	(1)	(5)	(1)
Total Corporate and Other before reclassification of service fees	19	17	53	36
Reclassification of service fees(1)	(3)	(3)	(6)	(7)
Total Corporate and Other	16	14	47	29
Consolidated Revenues	\$ 8,304	\$ 7,899	\$ 16,615	\$ 15,760

(1) For presentation in the Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

Summarized financial performance data for each of the Company's reportable segments are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
<b>Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax</b>				
<i>Property-Liability</i>				
Underwriting income (loss)				
Allstate Protection	\$ 1,207	\$ 234	\$ 2,077	\$ 685
Discontinued Lines and Coverages	(319)	(53)	(324)	(91)
Total underwriting income (loss)	888	181	1,753	594
Net investment income	443	417	867	825
Income tax expense on operations	(395)	(102)	(772)	(305)
Realized capital gains and losses, after-tax	71	23	203	50
Gain on disposition of operations, after-tax	—	2	—	2
Property-Liability income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	1,007	521	2,051	1,166
<i>Allstate Financial</i>				
Life and annuity premiums and contract charges	504	533	1,000	1,172
Net investment income	833	797	1,654	1,596
Periodic settlements and accruals on non-hedge derivative financial instruments	12	2	18	5
Contract benefits and interest credited to contractholder funds	856	886	1,720	1,869
Operating costs and expenses and amortization of deferred acquisition costs	297	253	559	593
Restructuring and related charges	4	—	4	—
Income tax expense on operations	66	62	131	98
Operating income	126	131	258	213
Loss on disposition of operations, after-tax	(15)	—	(17)	—
Realized capital gains and losses, after-tax	(43)	(25)	(57)	(46)
Reclassification of periodic settlements and accruals on non-hedge financial instruments, after-tax	(7)	(1)	(11)	(3)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	(3)	(7)	(13)	(16)
Allstate Financial income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	58	98	160	148
<i>Corporate and Other</i>				
Service fees(1)	3	3	6	7
Net investment income	23	15	52	30
Operating costs and expenses	79	71	159	142
Income tax benefit on operations	(27)	(25)	(51)	(50)
Operating loss	(26)	(28)	(50)	(55)
Realized capital gains and losses, after-tax	(5)	(1)	(3)	(1)
Corporate and Other loss before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	(31)	(29)	(53)	(56)
Consolidated income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	\$ 1,034	\$ 590	\$ 2,158	\$ 1,258

(1) For presentation in the Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

## 11. Other Comprehensive Income

The components of other comprehensive income on a pretax and after-tax basis are as follows:

	Three months ended June 30,					
	2004			2003		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>(in millions)</i>						
<i>Unrealized capital gains and losses</i>						
Unrealized holding gains (losses) arising during the period	\$ (2,099)	\$ 734	\$ (1,365)	\$ 1,280	\$ (448)	\$ 832
Less: reclassification adjustments	48	(17)	31	(17)	6	(11)
Unrealized net capital gains (losses)	(2,147)	751	(1,396)	1,297	(454)	843
Net gains (losses) on derivative instruments arising during the period	—	—	—	1	—	1
Less: reclassification adjustment for derivative instruments	(5)	2	(3)	(1)	—	(1)
Unrealized net capital gains (losses) and net gains (losses) on derivative instruments	(2,142)	749	(1,393)	1,299	(454)	845
<i>Unrealized foreign currency translation adjustments</i>	(7)	2	(5)	23	(8)	15
Other comprehensive income (loss)	\$ (2,149)	\$ 751	(1,398)	\$ 1,322	\$ (462)	860
Net income			1,034			588
Comprehensive income (loss)			\$ (364)			\$ 1,448

The components of other comprehensive income on a pretax and after-tax basis are as follows:

	Six months ended June 30,					
	2004			2003		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>(in millions)</i>						
<i>Unrealized capital gains and losses</i>						
Unrealized holding gains (losses) arising during the period	\$ (1,420)	\$ 497	\$ (923)	\$ 1,320	\$ (462)	\$ 858
Less: reclassification adjustments	258	(90)	168	(45)	16	(29)
Unrealized net capital gains (losses)	(1,678)	587	(1,091)	1,365	(478)	887
Net gains (losses) on derivative instruments arising during the period	—	—	—	1	—	1
Less: reclassification adjustment for derivative instruments	(2)	1	(1)	(1)	—	(1)
Unrealized net capital gains (losses) and net gains (losses) on derivative instruments	(1,676)	586	(1,090)	1,367	(478)	889
<i>Unrealized foreign currency translation adjustments</i>	(9)	3	(6)	35	(12)	23
Other comprehensive income (loss)	\$ (1,685)	\$ 589	(1,096)	\$ 1,402	\$ (490)	912
Net income			1,983			1,253
Comprehensive income (loss)			\$ 887			\$ 2,165

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
The Allstate Corporation:

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the "Company") as of June 30, 2004, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2004 and 2003, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended, not presented herein. In our report dated February 4, 2004, which report includes an explanatory paragraph as to changes in the Company's methods of accounting for stock-based compensation, embedded derivatives in modified coinsurance agreements and variable interest entities in 2003 and its method of accounting for goodwill and other intangible assets in 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois  
August 3, 2004

## **OVERVIEW**

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we", "our", "us", the "Company" or "Allstate"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2003. Analysis of our insurance segments is provided in Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment (which represents the Allstate Financial segment) sections of Management's Discussion and Analysis ("MD&A"). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

## **HIGHLIGHTS**

- Net income increased by \$446 million or 75.9% to \$1.03 billion in the second quarter of 2004 from \$588 million in the second quarter of 2003. Net income increased \$730 million or 58.3% to \$1.98 billion for the first six months of 2004 from \$1.25 billion for the first six months of 2003. Net income per diluted share increased 75.0% to \$1.47 in the second quarter of 2004 from \$0.84 in the second quarter of last year, and 57.9% to \$2.81 in the first six months of 2004 from \$1.78 in the first six months of last year. Net income in the first six months of 2004 included the unfavorable impact of adopting AICPA Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1"), totaling \$175 million, after-tax.
- Total revenues increased by \$405 million or 5.1% to \$8.30 billion in the second quarter of 2004 from \$7.90 billion in the second quarter of 2003 and increased \$855 million or 5.4% to \$16.62 billion for the first six months of 2004 from \$15.76 billion for the first six months of 2003.
- Property-Liability premiums earned increased \$314 million or 5.1% to \$6.46 billion in the second quarter of 2004 from \$6.15 billion in the second quarter of 2003 and increased \$686 million or 5.6% to \$12.83 billion for the first six months of 2004 from \$12.15 billion for the first six months of 2003. Growth in policies in force ("PIF") from June 30, 2003 to June 30, 2004 for the core Allstate brand standard auto and homeowners accelerated to 4.9% and 5.7%, respectively, and total Allstate brand PIF increased 3.3%. Allstate brand standard auto and homeowners renewal ratio increased 1.2 pts and 0.9 pts, respectively, in the second quarter of 2004 and 1.5 pts and 0.8 pts, respectively in the first six months of 2004. The combined ratio improved 10.8 points in the second quarter of 2004 and 8.8 points in the first six months of 2004 compared to the same periods last year. Catastrophe losses decreased 56.2% to \$248 million in the second quarter of 2004, with an impact to the combined ratio of 3.8 points, compared to 9.2 points in the second quarter of 2003. Catastrophe losses decreased 50.0% to \$350 million in the first six months of 2004, with an impact to the combined ratio of 2.7 points, compared to 5.8 points in the first six months of 2003.
- Allstate Financial investments, including separate accounts assets, increased 10.1% in the second quarter of 2004 compared to the same period of last year.
- Net realized capital gains were \$41 million in the second quarter of 2004 compared to net realized capital losses of \$9 million in the second quarter of 2003. Net realized capital gains were \$211 million in the first six months of 2004 compared to net realized capital losses of \$8 million in the first six months of 2003.
- Book value per diluted share increased 8.1% to \$29.55 in the second quarter of 2004 compared to the same period of last year.
- Return on equity improved 6.5 points to 17.2% in the second quarter of 2004 compared to the same period of last year based on net income for the last twelve months.

**CONSOLIDATED NET INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
<b>Revenues</b>				
Property-liability insurance premiums earned	\$ 6,460	\$ 6,146	\$ 12,831	\$ 12,145
Life and annuity premiums and contract charges	504	533	1,000	1,172
Net investment income	1,299	1,229	2,573	2,451
Realized capital gains and losses	41	(9)	211	(8)
<b>Total revenues</b>	<b>8,304</b>	<b>7,899</b>	<b>16,615</b>	<b>15,760</b>
<b>Costs and expenses</b>				
Property-liability insurance claims and claims expense	(4,021)	(4,527)	(8,007)	(8,678)
Life and annuity contract benefits	(378)	(426)	(773)	(956)
Interest credited to contractholder funds	(480)	(460)	(950)	(913)
Amortization of deferred policy acquisition costs	(1,072)	(961)	(2,127)	(1,974)
Operating costs and expenses	(770)	(728)	(1,503)	(1,481)
Restructuring and related charges	(16)	(14)	(27)	(37)
Interest expense	(73)	(67)	(147)	(134)
<b>Total costs and expenses</b>	<b>(6,810)</b>	<b>(7,183)</b>	<b>(13,534)</b>	<b>(14,173)</b>
(Loss) gain on disposition of operations	(8)	3	(11)	3
Income tax expense	(452)	(129)	(912)	(332)
Dividends on preferred securities of subsidiary trust	—	(2)	—	(5)
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
<b>Net income</b>	<b>\$ 1,034</b>	<b>\$ 588</b>	<b>\$ 1,983</b>	<b>\$ 1,253</b>
Property-Liability	\$ 1,007	\$ 521	\$ 2,051	\$ 1,166
Allstate Financial	58	98	(15)	148
Corporate and Other	(31)	(31)	(53)	(61)
<b>Net income</b>	<b>\$ 1,034</b>	<b>\$ 588</b>	<b>\$ 1,983</b>	<b>\$ 1,253</b>

**PROPERTY-LIABILITY HIGHLIGHTS**

- Premiums written increased 5.0% in the second quarter of 2004 over the second quarter of 2003 and 5.8% in the first six months of 2004 over the first six months of 2003, primarily due to increases in the Allstate brand standard auto and homeowners number of PIF and average premiums. Allstate brand standard auto and homeowners new business premiums increased 29.9% and 31.6%, respectively, in the second quarter of 2004 and 36.0% and 36.1%, respectively, in the first six months of 2004, over the same periods of 2003. Allstate brand standard auto and homeowners premiums written increased 5.7% and 9.2%, respectively, in the second quarter of 2004 and 6.8% and 10.2%, respectively, in the first six months of 2004, over the same periods of 2003. Premiums written is an operating measure that is defined and reconciled to premiums earned on page 25.
- Underwriting income for Property-Liability increased \$707 million to \$888 million in the second quarter of 2004 from \$181 million in the second quarter in 2003, with a combined ratio improvement of 10.8 points to 86.3. Underwriting income increased \$1.16 billion to \$1.75 billion in the first six months of 2004 from \$594 million in the first six months in 2003, with a combined ratio improvement of 8.8 points



to 86.3. These improvements were a result of earned premium growth, lower catastrophe losses, favorable claim frequency, and net favorable reserve reestimates of \$77 million, partially offset by increased severity of current year claims. Underwriting income is a measure that is not based on generally accepted accounting principles ("GAAP") that is defined on page 23.

- The Ivantage combined ratio improved 13.4 points in the second quarter of 2004 compared to the second quarter of last year primarily due to reestimates of current year losses, and improved 8.7 points in the first six months of 2004 compared to the same period last year. The combined ratio reduction was also the result of profit improvement actions, which caused the number of Ivantage standard auto and homeowners PIF to decline compared to June 30, 2003.

## PROPERTY-LIABILITY OPERATIONS

Our Property-Liability operations consist of two business segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection is comprised of two lines of business, the Allstate brand and Ivantage, and is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off.

Underwriting income, reconciled to net income on page 24, is calculated as premiums earned, less claims and claims expense ("losses"), amortization of deferred policy acquisition costs ("DAC"), operating costs and expenses and restructuring and related charges as determined using GAAP. This is one of the measures we use in our evaluation of results of operations to analyze the profitability of the 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. Underwriting income should not be considered as a substitute for net income and does not reflect the overall profitability of the business. Net income is the most directly comparable GAAP measure.

The table below includes GAAP operating ratios we use to measure our profitability. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows:

- Claims and claims expense ("loss") ratio—the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio—the ratio of amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned.
- Combined ratio—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, and represents underwriting income as a percentage of premiums earned.
- Effect of Discontinued Lines and Coverages on combined ratio—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 on page 32 is equal to the Property-Liability combined ratio.

We have also calculated the following impacts of specific items on the GAAP operating ratios because of the volatility of these items between fiscal periods.

- Effect of catastrophe losses on loss ratio—the percentage of catastrophe losses included in claims and claims expenses to premiums earned.
- Effect of restructuring and related charges on expense ratio—the percentage of restructuring and related charges to premiums earned.

Summarized financial data, a reconciliation of underwriting income to net income and GAAP operating ratios for our Property-Liability operations are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions, except ratios)				
Premiums written	\$ 6,741	\$ 6,422	\$ 13,074	\$ 12,359
<b>Revenues</b>				
Premiums earned	\$ 6,460	\$ 6,146	\$ 12,831	\$ 12,145
Net investment income	443	417	867	825
Realized capital gains and losses	109	31	300	68
Total revenues	7,012	6,594	13,998	13,038
<b>Costs and expenses</b>				
Claims and claims expense	(4,021)	(4,527)	(8,007)	(8,678)
Amortization of DAC	(949)	(858)	(1,873)	(1,685)
Operating costs and expenses	(590)	(566)	(1,175)	(1,151)
Restructuring and related charges	(12)	(14)	(23)	(37)
Total costs and expenses	(5,572)	(5,965)	(11,078)	(11,551)
Gain on disposition of operations	—	3	—	3
Income tax expense	(433)	(111)	(869)	(324)
<b>Net income</b>	\$ 1,007	\$ 521	\$ 2,051	\$ 1,166
<b>Underwriting income</b>	\$ 888	\$ 181	\$ 1,753	\$ 594
Net investment income	443	417	867	825
Income tax expense on operations	(395)	(102)	(772)	(305)
Realized capital gains and losses, after-tax	71	23	203	50
Gain on disposition of operations, after-tax	—	2	—	2
<b>Net income</b>	\$ 1,007	\$ 521	\$ 2,051	\$ 1,166
Catastrophe losses	\$ 248	\$ 566	\$ 350	\$ 699
<b>GAAP operating ratios</b>				
Claims and claims expense ("loss") ratio	62.3	73.7	62.4	71.4
Expense ratio	24.0	23.4	23.9	23.7
Combined ratio	86.3	97.1	86.3	95.1
Effect of catastrophe losses on loss ratio	3.8	9.2	2.7	5.8
Effect of restructuring and related charges on expense ratio	0.2	0.2	0.2	0.3
Effect of Discontinued Lines and Coverages on combined ratio	5.0	0.9	2.5	0.7

#### ALLSTATE PROTECTION SEGMENT

As we continue to implement Strategic Risk Management ("SRM"), a multi-phase strategy that integrates tier-based pricing, underwriting and marketing decisions, in the Allstate Protection business, the distinctions between standard auto and non-standard auto may become less important in certain states, depending upon how SRM is implemented. For this reason we are shifting our managerial focus to auto, including standard auto and non-standard auto. We also believe it is useful to investors to analyze auto results that aggregate our standard and non-standard business. However, we will continue to provide results for standard and non-standard auto. Generally, standard auto customers are expected to have lower risks of loss than non-standard auto customers. Our strategy for Ivantage focuses on improving profitability for both Encompass and Deerbrook, and growing in select markets, in part by using SRM. The integration of Encompass policies onto Allstate brand systems has

resulted in a different counting process for policies in force. As a result, recorded variances to prior year PIF and average premium are subject to some distortion until the integration is completed.

**Premiums written**, an operating measure, 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 the 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 Condensed Consolidated Statements of Financial Position.

A reconciliation of premiums written to premiums earned is presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
<b>Premiums written:</b>				
Allstate Protection	\$ 6,740	\$ 6,415	\$ 13,072	\$ 12,351
Discontinued Lines and Coverages	1	7	2	8
Property-Liability premiums written(1)	6,741	6,422	13,074	12,359
Increase in unearned premiums	(288)	(270)	(246)	(248)
Other	7	(6)	3	34
Property-Liability premiums earned(2)	\$ 6,460	\$ 6,146	\$ 12,831	\$ 12,145
<b>Premiums earned:</b>				
Allstate Protection	\$ 6,458	\$ 6,139	\$ 12,828	\$ 12,136
Discontinued Lines and Coverages	2	7	3	9
Property-Liability(2)	\$ 6,460	\$ 6,146	\$ 12,831	\$ 12,145

- (1) For the second quarter of 2004 and first six months of 2004, growth of Property-Liability premiums written was negatively impacted by 0.5% and 0.4%, respectively, due to accruals for Texas rate refunds and reinsurance transactions in the current and prior year.
- (2) For the second quarter of 2004 and first six months of 2004, growth of Property-Liability premiums earned was negatively impacted by 0.6% and 0.4%, respectively, due to accruals for Texas rate refunds and reinsurance transactions in the current and prior year.

Premiums written by brand are shown in the following tables.

	Three Months Ended June 30,					
	2004			2003		
	New	Renewal	Total	New	Renewal	Total
<b>(in millions)</b>						
<b>Allstate brand:</b>						
Standard auto	\$ 343	\$ 3,205	\$ 3,548	\$ 264	\$ 3,093	\$ 3,357
Non-standard auto	72	382	454	74	424	498
Auto	415	3,587	4,002	338	3,517	3,855
Homeowners	229	1,262	1,491	174	1,191	1,365
Other personal lines	165	530	695	153	496	649
<b>Total Allstate brand</b>	<b>809</b>	<b>5,379</b>	<b>6,188</b>	<b>665</b>	<b>5,204</b>	<b>5,869</b>
<b>Ivantage:</b>						
Standard auto (Encompass)	59	266	325	37	288	325
Non-standard auto (Deerbrook)	13	26	39	25	20	45
Auto	72	292	364	62	308	370
Homeowners (Encompass)	19	128	147	10	128	138
Other personal lines	11	30	41	13	25	38
<b>Total Ivantage</b>	<b>102</b>	<b>450</b>	<b>552</b>	<b>85</b>	<b>461</b>	<b>546</b>
<b>Total Allstate Protection premiums written</b>	<b>\$ 911</b>	<b>\$ 5,829</b>	<b>\$ 6,740</b>	<b>\$ 750</b>	<b>\$ 5,665</b>	<b>\$ 6,415</b>

	2004			2003		
	New	Renewal	Total	New	Renewal	Total
<b>(in millions)</b>						
<b>Allstate brand:</b>						
Standard auto	\$ 657	\$ 6,498	\$ 7,155	\$ 483	\$ 6,218	\$ 6,701
Non-standard auto	146	781	927	149	880	1,029
Auto	803	7,279	8,082	632	7,098	7,730
Homeowners	400	2,252	2,652	294	2,113	2,407
Other personal lines	310	998	1,308	267	936	1,203
<b>Total Allstate brand</b>	<b>1,513</b>	<b>10,529</b>	<b>12,042</b>	<b>1,193</b>	<b>10,147</b>	<b>11,340</b>
<b>Ivantage:</b>						
Standard auto (Encompass)	104	501	605	67	543	610
Non-standard auto (Deerbrook)	30	52	82	48	38	86
Auto	134	553	687	115	581	696
Homeowners (Encompass)	32	234	266	18	230	248
Other personal lines	21	56	77	21	46	67
<b>Total Ivantage</b>	<b>187</b>	<b>843</b>	<b>1,030</b>	<b>154</b>	<b>857</b>	<b>1,011</b>
<b>Total Allstate Protection premiums written</b>	<b>\$ 1,700</b>	<b>\$ 11,372</b>	<b>\$ 13,072</b>	<b>\$ 1,347</b>	<b>\$ 11,004</b>	<b>\$ 12,351</b>

Standard auto premiums written increased 5.2% to \$3.87 billion in the second quarter of 2004 from \$3.68 billion in the same period of 2003 and 6.1% to \$7.76 billion during the first six months of 2004 as compared to \$7.31 billion in the first six months of 2003.

Standard Auto	Allstate brand		Ivantage (Encompass)	
	2004	2003	2004	2003
<b>Three Months Ended June 30,</b>				
New business premiums	\$343 million	\$264 million	\$59 million	\$37 million
New business premiums (% change)	29.9	12.3	59.5	15.6
Renewal business premiums	\$3.21 billion	\$3.09 billion	\$266 million	\$288 million
Renewal ratio(1)	91.0	89.8	69.1	83.9
PIF (% change)(1)	4.9	(2.2)	(15.4)	(7.6)
Average premium (% change)(1)	0.9	7.6	32.7	14.9
<b>Six Months Ended June 30,</b>				
New business premiums	\$657 million	\$483 million	\$104 million	\$67 million
New business premiums (% change)	36.0	1.9	55.2	8.1
Renewal business premiums	\$6.50 billion	\$6.22 billion	\$501 million	\$543 million
Renewal ratio(1)	90.7	89.2	70.6	83.5
PIF (% change)(1)	4.9	(2.2)	(15.4)	(7.6)
Average premium (% change)(1)	1.7	8.2	32.0	14.0

(1) Allstate brand statistic excludes business written by Allstate Canada.

The increase in Allstate brand PIF in the second quarter of 2004 and first six months of 2004 compared to the same periods of 2003 are the result of increases in new business and the renewal ratio related to a decrease in rate activity and the implementation of a broader marketing approach in most of the U.S. The increases in the Allstate brand standard auto average premium in the second quarter of 2004 and in the first six months of 2004 compared to the same periods of 2003 are primarily due to higher average renewal premiums. The rate of increase in auto average premium has declined due to the decrease in rate activity.

Ivantage standard auto new business premiums written increased in the second quarter of 2004 and in the first six months of 2004 compared to the same periods of 2003 due to increases in new PIF and average premium. Increased average premium per policy was related to rate actions taken during the last two years. We expect the rate of decline in Ivantage standard auto PIF to moderate as our profit improvement actions position us to pursue growth opportunities in this channel.

The following table shows the net rate changes that were approved for standard auto during the second quarter and first six months of 2004.

	Three Months Ended June 30, 2004			Six Months Ended June 30, 2004		
	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>
Allstate brand	8	0.3	2.4	13	0.3	2.0
Ivantage (Encompass)	5	0.7	3.8	13(3)	1.4	3.5

(1) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total countrywide year-end premiums written.  
(2) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total year-end premiums written in those states.  
(3) Includes Washington D.C.

Non-standard auto premiums written decreased 9.2% to \$493 million in the second quarter of 2004 from \$543 million in the same period of 2003 and 9.5% to \$1.01 billion during the first six months of 2004 as compared to \$1.12 billion in the first six months of 2003.

Non-Standard Auto	Allstate brand		Ivantage (Deerbrook)	
	2004	2003	2004	2003
<b>Three Months Ended June 30,</b>				
New business premiums	\$72 million	\$74 million	\$13 million	\$25 million
New business premiums (% change)	(2.7)	(28.8)	(48.0)	38.9
Renewal business premiums	\$382 million	\$424 million	\$26 million	\$20 million
Renewal ratio <sup>(1)</sup>	78.3	74.2	62.1	59.0
PIF (% change) <sup>(1)</sup>	(13.8)	(19.0)	(1.4)	97.1
Average premium (% change) <sup>(1)</sup>	2.5	3.2	(6.5)	(0.3)
<b>Six Months Ended June 30,</b>				
New business premiums	\$146 million	\$149 million	\$30 million	\$48 million
New business premiums (% change)	(2.0)	(29.7)	(37.5)	60.0
Renewal business premiums	\$781 million	\$880 million	\$52 million	\$38 million
Renewal ratio <sup>(1)</sup>	78.4	74.3	61.3	55.9
PIF (% change) <sup>(1)</sup>	(13.8)	(19.0)	(1.4)	97.1
Average premium (% change) <sup>(1)</sup>	1.7	6.0	(6.3)	1.5

(1) Allstate brand statistic excludes business written by Allstate Canada.

Declines in Allstate brand non-standard auto new and renewal business premiums during the second quarter of 2004 and the first six months of 2004 compared to the same periods of 2003 were primarily due to a decline in PIF. PIF declined primarily because declines in new business were insufficient to make up for an inherently low renewal ratio in this business, and to a lesser extent, a shift in writing business previously reported as non-standard as standard auto using SRM. The rate of increase in auto average premium has declined due to the decrease in rate activity.

Ivantage non-standard premiums written have decreased slightly in the second quarter of 2004 because of declines in new business.

The following table shows the net rate changes that were approved for non-standard auto during the second quarter and first six months of 2004.

Three Months Ended June 30, 2004

Six Months Ended June 30, 2004

	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>
Allstate brand	1	0.2	1.0	3	1.4	4.6
Ivantage (Deerbrook)	—	—	—	6	1.5	4.1

- (1) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total countrywide year-end premiums written.  
(2) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total year-end premiums written in those states.

Auto premiums written increased 3.3% to \$4.37 billion in the second quarter of 2004 from \$4.23 billion in the same period of 2003 and 4.1% to \$8.77 billion during the first six months of 2004 as compared to \$8.43 billion in the first six months of 2003. We believe that using our auto results, which include the standard auto and non-standard auto business, is increasingly important to investors because it allows an aggregated analysis of our results and aligns with our plan to be more focused on opportunities in the broader auto market.

Auto	Allstate brand		Ivantage	
	2004	2003	2004	2003
<b>Three Months Ended June 30,</b>				
New business premiums	\$415 million	\$338 million	\$72 million	\$62 million
New business premiums (% change)	22.8	(0.3)	16.1	24.0
Renewal business premiums	\$3.59 billion	\$3.52 billion	\$292 million	\$308 million
Renewal ratio <sup>(1)</sup>	89.9	88.1	68.3	81.7
PIF (% change) <sup>(1)</sup>	3.2	(4.0)	(14.4)	(4.2)
Average premium (% change) <sup>(1)</sup>	0.3	5.8	27.0	14.7
<b>Six Months Ended June 30,</b>				
New business premiums	\$803 million	\$632 million	\$134 million	\$115 million
New business premiums (% change)	27.1	(7.9)	16.5	25.0
Renewal business premiums	\$7.28 billion	\$7.10 billion	\$553 million	\$581 million
Renewal ratio <sup>(1)</sup>	89.6	87.6	69.5	81.0
PIF (% change) <sup>(1)</sup>	3.2	(4.0)	(14.4)	(4.2)
Average premium (% change) <sup>(1)</sup>	0.8	6.7	26.3	14.5

- (1) Allstate brand statistic excludes business written by Allstate Canada.

The following table shows the net rate changes that were approved for auto (standard and non-standard) during the second quarter and first six months of 2004.

	Three Months Ended June 30, 2004			Six Months Ended June 30, 2004		
	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>
Allstate brand	8	0.2	2.1	15	0.5	2.5
Ivantage (Encompass & Deerbook)	5	0.6	3.8	16 <sup>(3)</sup>	1.4	3.6

(1) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total countrywide year-end premiums written.  
(2) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total year-end premiums written in those states.  
(3) Includes Washington D.C.

Homeowners premiums written increased 9.0% to \$1.64 billion in the second quarter of 2004 from \$1.50 billion in the same period of 2003 and 9.9% to \$2.92 billion during the first six months of 2004 as compared to \$2.66 billion in the first six months of 2003.

Homeowners	Allstate brand		Ivantage (Encompass)	
	2004	2003	2004	2003
<b>Three Months Ended June 30,</b>				
New business premiums	\$229 million	\$174 million	\$19 million	\$10 million
New business premiums (% change)	31.6	38.1	90.0	25.0
Renewal business premiums	\$1.26 billion	\$1.19 billion	\$128 million	\$128 million
Renewal ratio <sup>(1)</sup>	88.2	87.3	90.8	86.5
PIF (% change) <sup>(1)</sup>	5.7	0.7	(1.8)	(5.6)
Average premium (% change) <sup>(1)</sup>	3.6	9.0	12.1	7.9
<b>Six Months Ended June 30,</b>				
New business premiums	\$400 million	\$294 million	\$32 million	\$18 million
New business premiums (% change)	36.1	30.1	77.8	28.6
Renewal business premiums	2.25 billion	\$2.11 billion	\$234 million	\$230 million
Renewal ratio <sup>(1)</sup>	88.1	87.3	90.8	86.8
PIF (% change) <sup>(1)</sup>	5.7	0.7	(1.8)	(5.6)
Average premium (% change) <sup>(1)</sup>	3.7	8.9	12.6	9.7

(1) Allstate brand statistic excludes business written by Allstate Canada.

The Allstate brand homeowners PIF increases in the second quarter of 2004 and in the first six months of 2004 compared to the same periods of 2003 are the result of the increases in new business and the renewal ratio being driven by a broader marketing approach in most of the U.S. The increases in average premium during the second quarter and first six months of 2004 compared to the same periods of 2003 were primarily due to higher average renewal premiums in both years. Higher average renewal premiums were related to rate actions taken in the current and prior year.

Ivantage homeowners new business premiums written increased in the second quarter of 2004 and in the first six months of 2004 due to increases in PIF and average premium. Increased average premium was due to rate actions taken during the current and prior year. We expect the rate of decline in Ivantage homeowners PIF to moderate as our profit improvement actions position us to pursue growth opportunities in this channel.

The following table shows the net rate changes that were approved for homeowners during the second quarter and first six months of 2004.

	Three Months Ended June 30, 2004			Six Months Ended June 30, 2004		
	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>	# of States	Weighted Average Rate Change (%) <sup>(1)</sup>	Annual Impact of Rate Changes on State Specific Premiums Written (%) <sup>(2)</sup>
Allstate brand	2	—	(1.7)	5	0.1	1.2
Ivantage (Encompass)	7	2.7	9.9	15 <sup>(3)</sup>	4.1	8.6

- (1) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total countrywide year-end premiums written.
- (2) Represents the impact in the states where rate changes were approved during the second quarter and first six months of 2004 as a percentage of total year-end premiums written in those states.
- (3) Includes Washington D.C.

Premiums earned by brand are shown in the following tables.

	Three Months Ended June 30,					
	Allstate brand		Ivantage brand		Total Allstate Protection	
	2004	2003	2004	2003	2004	2003
(in millions)						
Standard auto	\$ 3,547	\$ 3,328	\$ 300	\$ 299	\$ 3,847	\$ 3,627
Non-standard auto	466	534	42	40	508	574
Auto	4,013	3,862	342	339	4,355	4,201
Homeowners	1,319	1,207	130	122	1,449	1,329
Other	619	579	35	30	654	609
Total	\$ 5,951	\$ 5,648	\$ 507	\$ 491	\$ 6,458	\$ 6,139

	Six Months Ended June 30,					
	Allstate brand		Ivantage brand		Total Allstate Protection	
	2004	2003	2004	2003	2004	2003
(in millions)						
Standard auto	\$ 7,033	\$ 6,568	\$ 600	\$ 595	\$ 7,633	\$ 7,163
Non-standard auto	940	1,082	85	76	1,025	1,158
Auto	7,973	7,650	685	671	8,658	8,321
Homeowners	2,619	2,381	258	243	2,877	2,624
Other	1,223	1,135	70	56	1,293	1,191
Total	\$ 11,815	\$ 11,166	\$ 1,013	\$ 970	\$ 12,828	\$ 12,136



Underwriting results are shown in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Premiums written	\$ 6,740	\$ 6,415	\$ 13,072	\$ 12,351
Premiums earned	6,458	6,139	12,828	12,136
Claims and claims expense	(3,703)	(4,469)	(7,685)	(8,582)
Amortization of DAC	(948)	(858)	(1,872)	(1,685)
Other costs and expenses	(588)	(564)	(1,171)	(1,147)
Restructuring and related charges	(12)	(14)	(23)	(37)
Underwriting income	\$ 1,207	\$ 234	\$ 2,077	\$ 685
Catastrophe losses	\$ 248	\$ 566	\$ 350	\$ 699
<b>Underwriting income (loss) by brand</b>				
Allstate brand	\$ 1,166	\$ 261	\$ 2,023	\$ 719
Ivantage	41	(27)	54	(34)
Underwriting income	\$ 1,207	\$ 234	\$ 2,077	\$ 685

Allstate Protection generated underwriting income of \$1.21 billion during the second quarter of 2004 compared to \$234 million in the same period of 2003. For the six month period ended June 30, 2004, Allstate Protection generated underwriting income of \$2.08 billion compared to \$685 million for the first half of last year. The increase in underwriting income during both periods was the result of increased premiums earned, favorable reserve reestimates related to prior years, lower catastrophe losses and declines in auto and homeowners claim frequency (rate of claim occurrence), partially offset by increased current year claim severity (average cost per claim).

Favorable reserve reestimates totaling \$395 million reflect lower actual claim severity and frequency trends than anticipated in previous estimates. Reserve estimates were favorably influenced by declines experienced for auto and homeowners claim frequencies and by more moderate auto severity increases than expected. For the first six months of the year claim frequencies for Auto Bodily Injury, Auto Property Damage, and Homeowners excluding catastrophes were below prior year by 4.0%, 3.0% and 10.3%, respectively. For the first six months of the year paid severity increases for Auto Bodily Injury and Auto Property Damage claims of 1.0% and (0.3)%, respectively, were below expected levels. Claim severity was impacted by inflationary pressures in medical costs and auto repair and home repair costs. If future development of current year claim severity differs from the current reserve expectations by 1%, reserve reestimates would impact net income by approximately \$100 million.

Loss ratios by product, and expense and combined ratios by brand are shown in the following table. These ratios are defined on page 23.

	Three Months Ended June 30,				Six Months Ended June 30,			
	Loss Ratio		Effect of Catastrophe Losses on the Loss Ratio		Loss Ratio		Effect of Catastrophe Losses on the Loss Ratio	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>Allstate brand:</b>								
Standard auto	60.6	74.1	1.6	4.4	63.7	72.8	0.6	2.2
Non-standard auto	52.4	71.9	1.1	1.9	57.4	73.6	0.6	1.0
Auto	59.7	73.8	1.6	4.1	63.0	72.9	0.7	2.0
Homeowners	47.0	68.8	11.1	26.5	47.8	62.8	9.2	17.9
Other	59.6	71.7	2.7	9.2	61.3	69.9	2.4	5.9
<b>Total Allstate brand loss ratio</b>	56.9	72.5	3.9	9.3	59.4	70.5	2.7	5.8
<b>Allstate brand expense ratio</b>	23.5	22.9			23.5	23.1		
<b>Allstate brand combined ratio</b>	80.4	95.4			82.9	93.6		
<b>Ivantage:</b>								
Standard auto (Encompass)	54.3	73.9	1.6	1.7	61.5	73.8	0.8	0.9
Non-standard auto (Deerbrook)	76.2	82.5	—	—	77.6	82.9	—	—
Auto	57.0	74.9	1.4	1.4	63.5	74.8	0.7	0.7
Homeowners (Encompass)	69.2	85.2	10.7	25.4	63.6	74.9	8.6	17.3
Other	97.2	53.3	2.9	6.6	91.4	53.6	2.8	5.4
<b>Ivantage loss ratio</b>	62.9	76.2	3.9	7.8	65.5	73.6	2.9	5.1
<b>Ivantage expense ratio</b>	29.2	29.3			29.3	29.9		
<b>Ivantage combined ratio</b>	92.1	105.5			94.8	103.5		
<b>Total Allstate Protection loss ratio</b>	57.3	72.8	3.8	9.2	59.9	70.7	2.7	5.8
<b>Allstate Protection expense ratio</b>	24.0	23.4			23.9	23.7		
<b>Allstate Protection combined ratio</b>	81.3	96.2			83.8	94.4		

*Standard auto loss ratio* for the Allstate brand declined 13.5 points in the second quarter of 2004 and 9.1 points during the first six months of 2004 as compared to the same periods last year. Standard auto loss ratio for Ivantage declined 19.6 points in the second quarter of 2004 and 12.3 points during the first six months of 2004 as compared to the same periods last year. These declines were due to higher premiums earned, favorable reserve reestimates related to prior years and lower claim frequency, partially offset by higher current year claim severity. The second quarter of 2004 included lower estimates of current year Ivantage claim frequency.

*Non-standard auto loss ratio* for the Allstate brand declined 19.5 points in the second quarter of 2004 and 16.2 points during the first six months of 2004 as compared to the same periods last year. Non-standard auto loss ratio for Ivantage declined 6.3 points in the second quarter of 2004 and 5.3 points during the first six months of 2004 as compared to the same periods last year. These declines were due to favorable reserve reestimates related to prior years, lower claim frequency and higher premiums earned in Ivantage, partially offset by higher current year claim severity.

*Auto loss ratio* for the Allstate brand declined 14.1 points in the second quarter of 2004 and 9.9 points during the first six months of 2004 as compared to the same periods last year. Auto loss ratio for Ivantage declined 17.9 points in the second quarter of 2004 and 11.3 points during the first six months of 2004 as compared to the same periods last year. These declines were due to higher premiums earned, favorable reserve reestimates related to prior years and lower claim frequency, partially offset by higher current year

claim severity. The second quarter of 2004 included lower estimates of current year Ivantage claim frequency.

*Homeowners loss ratio* for the Allstate brand declined 21.8 points in the second quarter of 2004 and 15.0 points during the first six months of 2004 as compared to the same periods last year. Homeowners loss ratio for Ivantage declined 16.0 points in the second quarter of 2004 and 11.3 points in the first six months of 2004 as compared to the same periods last year. These declines were due to higher premiums earned, favorable reserve reestimates related to prior years, lower claim frequency and lower catastrophe losses, partially offset by higher current year claim severity.

*Expense ratio* for Allstate Protection increased in the second quarter of 2004 and in the first six months of 2004 when compared to the same periods of 2003. The increase was due to higher amortization of DAC resulting from higher agent incentives due to higher profitability and from increases in premiums written.

The impact of specific costs and expenses on the expense ratio are included in the following table.

	Three Months Ended June 30,				Six Months Ended June 30,			
	Allstate brand		Ivantage		Allstate brand		Ivantage	
	2004	2003	2004	2003	2004	2003	2004	2003
Amortization of DAC	14.3	13.6	19.4	18.4	14.2	13.5	19.2	18.9
Other costs and expenses	9.0	9.1	9.6	10.7	9.1	9.3	9.8	10.7
Restructuring and related charges	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
<b>Total expense ratio</b>	<b>23.5</b>	<b>22.9</b>	<b>29.2</b>	<b>29.3</b>	<b>23.5</b>	<b>23.1</b>	<b>29.3</b>	<b>29.9</b>

The tables below show net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2004 and 2003, and the effect of reestimates in each year.

	January 1 Reserves	
	2004	2003
<b>(in millions)</b>		
Auto	\$ 10,419	\$ 10,378
Homeowners	1,873	1,664
Other personal lines	1,851	1,546
<b>Total Allstate Protection</b>	<b>\$ 14,143</b>	<b>\$ 13,588</b>
Allstate brand	\$ 12,866	\$ 12,361
Ivantage	1,277	1,227
<b>Total Allstate Protection</b>	<b>\$ 14,143</b>	<b>\$ 13,588</b>

	Three Months Ended June 30,				Six Months Ended June 30,			
	Reserve Reestimate		Impact on Loss Ratio		Reserve Reestimate		Impact on Loss Ratio	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>(in millions, except ratios)</b>								
Auto	\$ (310)	\$ (6)	(4.8)	(0.1)	\$ (357)	\$ (38)	(2.8)	(0.3)
Homeowners	(105)	1	(1.6)	—	(107)	15	(0.8)	0.1
Other personal lines	20	(4)	0.3	—	17	21	0.1	0.2
<b>Total Allstate Protection</b>	<b>\$ (395)</b>	<b>\$ (9)</b>	<b>(6.1)</b>	<b>(0.1)</b>	<b>\$ (447)</b>	<b>\$ (2)</b>	<b>(3.5)</b>	<b>—</b>
Allstate brand	\$ (397)	\$ (27)	(6.1)	(0.4)	\$ (449)	\$ (26)	(3.5)	(0.2)
Ivantage	2	18	—	0.3	2	24	—	0.2
<b>Total Allstate Protection</b>	<b>\$ (395)</b>	<b>\$ (9)</b>	<b>(6.1)</b>	<b>(0.1)</b>	<b>\$ (447)</b>	<b>\$ (2)</b>	<b>(3.5)</b>	<b>—</b>

## DISCONTINUED LINES AND COVERAGES SEGMENT

The Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. This segment is managed by a designated group of professionals with expertise in claims handling, policy coverage interpretation and exposure identification. As part of its responsibilities, this group is also regularly engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations. We conduct an annual review in the third quarter of each year to evaluate and establish reserves for asbestos, environmental and other discontinued lines, and an assessment each quarter to determine if any intervening significant events or developments require an adjustment to reserves. Changes to reserve estimates may occur upon completion of these reviews. Reserves are recorded in the reporting period in which they are determined.

Summarized underwriting results are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Premiums written	\$ 1	\$ 7	\$ 2	\$ 8
Premiums earned	\$ 2	\$ 7	\$ 3	\$ 9
Claims and claims expense	(318)	(58)	(322)	(96)
Other costs and expenses	(3)	(2)	(5)	(4)
Underwriting loss	\$ (319)	\$ (53)	\$ (324)	\$ (91)

Underwriting losses of \$319 million were primarily related to a \$216 million reestimate of asbestos IBNR reserves, a \$76 million reestimate of the allowance for future uncollectible reinsurance recoverables, and reserve reestimates of \$20 million related to other (non-A&E) exposures in run-off. The reestimate of asbestos reserves was a result of our assessment of the impact of recent and previously unexpected claim activity reported by direct excess policyholders and the related reestimates of expected future claim activity. The underwriting losses in the first six months of 2004 were primarily due to reestimates of asbestos reserves. The underwriting losses in the second quarter of 2003 and first six months of 2003 were primarily due to reestimates of asbestos reserves.

Our net asbestos reserves by type of exposure and total reserve additions for the first two quarters by quarter are shown in the following table.

	June 30, 2004			December 31, 2003		
	Number of Active Policyholders	Est. Net Asbestos Reserves	% of Asbestos Reserves	Number of Active Policyholders	Net Asbestos Reserves	% of Asbestos Reserves
(\$ in millions)						
<b>Direct policyholders</b>						
—Primary	55	\$ 26	2%	52	\$ 28	3%
—Excess	289	195	16	286	201	19
Total direct policyholders	344	221	18%	338	229	22%
Assumed reinsurance		220	17		191	17
Incurred but not reported claims ("IBNR")		820	65		659	61
Total net reserves		\$ 1,261	100%		\$ 1,079	100%
Reserve additions						
First Quarter		\$ —			\$ 34	
Second Quarter		216			38	
Six months ended June 30		\$ 216			\$ 72	
Net survival ratio excluding commutations, policy buy-backs and settlement agreements						
Annual		25.2			24.2	
3-Year		27.5			22.2	

During the first six months of 2004, 29 direct primary and excess policyholders reported new claims, and claims of 23 policyholders were closed, so the number of direct policyholders with active claims increased by six.

Reserve additions for asbestos in the second quarter and first six months of 2004, totaling \$216 million, were primarily for products-related coverage. This increase was a result of more claim activity and reestimates of future claim activity for excess insurance policyholders with existing active claims. As a result of the increased claim activity over prior estimates, we have increased our outlook for future claims. This trend is consistent with the trends of other carriers in the industry. We believe it is related to increased publicity and awareness of coverage, ongoing litigation, potential congressional activity and bankruptcy actions. IBNR now represents 65% of total net asbestos reserves, 4 points higher than at December 31, 2003. IBNR provides for estimated probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new direct active policyholders and ceding companies.

Our exposure to non-products-related losses represents approximately 5% of total asbestos case reserves. We do not anticipate significant changes in this percentage as insureds' retentions associated with excess insurance programs, which are our principal direct insurance, and assumed reinsurance exposure are seldom exceeded. We did not write direct primary insurance on policyholders with the potential for significant non-products-related loss exposure.

Our three-year average survival ratio, as shown in the preceding table, is viewed to be a more representative prospective measure of current reserve adequacy than other survival ratio calculations. Now at 27.5 years as of June 30, 2004, our survival ratio is at a level we consider a strong asbestos reserve position. A one-year increase in the three-year average asbestos survival ratio at June 30, 2004 would require an after-tax increase in reserves of approximately \$29 million.

To further limit our asbestos exposure, we have significant reinsurance, primarily to reduce our exposure to loss in our direct excess insurance business. Our reinsurance recoverables are estimated to be approximately 40% of our gross estimated loss reserves.

In the second quarter of 2004, we evaluated the financial condition of several reinsurers in light of their recent activities with respect to commutations and claim settlement practices. Based on this review, we refined our bad debt allowance to provide a greater allowance for companies in run-off and/or those who have reorganized to limit or wall off their liabilities. This resulted in an increase of \$76 million to the allowance, bringing it to \$168 million, or approximately 15.0% of total Discontinued Lines recoverables from reinsurers.

We believe that our reserves are appropriately established based on assessments of pertinent factors and characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment.

#### **PROPERTY-LIABILITY INVESTMENT RESULTS**

**Net investment income** for our property-liability operations increased 6.2% in the second quarter of 2004 and 5.1% for the first six months of 2004 as compared to the same periods of 2003. The increases were due to higher portfolio balances resulting from positive cash flows from operations and investment activities and higher income from partnerships, partially offset by lower portfolio yields.

**Net realized capital gains and losses, after-tax** were \$71 million in the second quarter of 2004 compared to \$23 million in the same period of 2003. Net realized capital gains and losses, after-tax were \$203 million in the first six months of 2004 compared to \$50 million in the same period of 2003. The following table presents the factors driving the net realized capital gains and losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
Investment write-downs	\$ (8)	\$ (48)	\$ (15)	\$ (73)
Dispositions	113	68	333	128
Valuation of derivative instruments	8	11	(3)	5
Settlements of derivative instruments	(4)	—	(15)	8
Realized capital gains and losses, pretax	109	31	300	68
Income tax expense	(38)	(8)	(97)	(18)
Realized capital gains and losses, after-tax	\$ 71	\$ 23	\$ 203	\$ 50

For a further discussion of net realized capital gains and losses, see the Investments section of the MD&A.

#### ALLSTATE FINANCIAL HIGHLIGHTS

- Allstate Financial revenues decreased by \$15 million or 1.2% to \$1.28 billion in the second quarter of 2004 from \$1.29 billion in the second quarter of 2003 and decreased \$123 million or 4.6% to \$2.57 billion in the first six months of 2004 from \$2.69 billion for the first six months of 2003. The decreases in both periods were due to the effects of the disposal of the majority of our direct response distribution business, lower premiums on immediate annuities with life contingencies and higher realized capital losses, partially offset by higher net investment income and increased contract charges on variable annuities and interest-sensitive life.
- Allstate Financial net income for the second quarter of 2004 decreased 40.8% to \$58 million from \$98 million for the same period in the prior year. Allstate Financial had a net loss of \$15 million in the first six months of 2004 compared with net income of \$148 million for the same period in the prior year. The decrease in the second quarter of 2004 was primarily attributable to higher realized capital losses, a current period loss on disposition of operations and a higher effective tax rate primarily attributable to tax expenses recorded in connection with the loss on disposition of operations. The decrease in the first six months of 2004 was primarily due to a \$175 million after-tax charge related to the cumulative effect of a change in accounting principle for SOP 03-1, which was adopted on January 1, 2004. Income before the cumulative effect of change in accounting principle, after-tax, improved 8.1% compared to the first six months of 2003.
- Total investments increased 9.2% as of June 30, 2004 compared to June 30, 2003 due primarily to contractholder deposits. This increase was negatively impacted by a decline in the net unrealized gains on fixed income securities from \$4.47 billion at June 30, 2003 to \$2.06 billion at June 30, 2004.
- Contractholder deposits totaled \$3.77 billion and \$6.69 billion for the second quarter and first six months of 2004, respectively, compared to \$2.75 billion and \$4.66 billion for the second quarter and first six months of 2003, respectively. The increase was primarily attributable to institutional products and fixed annuities.
- When comparing the second quarter and first six months of 2004 to the same periods in the prior year, the disposal of the majority of our direct response distribution business resulted in the following effects.

(in millions)	Three Months Ended June 30, 2004 Compared to the Same Period in the Prior Year		Six Months Ended June 30, 2004 Compared to the Same Period in the Prior Year	
Total revenues	\$	(54)	\$	(108)
Contract benefits		24		47
Amortization of DAC		7		15
Operating costs and expenses		18		34
Loss on disposition of operations		(2)		(5)
Income tax expense		2		6
Net income	\$	(5)	\$	(11)

## ALLSTATE FINANCIAL SEGMENT

Summarized financial data is presented in the following table.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Revenues</b>				
Life and annuity premiums and contract charges	\$ 504	\$ 533	\$ 1,000	\$ 1,172
Net investment income	833	797	1,654	1,596
Realized capital gains and losses	(61)	(39)	(84)	(75)
Total revenues	1,276	1,291	2,570	2,693
<b>Costs and expenses</b>				
Contract benefits	(378)	(426)	(773)	(956)
Interest credited to contractholder funds	(480)	(460)	(950)	(913)
Amortization of DAC	(123)	(103)	(254)	(289)
Operating costs and expenses	(177)	(161)	(322)	(329)
Restructuring and related charges	(4)	—	(4)	—
Total costs and expenses	(1,162)	(1,150)	(2,303)	(2,487)
Loss on disposition of operations	(8)	—	(11)	—
Income tax expense	(48)	(43)	(96)	(58)
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
Net income (loss)	\$ 58	\$ 98	\$ (15)	\$ 148
Investments	\$ 67,170	\$ 61,513	\$ 67,170	\$ 61,513
Separate accounts assets	13,564	11,823	13,564	11,823
Investments, including separate accounts assets	\$ 80,734	\$ 73,336	\$ 80,734	\$ 73,336

**Life and annuity premiums and contract charges** Premiums represent revenues generated from traditional life, immediate annuities with life contingencies and other insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive life products, variable annuities, fixed annuities and other investment products for which deposits are classified as contractholder funds or separate accounts liabilities on the Condensed Consolidated Statements of Financial Position. Contract charges are assessed against the contractholder account values for maintenance,

administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in contractholder funds and separate accounts liabilities are considered in the evaluation of growth and as indicators of future levels of revenues.

The following table summarizes premiums and contract charges by product.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
<b>Premiums</b>				
Traditional life	\$ 85	\$ 96	\$ 159	\$ 187
Immediate annuities with life contingencies	66	68	143	251
Accident, health and other	101	133	196	271
<b>Total premiums</b>	<b>252</b>	<b>297</b>	<b>498</b>	<b>709</b>
<b>Contract charges</b>				
Interest-sensitive life	161	154	321	304
Fixed annuities	14	11	28	18
Variable annuities	61	50	121	97
Institutional products	—	3	—	6
Accident, health and other	16	18	32	38
<b>Total contract charges</b>	<b>252</b>	<b>236</b>	<b>502</b>	<b>463</b>
<b>Life and annuity premiums and contract charges</b>	<b>\$ 504</b>	<b>\$ 533</b>	<b>\$ 1,000</b>	<b>\$ 1,172</b>

The following table summarizes premiums and contract charges by distribution channel.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
<b>Premiums</b>				
Allstate agencies	\$ 103	\$ 77	\$ 185	\$ 151
Specialized brokers	51	68	114	251
Independent agents	83	79	169	160
Direct response	15	73	30	147
<b>Total premiums</b>	<b>252</b>	<b>297</b>	<b>498</b>	<b>709</b>
<b>Contract charges</b>				
Allstate agencies	116	108	229	217
Specialized brokers	5	9	12	16
Independent agents	74	73	149	140
Financial institutions and broker/dealers	57	46	111	90
Direct response	—	—	1	—
<b>Total contract charges</b>	<b>252</b>	<b>236</b>	<b>502</b>	<b>463</b>
<b>Life and annuity premiums and contract charges</b>	<b>\$ 504</b>	<b>\$ 533</b>	<b>\$ 1,000</b>	<b>\$ 1,172</b>

Total premiums decreased 15.2% to \$252 million in the second quarter of 2004 and 29.8% to \$498 million in the first six months of 2004 compared to the same periods of 2003. The decrease in the second quarter of 2004 compared to the same period in the prior year was attributable to the disposal of the majority of our direct response distribution business, which resulted in lower accident, health and other and traditional life premiums. The decrease in the first six months of 2004 compared to the same period in the prior year was primarily due to the disposal of the majority of our direct response distribution business and lower premiums on immediate annuities with life contingencies. The declines in immediate annuities with life



contingencies were primarily the result of stricter underwriting actions, which reduced sales of large individual contracts.

Contract charges increased 6.8% to \$252 million in the second quarter of 2004 and 8.4% to \$502 million in the first six months of 2004 compared to the same periods of 2003. The increase in both periods was primarily due to higher contract charges on variable annuities as a result of overall higher account values in the current periods and increased contract charges on interest-sensitive life products resulting from in force business growth. The higher account values in the current periods were primarily attributable to favorable investment results during 2003 and net deposits, partially offset by surrenders and benefits.

*Contractholder funds* represent interest-bearing liabilities arising from the sale of individual products, such as interest-sensitive life, fixed annuities and bank deposits, or institutional products, such as funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract maturities, benefits, surrenders, withdrawals and contract charges for mortality or administrative expenses.

The following table shows the changes in contractholder funds.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
<b>Contractholder funds, beginning balance</b>	\$ 49,162	\$ 41,820	\$ 47,071	\$ 40,751
Impact of adoption of SOP 03-1(1)	—	—	421	—
<b>Deposits</b>				
Fixed annuities (immediate and deferred)	1,636	1,463	2,852	2,472
Institutional products	1,499	632	2,600	986
Interest-sensitive life	330	254	660	487
Variable annuity and life deposits allocated to fixed accounts	151	237	271	409
Bank and other deposits	149	161	310	306
<b>Total deposits</b>	<b>3,765</b>	<b>2,747</b>	<b>6,693</b>	<b>4,660</b>
<b>Interest credited</b>	<b>480</b>	<b>460</b>	<b>945</b>	<b>913</b>
<b>Maturities, benefits, withdrawals and other adjustments</b>				
Maturities of institutional products	(584)	(696)	(1,095)	(1,093)
Benefits and withdrawals	(989)	(820)	(1,907)	(1,552)
Contract charges	(159)	(157)	(318)	(305)
Net transfers to separate accounts	(103)	(119)	(234)	(142)
Fair value hedge adjustments for institutional products	(135)	71	(119)	87
Other adjustments	20	52	—	39
<b>Total maturities, benefits, withdrawals and other adjustments</b>	<b>(1,950)</b>	<b>(1,669)</b>	<b>(3,673)</b>	<b>(2,966)</b>
<b>Contractholder funds, ending balance</b>	<b>\$ 51,457</b>	<b>\$ 43,358</b>	<b>\$ 51,457</b>	<b>\$ 43,358</b>

(1) The increase in contractholder funds due to the adoption of SOP 03-1 reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds, the reclassification of deferred sales inducements from contractholder funds to other assets and the establishment of reserves for certain liabilities that are primarily related to income and death benefit guarantees provided under variable annuity contracts.

Contractholder deposits increased 37.1% in the second quarter and 43.6% in the first six months of 2004 compared to the same periods in 2003, and average contractholder funds, excluding the impact of adopting SOP 03-1, increased 18.1% in the second quarter and 16.6% in the first six months of 2004 compared to the same periods in 2003 due to increases in institutional product and fixed annuity deposits. Institutional product deposits increased 137.2% and 163.7% in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003, largely due to our assessment of market opportunities. Institutional product deposits included the inaugural offering during the second quarter of 2004 of our newly

registered program totaling \$800 million. Fixed annuity deposits increased 11.8% and 15.4% in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003. The increases were attributable to higher consumer demand resulting from increasing market interest rates.

Benefits and withdrawals increased 20.6% in the second quarter and 22.9% in the first six months of 2004 compared to the same periods in 2003. Benefits and withdrawals for the second quarter and first six months of 2004 represent an annualized withdrawal rate of 10.3% and 10.2%, respectively, based on the beginning of period contractholder funds balance excluding institutional product reserves, compared to 10.0% and 9.8% for the second quarter and first six months of 2003, respectively. Institutional product maturities declined 16.1% in the second quarter of 2004 compared to the same period in the prior year and were slightly higher in the first six months of 2004 compared to the same period in the prior year.

*Separate accounts liabilities* represent contractholders' claims to the related legally segregated separate accounts assets. Separate accounts liabilities primarily arise from the sale of variable annuity contracts and variable life insurance policies. The following table shows the changes in separate accounts liabilities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
<b>Separate accounts liabilities, beginning balance</b>	\$ 13,550	\$ 10,553	\$ 13,425	\$ 11,125
Impact of adoption of SOP 03-1(1)	—	—	(204)	—
Variable annuity and life deposits	474	575	961	1,000
Variable annuity and life deposits allocated to fixed accounts	(151)	(237)	(271)	(409)
Net deposits	323	338	690	591
Investment results	45	1,238	361	970
Contract charges	(63)	(54)	(125)	(106)
Net transfers from fixed accounts	103	119	234	142
Surrenders and benefits	(394)	(371)	(817)	(899)
<b>Separate accounts liabilities, ending balance</b>	\$ 13,564	\$ 11,823	\$ 13,564	\$ 11,823

(1) The decrease in separate accounts due to the adoption of SOP 03-1 reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds.

Separate accounts liabilities, excluding the impact of adopting SOP 03-1, increased \$14 million and \$343 million during the second quarter and first six months of 2004, respectively, compared to \$1.27 billion and \$698 million during the second quarter and first six months of 2003, respectively, as a result of net deposits, transfers from fixed accounts and positive investment results, partially offset by surrenders, benefits paid to contractholders and contract charges. Variable annuity contractholders often allocate a significant portion of their initial variable annuity contract deposit into a fixed rate investment option. The level of this activity is reflected above in the deposits allocated to the fixed accounts, while all other transfer activity between the fixed and separate accounts investment options is reflected in net transfers from fixed accounts. The liability for the fixed portion of variable annuity contracts is reflected in contractholder funds.

**Net investment income** increased 4.5% in the second quarter of 2004 and 3.6% in the first six months of 2004 compared to the same periods in 2003. The increases in both periods were the result of the effect of higher portfolio balances and increased income on partnership interests, partially offset by lower portfolio yields. Higher portfolio balances resulted from the investment of cash flows from operating and financing activities. Total investments as of June 30, 2004, increased 9.2% from June 30, 2003 due primarily to contractholder deposits, partially offset by a decline in unrealized capital gains on fixed income securities. The lower portfolio yields were primarily due to purchases of fixed income securities with yields lower than the current portfolio average.

Net income analysis is presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
Life and annuity premiums and contract charges	\$ 504	\$ 533	\$ 1,000	\$ 1,172
Net investment income	833	797	1,654	1,596
Periodic settlements and accruals on non-hedge derivative instruments	12	2	18	5
Contract benefits	(378)	(426)	(773)	(956)
Interest credited to contractholder funds(1)	(473)	(460)	(929)	(913)
<b>Gross margin</b>	<b>498</b>	<b>446</b>	<b>970</b>	<b>904</b>
Amortization of DAC and DSI	(125)	(92)	(255)	(264)
Operating costs and expenses	(177)	(161)	(322)	(329)
Restructuring and related charges	(4)	—	(4)	—
Income tax expense	(66)	(62)	(131)	(98)
Realized capital gains and losses, after-tax	(43)	(25)	(57)	(46)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	(3)	(7)	(13)	(16)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(7)	(1)	(11)	(3)
Loss on disposition of operations, after-tax	(15)	—	(17)	—
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
<b>Net income (loss)</b>	<b>\$ 58</b>	<b>\$ 98</b>	<b>\$ (15)</b>	<b>\$ 148</b>

(1) Beginning in 2004, amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled \$7 million in the second quarter of 2004 and \$21 million in the first six months of 2004. Prior periods have not been restated.

*Gross margin*, a non-GAAP measure, represents life and annuity premiums and contract charges and net investment income, less contract benefits and interest credited to contractholder funds. We use gross margin as a component of our evaluation of the profitability of Allstate Financial's life insurance and financial product portfolio. Additionally, for many of our products, including fixed annuities, variable contracts, and interest-sensitive life insurance, the amortization of DAC and DSI is determined based on actual and expected gross margin. Gross margin is comprised of four components that are utilized to further analyze the business: investment margin, benefit margin, maintenance charges and surrender charges. We believe gross margin and its components are useful to investors because they allow for the evaluation of income components separately and in the aggregate when reviewing performance. Gross margin, investment margin and benefit margin should not be considered as a substitute for net income and do not reflect the overall profitability of the business. Net income is the GAAP measure that is most directly comparable to these margins. Gross margin is reconciled to Allstate Financial's GAAP net income in the table above. The components of gross margin are reconciled to the corresponding financial statement line items in the following table.

Three Months Ended June 30,

	Investment Margin		Benefit Margin		Maintenance Charges		Surrender Charges		Gross Margin	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>(in millions)</b>										
Life and annuity premiums	\$ —	\$ —	\$ 252	\$ 297	\$ —	\$ —	\$ —	\$ —	\$ 252	\$ 297
Contract charges	—	—	140	134	94	84	18	18	252	236
Net investment income	833	797	—	—	—	—	—	—	833	797
Periodic settlements and accruals on non-hedge derivative instruments(1)	12	2	—	—	—	—	—	—	12	2
Contract benefits	(130)	(128)	(248)	(298)	—	—	—	—	(378)	(426)
Interest credited to contractholder funds(2)	(473)	(460)	—	—	—	—	—	—	(473)	(460)
	\$ 242	\$ 211	\$ 144	\$ 133	\$ 94	\$ 84	\$ 18	\$ 18	\$ 498	\$ 446

Six Months Ended June 30,

	Investment Margin		Benefit Margin		Maintenance Charges		Surrender Charges		Gross Margin	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>(in millions)</b>										
Life and annuity premiums	\$ —	\$ —	\$ 498	\$ 709	\$ —	\$ —	\$ —	\$ —	\$ 498	\$ 709
Contract charges	—	—	276	261	188	165	38	37	502	463
Net investment income	1,654	1,596	—	—	—	—	—	—	1,654	1,596
Periodic settlements and accruals on non-hedge derivative instruments(1)	18	5	—	—	—	—	—	—	18	5
Contract benefits	(261)	(254)	(512)	(702)	—	—	—	—	(773)	(956)
Interest credited to contractholder funds(2)	(929)	(913)	—	—	—	—	—	—	(929)	(913)
	\$ 482	\$ 434	\$ 262	\$ 268	\$ 188	\$ 165	\$ 38	\$ 37	\$ 970	\$ 904

- (1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Condensed Consolidated Statements of Operations.  
(2) Beginning in 2004, amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled \$7 million in the second quarter of 2004 and \$21 million in the first six months of 2004. Prior periods have not been restated.

Gross margin increased 11.7% in the second quarter and 7.3% in the first six months of 2004 compared to the same periods of 2003. The increase in the second quarter was due to increased investment margin, benefit margin and maintenance charges. The increase in the first six months was due to increased investment margin and higher maintenance charges, partly offset by a decrease in the benefit margin.

*Investment margin* is a component of gross margin, both of which are non-GAAP measures. Investment margin represents the excess of net investment income over interest credited to contractholder funds and the implied interest on life-contingent immediate annuities included in the reserve for life-contingent contract benefits. We use investment margin to evaluate Allstate Financial's profitability related to the difference

between investment returns on assets supporting certain products and amounts credited to customers ("spread") during a fiscal period.

Investment margin by product group is shown in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Life insurance	\$ 53	\$ 56	\$ 111	\$ 113
Annuities	156	130	304	267
Institutional products	30	23	60	49
Bank and other	3	2	7	5
Total investment margin	\$ 242	\$ 211	\$ 482	\$ 434

Investment margin increased 14.7% in the second quarter of 2004 and 11.1% in the first six months of 2004 compared to the same periods of 2003. The increases in both periods were primarily due to an increase in contractholder funds and improved yields on investments supporting capital, traditional life and other products.

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the three months ended June 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2004	2003	2004	2003	2004	2003
Interest-sensitive life	6.6%	7.0%	4.6%	5.0%	2.0%	2.0%
Fixed annuities—deferred	5.8	6.5	4.1	4.7	1.7	1.8
Fixed annuities—immediate	7.6	7.9	6.9	7.2	0.7	0.7
Institutional	2.8	3.6	1.8	2.7	1.0	0.9
Investments supporting capital, traditional life and other products	6.2	5.7	N/A	N/A	N/A	N/A

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the six months ended June 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2004	2003	2004	2003	2004	2003
Interest-sensitive life	6.6%	7.0%	4.6%	5.0%	2.0%	2.0%
Fixed annuities—deferred	5.9	6.6	4.1	4.7	1.8	1.9
Fixed annuities—immediate	7.6	7.9	6.9	7.2	0.7	0.7
Institutional	2.9	3.7	1.9	2.7	1.0	1.0
Investments supporting capital, traditional life and other products	6.3	5.9	N/A	N/A	N/A	N/A

In the second quarter and first six months of 2004 compared to the same periods in the prior year, the yield on the capital, traditional life and other products investment portfolio improved due to more effective cash management and higher investment income realized on investments accounted for using the equity method of accounting. These increases were partially offset by a decline in fixed annuity investment spreads as investment yield declines were not fully offset by crediting rate reductions in each of the comparable periods. The weighted average interest crediting rates on fixed annuity and interest-sensitive life products in force, excluding market value adjusted annuities, were approximately 45 basis points more than the underlying long-term guaranteed rates on these products as of June 30, 2004. The crediting rate on approximately 50% of these contracts was at the contractually guaranteed minimum rate as of June 30, 2004.

The following table summarizes the liabilities for these contracts and policies.

	June 30,	
	2004	2003
<b>(in millions)</b>		
Interest-sensitive life	\$ 7,868	\$ 7,118
Fixed annuities—deferred	28,068	23,523
Fixed annuities—immediate	10,280	9,662
Institutional	11,187	8,623
	<u>57,403</u>	<u>48,926</u>
Life-contingent contracts	3,670	3,566
Allstate Bank	827	656
FAS 133 market value adjustment	458	513
Ceded reserves and other	168	676
	<u>62,526</u>	<u>54,337</u>
Total contractholder funds and reserve for life-contingent contract benefits	\$ 62,526	\$ 54,337

*Benefit margin* is a component of gross margin, both of which are non-GAAP measures. Benefit margin represents life and annuity premiums and cost of insurance contract charges less contract benefits. Benefit margin excludes the implied interest on life-contingent immediate annuities, which is included in the calculation of investment margin, and mortality charges on variable annuities, which are included as a component of maintenance charges. We use the benefit margin to evaluate Allstate Financial's underwriting performance, as it reflects the profitability of our products with respect to mortality or morbidity risk during a fiscal period.

Benefit margin by product group is shown in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>(in millions)</b>				
Life insurance	\$ 157	\$ 172	\$ 298	\$ 335
Annuities	(13)	(39)	(36)	(67)
	<u>144</u>	<u>133</u>	<u>262</u>	<u>268</u>
Total benefit margin	\$ 144	\$ 133	\$ 262	\$ 268

Benefit margin increased 8.3% in the second quarter of 2004 compared to the same period in the prior year as the decline resulting from the disposal of the majority of our direct response distribution business was more than offset by lower expenses related to guaranteed minimum death benefits ("GMDBs") on variable annuities and growth and lower mortality benefits on our traditional and interest-sensitive life products. Benefit margin declined 2.2% in the first six months of 2004 compared to the same period in 2003 as the disposal of the majority of our direct response distribution business more than offset growth and lower mortality benefits on our traditional and interest-sensitive life products and lower expenses related to GMDBs on variable annuities.

As required by SOP 03-1, as of January 1, 2004, a reserve was established for GMDBs and guaranteed minimum income benefits ("GMIBs"), which in previous periods, in the case of GMDBs, were expensed as paid. Under the SOP, we anticipate that the benefit margin will be less volatile in the future, as contract benefit expense pertaining to GMDBs and GMIBs will be proportionate to the related revenue rather than cash payments made during the period. Included in the benefit margin for the second quarter and first six months of 2004 are additions to the reserve for guarantees of \$5 million and \$20 million, respectively, net of reinsurance. Included in the benefit margin for the second quarter and first six months of 2003 are GMDB payments of \$27 million and \$48 million, respectively, net of reinsurance, hedging gains and losses and other contractual arrangements. For further explanation of the impacts of the adoption of this accounting guidance, see Note 1 to the Condensed Consolidated Financial Statements.

*Amortization of DAC and DSI* increased 35.9% in the second quarter of 2004 compared to the same period in the prior year as higher gross margin on fixed annuities and variable products resulted in increased amortization, which was partially offset by the elimination of DAC amortization on the direct response distribution business that was sold in January of 2004. Amortization of DAC and DSI decreased 3.4% in the

first six months of 2004 compared to the same period in the prior year as higher amortization due to increased gross margin on fixed annuities and variable products was more than offset by amortization acceleration (commonly referred to as "DAC unlocking") totaling \$89 million in the first six months of 2003 and the elimination of DAC amortization on the direct response distribution business sold in January of 2004.

The adoption of SOP 03-1 required a new modeling approach for estimating expected future gross profits that are used when determining the amortization of DAC. Because of this new modeling approach, effective January 1, 2004, the variable annuity DAC and DSI assets were reduced by \$124 million. This reduction was recognized as a cumulative effect of a change in accounting principle.

Operating costs and expenses increased 9.9% in the second quarter of 2004 compared to the same period in the prior year and decreased 2.1% in the first six months of 2004 compared to the same period in the prior year. The following table summarizes operating costs and expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Non-deferrable acquisition costs	\$ 76	\$ 71	\$ 138	\$ 138
Other operating costs and expenses	101	90	184	191
Total operating costs and expenses	\$ 177	\$ 161	\$ 322	\$ 329

The increase in total operating costs and expenses in the second quarter of 2004 compared to the same period in the prior year was primarily the result of higher non-deferrable expenditures related to loss experience on certain credit insurance policies, partially offset by the disposal of the majority of our direct response distribution business. For the first six months of 2004 compared to the same period in the prior year, total operating costs and expenses decreased 2.1% as the disposal of the majority of our direct response distribution business more than offset the second quarter expenditures related to loss experience on certain credit insurance policies, higher non-deferrable commissions and higher employee expenses.

Restructuring and related charges of \$4 million, pretax, were recorded in the second quarter of 2004 primarily related to the consolidation of two service centers. For more information on restructuring and related charges, see Note 6 to the Condensed Consolidated Financial Statements.

Net realized capital gains and losses are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Investment write-downs	\$ (11)	\$ (61)	\$ (46)	\$ (120)
Dispositions	(48)	41	(12)	64
Valuation of derivative instruments	(10)	(19)	(26)	(25)
Settlements of derivative instruments	8	—	—	6
Realized capital gains and losses, pretax	(61)	(39)	(84)	(75)
Income tax benefit	18	14	27	29
Realized capital gains and losses, after-tax	\$ (43)	\$ (25)	\$ (57)	\$ (46)

The losses on dispositions in the second quarter of 2004 were related to sales of securities that were sold in recognition of relative value opportunities. The proceeds from these sales were reinvested in higher yielding securities. For further discussion of realized capital gains and losses, see the Investments section of the MD&A.

## INVESTMENTS

An important component of our financial results is the return on our investment portfolios. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. The investment portfolios are managed based upon the nature of each respective business and its corresponding liability structure. The composition of the investment portfolios at June 30, 2004 is presented in the table below.

	Property-Liability		Allstate Financial		Corporate and Other		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
<b>(in millions)</b>								
Fixed income securities(1)	\$ 31,677	82.3%	\$ 56,703	84.4%	\$ 1,775	91.4%	\$ 90,155	83.8%
Equity securities	5,299	13.8	277	0.4	—	—	5,576	5.2
Mortgage loans	176	0.5	6,977	10.4	—	—	7,153	6.6
Short-term	1,317	3.4	1,490	2.2	165	8.5	2,972	2.8
Other	3	—	1,723	2.6	1	0.1	1,727	1.6
<b>Total</b>	<b>\$ 38,472</b>	<b>100.0%</b>	<b>\$ 67,170</b>	<b>100.0%</b>	<b>\$ 1,941</b>	<b>100.0%</b>	<b>\$ 107,583</b>	<b>100.0%</b>

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$30.84 billion, \$54.64 billion and \$1.70 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

Total investments increased to \$107.58 billion at June 30, 2004 from \$103.08 billion at December 31, 2003 primarily due to positive cash flows from operating and financing activities and increased funds associated with securities lending, partially offset by decreased net unrealized gains on fixed income securities.

Property-Liability investments increased to \$38.47 billion at June 30, 2004 from \$37.86 billion at December 31, 2003, due to positive cash flows from operations, partially offset by decreased net unrealized gains on fixed income securities and dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation.

Allstate Financial investments increased to \$67.17 billion at June 30, 2004 from \$62.90 billion at December 31, 2003. The increase in Allstate Financial investments was primarily due to positive cash flows from operating and financing activities and increased funds associated with securities lending, partially offset by decreased net unrealized gains on fixed income securities.

Corporate and Other investments decreased to \$1.94 billion at June 30, 2004 from \$2.33 billion at December 31, 2003. This decline is primarily related to the sale of a portion of the equity interest in a consolidated variable interest entity. This sale caused the deconsolidation of this entity, decreasing the investments of the Corporate and Other segment. For more information on this transaction, see Note 3 of the Condensed Consolidated Financial Statements.

Total investments at amortized cost related to collateral, primarily due to securities lending, increased to \$4.82 billion at June 30, 2004, from \$3.75 billion at December 31, 2003.

At June 30, 2004, 93.5% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a Moody's equivalent rating of Aaa, Aa, A or Baa; an S&P equivalent rating of AAA, AA, A or BBB; or a comparable internal rating when an external rating is not available.

The unrealized net capital gains on fixed income and equity securities at June 30, 2004 were \$4.15 billion, a decrease of \$2.24 billion or 35.1% since December 31, 2003. The net unrealized gain for the fixed income portfolio totaled \$2.98 billion, comprised of \$3.85 billion of unrealized gains and \$867 million of unrealized losses at June 30, 2004. This is compared to a net unrealized gain for the fixed income portfolio totaling \$5.14 billion at December 31, 2003, comprised of \$5.50 billion of unrealized gains and \$370 million of unrealized losses. Increases in gross unrealized losses were primarily attributable to rising interest rates. The total decrease in net unrealized gains for the fixed income portfolio was \$2.16 billion, of which \$2.06 billion or 95.5% was related to investment grade securities. The total increase in gross unrealized losses for



the fixed income portfolio was \$497 million, of which \$487 million or 98.0% was related to investment grade securities.

Of the gross unrealized losses in the fixed income portfolio at June 30, 2004, \$749 million or 86.4% were related to investment grade securities and are believed to be a result of the interest rate environment. Of the remaining \$118 million of losses in the fixed income portfolio, \$64 million or 54.2% was concentrated in the corporate fixed income portfolio and was primarily comprised of securities in the transportation, consumer goods and basic industry sectors. The gross unrealized losses in these sectors were primarily company specific and interest rate related. Approximately \$29 million of the gross unrealized losses in the corporate fixed income portfolio and \$9 million of the gross unrealized losses in the asset-backed securities portfolio were associated with the airline industry for which values were depressed due to company specific issues and economic issues related to fuel costs. We expect eventual recovery of these securities and the related sectors. Every security was included in our portfolio monitoring process.

The net unrealized gain for the equity portfolio totaled \$1.17 billion, comprised of \$1.22 billion of unrealized gains and \$45 million of unrealized losses at June 30, 2004. This is compared to a net unrealized gain for the equity portfolio totaling \$1.26 billion at December 31, 2003, comprised of \$1.28 billion of unrealized gains and \$18 million of unrealized losses. Within the equity portfolio, the losses were primarily concentrated in the consumer goods, technology and financial services sectors. The losses in these sectors were company and sector specific. We expect eventual recovery of these securities and the related sectors. Every security was included in our portfolio monitoring process.

Our portfolio monitoring process identifies and evaluates fixed income and equity securities whose carrying value may be other than temporarily impaired. The process includes a quarterly review of all securities using a screening process to identify those securities whose fair value compared to cost for equity securities or amortized cost for fixed income securities is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings downgrades or payment defaults.

We also monitor the quality of our fixed income portfolio by categorizing certain investments as "problem", "restructured" or "potential problem." Problem fixed income securities are securities in default with respect to principal or interest and/or securities issued by companies that have gone into bankruptcy subsequent to our acquisition of the security. Restructured fixed income securities have rates and terms that are not consistent with market rates or terms prevailing at the time of the restructuring. Potential problem fixed income securities are current with respect to contractual principal and/or interest, but because of other facts and circumstances, we have serious concerns regarding the borrower's ability to pay future principal and interest, which causes us to believe these securities may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities.

	June 30, 2004			December 31, 2003		
	Amortized cost	Fair value	Percent of total Fixed Income portfolio	Amortized cost	Fair value	Percent of total Fixed Income portfolio
(in millions)						
Problem	\$ 237	\$ 243	0.3%	\$ 325	\$ 322	0.4%
Restructured	78	78	0.1	77	78	0.1
Potential problem	342	335	0.4	397	382	0.4
Total net carrying value	\$ 657	\$ 656	0.8%	\$ 799	\$ 782	0.9%
Cumulative write-downs recognized	\$ 342			\$ 347		

We have experienced a decrease in the amortized cost of fixed income securities categorized as problem and potential problem as of June 30, 2004 compared to December 31, 2003. The decrease was primarily related to the sale of holdings in these categories due to specific developments causing a change in our outlook and intent to hold those securities.

We also evaluated each of these securities through our portfolio monitoring process and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these securities were temporary in nature. While these balances may increase in the future, particularly if economic conditions are

unfavorable, we expect that the total amount of securities in these categories will remain low relative to the total fixed income securities portfolio.

**Net Realized Capital Gains and Losses** The following table presents the components of realized capital gains and losses and the related tax effect.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Investment write-downs	\$ (20)	\$ (109)	\$ (62)	\$ (193)
Dispositions	59	108	319	191
Valuation of derivative instruments	(2)	(8)	(30)	(20)
Settlements of derivative instruments	4	—	(16)	14
Realized capital gains and losses, pretax	41	(9)	211	(8)
Income tax (expense) benefit	(18)	6	(68)	11
Realized capital gains and losses, after-tax	\$ 23	\$ (3)	\$ 143	\$ 3

Dispositions in the above table include sales and other transactions such as calls and prepayments. We may sell securities during the period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. Recognizing in certain situations new factors such as negative developments, subsequent credit deterioration, relative value opportunities, market liquidity concerns and portfolio reallocations, we can subsequently change our previous intent to continue holding a security.

## CAPITAL RESOURCES AND LIQUIDITY

**Capital Resources** consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources.

	June 30, 2004	December 31, 2003
(in millions)		
Common stock, retained earnings and other shareholders' equity items	\$ 19,023	\$ 17,809
Accumulated other comprehensive income	1,660	2,756
Total shareholders' equity	20,683	20,565
Debt	4,852	5,076
Total capital resources	\$ 25,535	\$ 25,641
Ratio of debt to shareholders' equity	23.5%	24.7%

*Shareholders' equity* increased in the first six months of 2004 when compared to December 31, 2003, as net income was partially offset by decreases in unrealized net capital gains on investments, share repurchases and dividends paid to shareholders. In February 2004, we announced a \$1.00 billion increase in the current share repurchase program, bringing the total to \$1.50 billion. As of June 30, 2004, this program had \$783 million remaining, and is expected to be completed at least by December 31, 2005.

*Debt* decreased in the first six months of 2004 compared to December 31, 2003 due to decreases in long-term borrowings outstanding. This decrease was primarily related to the sale of a portion of the equity interest in a variable interest entity. This sale caused this entity to be deconsolidated, decreasing debt by \$412 million. For more information on this transaction, see Note 3 of the Condensed Consolidated Financial Statements.

**Financial Ratings and Strength** Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. There have been no changes to our debt, commercial paper and insurance financial strength ratings since December

31, 2003. However, in February 2004, A.M. Best revised the outlook to stable from positive for the insurance financial strength ratings of Allstate Life Insurance Company and certain rated subsidiaries and affiliates, while maintaining their positive outlook on AIC.

We have distinct groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida. These groups are adequately capitalized to maintain separate group ratings and are not reinsured by other Allstate subsidiaries that are not part of these respective groups. As a result, ratings of the New Jersey and Florida groups are subject to general business risks in those subsidiaries such as catastrophes, liquidity, profitability, asset quality and operating leverage.

**Liquidity Sources and Uses** The following table summarizes consolidated cash flow activities by business unit for the first six months ended June 30.

	Property-Liability		Allstate Financial		Corporate and Other		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>(in millions)</b>								
Net cash provided by (used in):								
Operating activities	\$ 1,960	\$ 1,796	\$ 866	\$ 1,374	\$ 74	\$ (43)	\$ 2,900	\$ 3,127
Investing activities	(1,395)	(1,212)	(4,186)	(3,011)	(85)	(141)	(5,666)	(4,364)
Financing activities	142	(4)	3,384	1,735	(831)	(449)	2,695	1,282
Net (decrease) increase in consolidated cash							\$ (71)	\$ 45

**Property-Liability** Higher operating cash flows of the Property-Liability business in the first six months of 2004 when compared to the first six months of 2003 were primarily due to increased underwriting income. Cash used in investing activities increased in 2004 as higher operating cash flows were invested in the fixed income and equity portfolios.

Cash flows of the Property-Liability business are also impacted by dividends paid by AIC to its parent, The Allstate Corporation. These dividends totaled \$800 million in the first six months of 2004 compared to \$519 million in the first six months of 2003.

**Allstate Financial** Lower operating cash flows for Allstate Financial in the first six months of 2004 when compared to the first six months of 2003 primarily relate to declines in life and annuity premiums, partially offset by increases in investment income. Cash flows used in investing activities increased in the first six months of 2004 as the investment of higher financing cash flow from contractholder funds was partially offset by lower operating cash flows.

Higher cash flow from financing activities during the first six months of 2004 when compared to the first six months of 2003 reflects an increase in deposits received from contractholders, partially offset by maturities of institutional products and benefits and withdrawals from contractholders' accounts. For quantification of the changes in contractholder funds, see the Allstate Financial Segment section of the MD&A.

**Corporate and Other** Higher operating cash flows of the Corporate and Other segment in the first six months of 2004 when compared to the first six months of 2003 were primarily due to the timing of intercompany settlements. Financing cash flows of the Corporate and Other segment reflect actions such as fluctuations in short-term debt, proceeds from the issuance of debt, dividends to shareholders of The Allstate Corporation and share repurchases; therefore, financing cash flows are affected when we increase or decrease the level of these activities.

We have access to additional borrowing to support liquidity as follows:

- A commercial paper program with a borrowing limit of \$1.00 billion to cover short-term cash needs. As of June 30, 2004, the remaining borrowing capacity was \$807 million; however, the outstanding balance fluctuates daily.
- In June 2004, we replaced our primary credit facilities. We currently maintain one primary credit facility and one additional credit facility totaling \$1.05 billion to cover short-term liquidity requirements. The primary facility is a \$1 billion five-year revolving line of credit expiring in 2009. It contains an increase provision that would make up to an additional \$500 million available for borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. The other facility is a \$50 million one-year revolving line of credit expiring in the third quarter of 2004 but renewed in July 2004 for an additional year. The right to borrow under the five-year facility is subject to requirements to maintain a

37.5% debt to capital resources ratio and has no ratings triggers. These requirements are currently being met and we expect to continue to meet them in the future. There were no borrowings under either of these lines of credit during the first six months of 2004. The total amount outstanding at any point in time under the combination of the commercial paper program and the two credit facilities cannot exceed the amount that can be borrowed under the credit facilities.

- The right to issue up to an additional \$2.80 billion of debt securities, equity securities, warrants for debt and equity securities, trust preferred securities, stock purchase contracts and stock purchase units utilizing the shelf registration statement filed with the SEC in August 2003.

## **FORWARD-LOOKING STATEMENTS**

This document contains "forward-looking statements" that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, product development, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors which could cause actual results to differ materially from those suggested by such forward-looking statements are incorporated in this Part I, Item 2 by reference to the information set forth in our Annual Report on Form 10-K, Part II, Item 7, under the caption "Forward-Looking Statements and Risk Factors."

#### **Item 4. Controls and Procedures**

With the participation of our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. However, the design of any system of controls and procedures is based in part upon assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and are effective at the "reasonable assurance" level.

During the fiscal quarter ended June 30, 2004, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading "Regulation" and under the heading "Legal proceedings" in Note 7 of the Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

### Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2004 - April 30, 2004	1,319,723	46.40891	1,315,000	\$ 1.122 billion
May 1, 2004 - May 31, 2004	4,511,697	44.23649	4,355,575	\$ 929 million
June 1, 2004 - June 30, 2004	3,230,291	45.10793	3,230,100	\$ 783 million
Total	9,061,711	44.86352	8,900,675	

(1) April: In accordance with the terms of its equity compensation plans, Allstate acquired 4,723 shares in connection with stock option exercises by employees and/or directors. The stock was received in payment of the exercise price of the options and in satisfaction of withholding taxes due upon exercise.

May: In accordance with the terms of its equity compensation plans, Allstate acquired 156,122 shares in satisfaction of withholding taxes due upon the exercise of stock options and the vesting of restricted stock held by employees and/or directors.

June: In accordance with the terms of its equity compensation plans, Allstate acquired 191 shares in connection with stock option exercises by employees and/or directors. The stock was received in payment of the exercise price of the options and in satisfaction of withholding taxes due upon exercise.

(2) On February 4, 2003, Allstate announced the approval of a repurchase program for \$500 million. On February 4, 2004, Allstate announced the approval of a \$1.00 billion increase to the current share repurchase program. The combined program is expected to be completed by December 31, 2005.

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

On May 18, 2004, Allstate held its annual meeting of stockholders. Twelve board nominees for director were elected for terms expiring at the 2005 annual meeting of stockholders. In addition, the stockholders ratified the appointment of Deloitte & Touche LLP as independent auditors for 2004, approved the material terms of performance goals under the annual covered employee incentive compensation plan and approved the material terms of performance goals under the long-term executive incentive compensation plan. There was one stockholder proposal presented and voted on at the meeting regarding cumulative voting in the election of directors, which did not receive a majority vote of the shares represented and entitled to vote at the meeting.

Election of Directors.

Nominee	Votes for	Votes Withheld
F. Duane Ackerman	598,062,340	16,993,585
James G. Andress	591,446,404	23,609,521
Edward A. Brennan	585,510,542	29,545,383
W. James Farrell	593,993,091	21,062,834
Jack M. Greenberg	597,729,721	17,326,204
Ronald T. LeMay	590,635,905	24,420,020
Edward M. Liddy	594,298,283	20,757,642
J. Christopher Reyes	598,204,731	16,851,194
H. John Riley, Jr.	600,856,966	14,198,959
Joshua I. Smith	597,200,358	17,855,567
Judith A. Sprieser	594,267,364	20,788,561
Mary Alice Taylor	597,873,561	17,182,364

Ratify appointment of Deloitte & Touche LLP as the Company's auditors for 2004.

Votes For	Votes Against	Votes Abstained
595,217,942	15,689,721	4,147,522

Approve the Material Terms of the Performance Goals under the Annual Covered Employee Incentive Compensation Plan.

Votes For	Votes Against	Votes Abstained	Broker Non-votes
583,020,520	25,904,228	6,126,437	4,740

Approve the Material Terms of the Performance Goals under the Long-Term Executive Incentive Compensation Plan.

Votes For	Votes Against	Votes Abstained	Broker Non-votes
580,596,424	27,633,200	6,821,561	4,740

Stockholder proposal for cumulative voting in the election of directors.

Votes For	Votes Against	Votes Abstained	Broker Non-votes
196,855,220	306,636,704	37,243,667	74,320,334

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

An Exhibit Index has been filed as part of this report on page E-1.

(b) Current Reports on Form 8-K were filed during the second quarter of 2004 on the following dates for the items indicated:

April 7, 2004, Items 7 and 9, reporting developments on age discrimination decision before United States District Court for the Eastern District of Pennsylvania.

April 9, 2004, Items 7 and 12, regarding pre-announcing results of operations and financial condition for the quarter ended March 31, 2004.





**SIGNATURE**

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)

August 3, 2004

By /s/ SAMUEL H. PILCH

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Samuel H. Pilch  
Controller  
(chief accounting officer and duly  
authorized officer of Registrant)

Exhibit No.	Description
4	Registrant hereby agrees to furnish the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.
10.1	Credit Agreement dated as of June 4, 2004, among The Allstate Corporation, Allstate Insurance Company, Allstate Life Insurance Company, as borrowers, the Lenders party thereto, JPMorgan Chase Bank, as Syndication Agent, Bank of America, N.A., Citibank, N.A. and Wachovia Bank, National Association, as Documentation Agents, and the Bank of New York, as Administrative Agent.
10.2	The Allstate Corporation Deferred Compensation Plan as amended and restated as of May 28, 2004.
10.3	The Allstate Corporation Annual Covered Employee Incentive Compensation Plan as amended and restated effective March 9, 2004, incorporated herein by reference to Appendix E to The Allstate Corporation's Notice of Annual Meeting and Proxy Statement dated March 26, 2004
10.4	The Allstate Corporation Long-Term Executive Incentive Compensation Plan as amended and restated effective March 9, 2004, incorporated herein by reference to Appendix F to The Allstate Corporation's Notice of Annual Meeting and Proxy Statement dated March 26, 2004
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated August 3, 2004, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer
32	Section 1350 Certification





**CREDIT AGREEMENT**

**dated as of June 4, 2004**

**among**

**THE ALLSTATE CORPORATION  
ALLSTATE INSURANCE COMPANY  
ALLSTATE LIFE INSURANCE COMPANY,  
as Borrowers**

**The Lenders Party Hereto**

**JPMORGAN CHASE BANK,  
as Syndication Agent**

**BANK OF AMERICA, N.A., CITIBANK, N.A.  
and WACHOVIA BANK, NATIONAL ASSOCIATION,  
as Documentation Agents**

**and**

**THE BANK OF NEW YORK,  
as Administrative Agent**

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**BNY CAPITAL MARKETS, INC. and J.P. MORGAN SECURITIES INC.,  
as Co-Lead Arrangers and Joint Book Runners**

**Bryan Cave LLP  
1290 Avenue of the Americas  
New York, New York 10104-3300**

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# TABLE OF CONTENTS

	<u>Page</u>
ARTICLE 1. <i>DEFINITIONS</i>	1
Section 1.1 <i>Defined Terms</i>	1
Section 1.2 <i>Classification of Loans and Borrowings</i>	12
Section 1.3 <i>Terms Generally</i>	12
Section 1.4 <i>Accounting Terms; GAAP and Statutory Accounting Principles</i>	13
ARTICLE 2. <i>THE CREDITS</i>	13
Section 2.1 <i>Commitments</i>	13
Section 2.2 <i>Loans and Borrowings</i>	13
Section 2.3 <i>Requests for Borrowings</i>	14
Section 2.4 <i>Funding of Borrowings</i>	15
Section 2.5 <i>Termination, Reduction and Increase of Commitments</i>	15
Section 2.6 <i>Repayment of Loans; Evidence of Debt</i>	17
Section 2.7 <i>Prepayment of Loans</i>	17
Section 2.8 <i>Payments Generally; Pro Rata Treatment; Sharing of Setoffs</i>	18
ARTICLE 3. <i>INTEREST, FEES, YIELD PROTECTION, ETC.</i>	19
Section 3.1 <i>Interest</i>	19
Section 3.2 <i>Interest Elections Relating to Borrowings</i>	20
Section 3.3 <i>Fees</i>	21
Section 3.4 <i>Alternate Rate of Interest</i>	22
Section 3.5 <i>Increased Costs; Illegality</i>	22
Section 3.6 <i>Break Funding Payments</i>	24
Section 3.7 <i>U.S. Taxes</i>	24
Section 3.8 <i>Mitigation Obligations</i>	25
ARTICLE 4. <i>REPRESENTATIONS AND WARRANTIES</i>	26
Section 4.1 <i>Corporate Existence; Subsidiaries</i>	26
Section 4.2 <i>Corporate and Governmental Authorization; No Contravention</i>	26
Section 4.3 <i>Binding Effect</i>	27
Section 4.4 <i>Financial Information</i>	27
Section 4.5 <i>Litigation</i>	27
Section 4.6 <i>Compliance with ERISA</i>	28
Section 4.7 <i>Environmental Matters</i>	28
Section 4.8 <i>Taxes</i>	28
Section 4.9 <i>Full Disclosure</i>	28
Section 4.10 <i>Investment Company Act</i>	29
Section 4.11 <i>Federal Reserve Regulations</i>	29
ARTICLE 5. <i>CONDITIONS</i>	29
Section 5.1 <i>Effective Date</i>	29
Section 5.2 <i>Each Credit Event</i>	30
ARTICLE 6. <i>COVENANTS</i>	30
Section 6.1 <i>Financial Statements and Other Information</i>	31
Section 6.2 <i>Maintenance of Property</i>	33
Section 6.3 <i>Conduct of Business and Maintenance of Existence</i>	33
Section 6.4 <i>Compliance with Laws</i>	33
Section 6.5 <i>Negative Pledge</i>	34

Section 6.6	<i>Consolidations, Mergers and Sales of Assets</i>	34
Section 6.7	<i>Use of Proceeds</i>	35
Section 6.8	<i>Ratio of Consolidated Total Debt to Consolidated Total Capital</i>	35
<b>ARTICLE 7. GUARANTEE</b>		35
Section 7.1	<i>Guarantee</i>	35
Section 7.2	<i>Obligations Unconditional</i>	35
Section 7.3	<i>Reinstatement</i>	36
Section 7.4	<i>Subrogation</i>	36
Section 7.5	<i>Remedies</i>	37
Section 7.6	<i>Continuing Guarantee</i>	37
<b>ARTICLE 8. EVENTS OF DEFAULT</b>		37
<b>ARTICLE 9. THE ADMINISTRATIVE AGENT</b>		39
<b>ARTICLE 10. MISCELLANEOUS</b>		40
Section 10.1	<i>Notices</i>	40
Section 10.2	<i>Waivers; Amendments</i>	41
Section 10.3	<i>Expenses; Indemnity; Damage Waiver</i>	42
Section 10.4	<i>Successors and Assigns</i>	43
Section 10.5	<i>Survival</i>	44
Section 10.6	<i>Counterparts; Integration; Effectiveness</i>	45
Section 10.7	<i>Severability</i>	45
Section 10.8	<i>Right of Setoff</i>	45
Section 10.9	<i>Governing Law; Jurisdiction; Consent to Service of Process</i>	46
Section 10.10	<b>WAIVER OF JURY TRIAL</b>	46
Section 10.11	<i>Headings</i>	46
Section 10.12	<i>Interest Rate Limitation</i>	47
Section 10.13	<i>Confidentiality</i>	47
<b>SCHEDULES:</b>		
Schedule 2.1	List of Commitments	
Schedule 4.1	List of Wholly-Owned Subsidiaries, Material Subsidiaries and Listed Insurance Subsidiaries	
<b>EXHIBITS:</b>		
Exhibit A	Form of Assignment and Acceptance	
Exhibit B	Form of Opinion of Internal Counsel to the Borrowers	
Exhibit B-1	Form of Opinion of Special New York Counsel to the Borrowers	
Exhibit C	Form of Note	
Exhibit D	Form of Increase Supplement	

CREDIT AGREEMENT, dated as of June 4, 2004, among THE ALLSTATE CORPORATION, ALLSTATE INSURANCE COMPANY, ALLSTATE LIFE INSURANCE COMPANY, the LENDERS party hereto, JPMORGAN CHASE BANK, as Syndication Agent, BANK OF AMERICA, N.A., CITIBANK, N.A. and WACHOVIA BANK, NATIONAL ASSOCIATION, as Documentation Agents, and THE BANK OF NEW YORK, as Administrative Agent.

The parties hereto agree as follows:

## ARTICLE 1. DEFINITIONS

### Section 1.1 Defined Terms

As used in this Credit Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period *multiplied* by (b) the Statutory Reserve Rate.

"Administrative Agent" means BNY, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agents" means, collectively, the Administrative Agent, the Syndication Agent and the Documentation Agents.

"Agreement Date" means the first date appearing in this Credit Agreement.

"Allstate Corp." means The Allstate Corporation, a Delaware corporation.

"Allstate Insurance" means Allstate Insurance Company, an Illinois insurance company.

"Allstate Life" means Allstate Life Insurance Company, an Illinois insurance company.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (i) the Prime Rate in effect on such day and (ii) the Federal Funds Effective Rate in effect on such day *plus* 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the

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Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Facility Fee Percentage" means at all times during which the applicable Pricing Level set forth below is in effect, the percentage set forth in the following table under the heading "Facility Fee Percentage" next to such Pricing Level, in each case subject to the provisos set forth below:

Pricing Level	Facility Fee Percentage
Pricing Level I	0.060%
Pricing Level II	0.070%
Pricing Level III	0.080%
Pricing Level IV	0.100%
Pricing Level V	0.150%
Pricing Level VI	0.250%

Changes in the Applicable Facility Fee Percentage resulting from a change in the Pricing Level shall become effective on the effective date of any change in the S&P Rating or Moody's Rating, as the case may be. Notwithstanding anything herein to the contrary, in the event of a split in the S&P Rating and Moody's Rating that would otherwise result in the application of more than one Pricing Level (had the provisions regarding the applicability of other Pricing Levels contained in the definitions thereof not been given effect), then the Applicable Facility Fee Percentage shall be determined using, in the case of a split by one rating category, the higher Pricing Level, and in the case of a split by more than one rating category, the Pricing Level that is one level lower than the Pricing Level within which the higher of the two rating categories would otherwise fall.

"Applicable Margin" means at all times during which the applicable Pricing Level set forth below is in effect: (i) with respect to Eurodollar Borrowings, the percentage set forth in the following table under the heading "Eurodollar Margin" next to such Pricing Level, and (ii) with respect to Utilization Fees, the percentage set forth in the following table under the heading "Utilization Fee" next to such Pricing Level, in each case subject to the provisos set forth below:

Pricing Level	Eurodollar Margin	Utilization Fee
Pricing Level I	0.140%	0.050%
Pricing Level II	0.180%	0.050%
Pricing Level III	0.220%	0.100%
Pricing Level IV	0.250%	0.125%
Pricing Level V	0.350%	0.150%
Pricing Level VI	0.550%	0.200%

Changes in the Applicable Margin resulting from a change in the Pricing Level shall become effective on the effective date of any change in the S&P Rating or Moody's Rating, as the



case may be. Notwithstanding anything herein to the contrary, in the event of a split in the S&P Rating and Moody's Rating that would otherwise result in the application of more than one Pricing Level (had the provisions regarding the applicability of other Pricing Levels contained in the definitions thereof not been given effect), then the Applicable Margin shall be determined using, in the case of a split by one rating category, the higher Pricing Level, and in the case of a split by more than one rating category, the Pricing Level that is one level lower than the Pricing Level within which the higher of the two rating categories would otherwise fall.

"*Approved Fund*" means, with respect to any Lender that is a fund that invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"*Assignment and Acceptance*" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.4), and accepted by the Administrative Agent, substantially in the form of *Exhibit A* or any other form approved by the Administrative Agent.

"*Availability Period*" means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

"*BNY*" means The Bank of New York and its successors.

"*Benefit Arrangement*" means an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"*Board*" means the Board of Governors of the Federal Reserve System of the United States of America.

"*Borrowers*" means, collectively, the Company and the Subsidiary Borrowers.

"*Borrowing*" means Loans to the same Borrower of the same Type made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"*Borrowing Request*" means a request by the Company (on its own behalf or on behalf of a Subsidiary Borrower) for a Borrowing in accordance with Section 2.3.

"*Business Day*" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed, *provided* that, when used in connection with a Eurodollar Loan, the term "*Business Day*" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"*Change in Control*" means that (i) any "person" (as such term is used in Sections 13(d) and 14(d) the Exchange Act but excluding any profit-sharing or pension plan operated for the benefit of employees of the Company or its Affiliates), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all shares that such person has the right to acquire without condition (other than the passage of time) whether such rights are exercisable immediately or only after the passage of time), directly or indirectly, of 30% or more of the common stock of the Company on a

fully-diluted basis, (ii) Persons ("*Existing Directors*") who are directors of the Company on the Agreement Date *plus* Persons ("*Nominated Directors*") nominated by Persons who constitute at least a majority of the board of directors of the Company on the Agreement Date (or any combination of Existing Directors, Nominated Directors and Persons nominated by a majority of Existing Directors and Nominated Directors) shall cease to constitute at least a majority of the members of the board of directors of the Company or (iii) the failure of the Company to own, directly or indirectly, beneficially and of record, 100% of the aggregate ordinary voting power and economic interests represented by the issued and outstanding equity securities of each Subsidiary Borrower on a fully diluted basis.

"*Commitment*" means, with respect to each Lender, the commitment of such Lender to make Loans hereunder in an aggregate outstanding amount not exceeding the amount of such Lender's Commitment as set forth on *Schedule 2.1*, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable, as such commitment may be reduced or increased from time to time pursuant to Section 2.5 or pursuant to assignments by or to such Lender pursuant to Section 10.4. The initial aggregate amount of the Commitments on the Agreement Date is \$1,000,000,000.

"*Company*" means Allstate Corp.

"*Confidential Information*" has the meaning assigned to such term in Section 10.13.

"*Consolidated Subsidiary*" means, at any date, any Subsidiary or other Person, the accounts of which are consolidated with those of the Company in its consolidated financial statements as of such date.

"*Consolidated Total Assets*" means, at any date, the total assets of the Company and its Consolidated Subsidiaries at such date determined on a consolidated basis in accordance with GAAP, excluding assets of Variable Interest Entities to the extent that any Debt thereof is excluded pursuant to clause (c) of the proviso in the definition of Debt.

"*Consolidated Total Capital*" means, at any date, the sum of (i) the aggregate shareholders' equity for the Company and its Consolidated Subsidiaries (determined in accordance with GAAP as in effect on the Agreement Date or as otherwise applicable pursuant to Section 1.4), *provided* that in any event unrealized gains or losses in respect of debt securities (as otherwise required by Statement of Financial Accounting Standards No. 115) shall be excluded in determining Consolidated Total Capital, *plus* (ii) 50% of the liabilities recorded on the Company's financial statements related to the Trust Preferred Securities, *plus* (iii) Consolidated Total Debt at such date.

"*Consolidated Total Debt*" means, at any date, all Debt of the Company and its Consolidated Subsidiaries at such date determined on a consolidated basis in accordance with GAAP.

"*Control*" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms "Controlling" and "Controlled" have meanings correlative thereto.

"*Credit Parties*" means the Agents and the Lenders.

"*Debt*" of any Person means, at any date, without duplication, (i) all obligations of such Person for borrowed money properly recordable as a liability on the financial statements of such

Person, (ii) all obligations of such Person, properly recordable as a liability on the financial statements of such Person, evidenced by bonds, debentures, notes, or other similar instruments (but excluding 100% of any liabilities recorded on such Person's financial statements related to the Trust Preferred Securities), (iii) all obligations of such Person to pay the deferred purchase price of property except trade accounts payable arising in the ordinary course of business, (iv) the net present value of future minimum lease payments under capital leases, (v) all direct recourse payment obligations of such Person in respect of any accounts receivable sold by such Person, (vi) the aggregate liquidation preference of all preferred securities that are mandatorily redeemable, exchangeable or convertible into debt at the option of the holder or redeemable at the option of the holder, (vii) 50% of the liabilities recorded on such Person's financial statements related to the Trust Preferred Securities, (viii) all Debt (as defined in clauses (i) through (vii) above) of others to the extent secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, and (ix) all Debt (as defined in clauses (i) through (viii) above) of others to the extent Guaranteed by such Person; *provided* that Debt shall not include (a) insurance policies or other instruments sold in the ordinary course of such Person's insurance business, (b) liabilities in respect of Securities Transactions, (c) liabilities recorded on the financial statements of such Person in connection with the consolidation of a Variable Interest Entity under Financial Accounting Standards Board Interpretation No. 46R if the satisfaction of such liabilities is limited to the assets of the Variable Interest Entity, and (d) the first \$100,000,000 of liabilities that would otherwise constitute "Debt" under clauses (viii) and (ix) above.

"*Default*" means any event or condition which constitutes an Event of Default or that upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"*Documentation Agents*" means Bank of America, N.A., Citibank, N.A. and Wachovia Bank, National Association, in their capacity as documentation agents for the Lenders hereunder.

"*dollars*" or "\$" refers to lawful money of the United States of America.

"*EDGAR*" means the Electronic Data Gathering, Analysis, and Retrieval system maintained by the Securities and Exchange Commission.

"*Effective Date*" means the date on which the conditions specified in Section 5.1 are satisfied (or waived in accordance with Section 10.2).

"*Eligible Institution*" means (i) any commercial bank, investment bank, trust company, banking association, financial institution, mutual fund, pension fund or any Approved Fund or (ii) any Lender or any Affiliate or any Approved Fund of such Lender, *provided* that an insurance company shall not, under any circumstance, constitute an Eligible Institution.

"*Environmental Laws*" means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, licenses, agreements or other governmental restrictions relating to the protection of the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemical or industrial, toxic or hazardous substances or wastes into the environment or otherwise relating to the generation, processing, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes, or the clean-up or other remediation thereof, and when such term is used in reference to the Company and its Subsidiaries, it shall apply to their direct activities and not activities covered under insurance policies or other instruments sold, underwritten or reinsured by them.

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

"ERISA Group" means the Company and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company, are treated as a single employer under Section 414 of the Internal Revenue Code.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article 8.

"Exchange Act" means the Securities Exchange Act of 1934.

"Existing Credit Agreements" means, collectively, (i) the Credit Agreement (Five Year Facility), dated as of June 8, 2001, among Allstate Corp., Allstate Insurance, Allstate Life, the lenders party thereto, Bank of America, N.A., The Chase Manhattan Bank, Citibank, N.A. and Wachovia Bank, N.A., as syndication agents, and The Bank of New York, as administrative agent, and (ii) the 364-Day Credit Agreement, dated as of June 8, 2001, among Allstate Corp., Allstate Insurance, Allstate Life, the lenders party thereto, Bank of America, N.A., The Chase Manhattan Bank, Citibank, N.A. and Wachovia Bank, N.A., as syndication agents, and The Bank of New York, as administrative agent.

"Facility Fee" has the meaning assigned to such term in Section 3.3(a).

"Federal Funds Effective Rate" means, for any day, a rate per annum (expressed as a decimal, rounded upwards, if necessary, to the next higher 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, *provided* that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Effective Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Effective Rate for such day shall be the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal Funds brokers of recognized standing selected by it.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than the United States of America, any State thereof or the District of Columbia.

"GAAP" means generally accepted accounting principles in effect from time to time in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt (as defined in clauses (i) through (viii) of the

definition of Debt) of any other Person or in any manner providing for the payment of any such Debt of any other Person or otherwise protecting the holder of such Debt against loss (whether by agreement to keep-well, to purchase assets, goods, securities or services, or to take-or-pay or otherwise), *provided* that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a correlative meaning.

"*Guaranteed Obligations*" has the meaning assigned to such term in Section 7.1

"*Increase Supplement*" means an increase supplement in the form of *Exhibit D*.

"*Indemnitee*" has the meaning assigned to such term in Section 10.3(b).

"*Insurance Company*" means Allstate Insurance, Allstate Life, and any other Subsidiary that is an insurance company.

"*Interest Election Request*" means a request by the Company (on behalf of the applicable Borrower) to convert or continue a Borrowing in accordance with Section 3.2.

"*Interest Payment Date*" means (i) with respect to any ABR Loan, the last day of each March, June, September and December, (ii) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Eurodollar Loan is a part and, in the case of a Eurodollar Loan with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, and (iv) as to all Loans, the Maturity Date.

"*Interest Period*" means the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Company (on behalf of the applicable Borrower) may elect, *provided* that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day, unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"*Internal Revenue Code*" means the Internal Revenue Code of 1986.

"*Lenders*" means the Persons listed on *Schedule 2.1* and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"*LIBO Rate*" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate of interest per annum as determined by the Administrative Agent, equal to the rate, as reported by BNY to the Administrative Agent, quoted by BNY to leading banks in the London interbank market as the rate at which BNY is offering dollar deposits in an amount approximately equal to its ratable share of such Eurodollar Borrowing for dollar deposits with a maturity comparable

to such Interest Period at approximately 10:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"*Lien*" of any Person means (i) any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of any asset recorded as such on the financial statements of such Person or (ii) the interest of a vendor or lessor under any conditional sales agreement, capital lease or other title retention agreement relating to any asset recorded as such on the financial statements of such Person.

"*Listed Insurance Subsidiary*" means any company identified on *Schedule 4.1* as an insurance company and any Subsidiary into which such company shall merge or consolidate or to which such company shall sell or transfer all or any substantial portion of its property and assets, in a transaction described in Section 6.6(b).

"*Loan*" means a Loan referred to in Section 2.1 and made pursuant to Section 2.4.

"*Loan Documents*" means this Credit Agreement and the Notes.

"*Margin Stock*" has the meaning assigned to such term in Regulation U.

"*Material Adverse Effect*" means a material adverse effect on (i) the business, financial position or results of operations of the Company and its Consolidated Subsidiaries, (ii) the ability of any Borrower to perform any of its obligations under any Loan Document or (iii) the rights of or benefits available to any Credit Party under any Loan Document.

"*Material Plan*" means at any time any Plan or Plans having aggregate Unfunded Liabilities in excess of \$75,000,000.

"*Material Subsidiary*" means, collectively, (i) the Subsidiary Borrowers and (ii) any other Subsidiary which, as of the last day of the most recently completed fiscal quarter, satisfies any one or more of the following three tests: (a) the Company and the other Subsidiaries' investments in and advances to such Subsidiary exceed 10% of Consolidated Total Assets, (b) the Company and the other Subsidiaries' proportionate share of Consolidated Total Assets (after intercompany eliminations and net of the effect of intercompany reinsurance) consisting of the property of such Subsidiary exceeds 10% of Consolidated Total Assets or (c) the Company and the other Subsidiaries' equity in the income (not to include losses) from continuing operations before income taxes, extraordinary items and the cumulative effect of a change in accounting principle of such Subsidiary exceeds 10% of the income (to include losses) from continuing operations before income taxes, extraordinary items and the cumulative effect of a change in accounting principle of the Company and the Subsidiaries determined on a consolidated basis in accordance with GAAP.

"*Maturity Date*" means June 4, 2009.

"*Moody's Rating*" means at any time, the then current rating (including the failure to rate) by Moody's Investors Service, Inc. (or any successor thereto) of the Company's senior unsecured, unguaranteed long term debt.

"*Multiemployer Plan*" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made

contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five-year period.

"*Non-Material Subsidiary Plan*" means at any time any Plan or Plans established or maintained by a Subsidiary (other than a Subsidiary Borrower) having aggregate Unfunded Liabilities less than \$25,000,000.

"*Note*" means, with respect to each Lender, a promissory note evidencing such Lender's Loans to a Borrower payable to the order of such Lender (or, if required by such Lender, to such Lender and its registered assigns) substantially in the form of *Exhibit C*.

"*Obligations*" means (i) the due and punctual payment of (a) principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (b) all other monetary obligations, including fees, commissions, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Company and the Subsidiary Borrowers to the Credit Parties, or that are otherwise payable to any Credit Party, under the Loan Documents and (ii) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Company and the Subsidiary Borrowers under or pursuant to the Loan Documents.

"*Participant*" has the meaning assigned to such term in Section 10.4(e).

"*PBGC*" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"*Person*" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"*Plan*" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"*Pricing Level*" means Pricing Level I, Pricing Level II, Pricing Level III, Pricing Level IV, Pricing Level V, or Pricing Level VI, as the context may require.

"*Pricing Level I*" means, any time when (i) no Event of Default has occurred and is continuing, and (ii) the S&P Rating is AA- (or any successor rating) or higher or the Moody's Rating is Aa3 (or any successor rating) or higher.

"*Pricing Level II*" means, any time when (i) no Event of Default has occurred and is continuing, (ii) the S&P Rating is A+ (or any successor rating) or higher, or the Moody's Rating is A1 (or any successor rating) or higher and (iii) Pricing Level I does not apply.

"*Pricing Level III*" means, any time when (i) no Event of Default has occurred and is continuing, (ii) the S&P Rating is A (or any successor rating) or higher, or the Moody's Rating is A2 (or any successor rating) or higher and (iii) and neither Pricing Level I nor II is applicable.

"*Pricing Level IV*" means, any time (i) no Event of Default has occurred and is continuing, (ii) the S&P Rating is BBB+ (or any successor rating) or higher, or the Moody's Rating is Baa1 (or any successor rating) or higher and (iii) and Pricing Levels I, II, and III are not applicable.

"*Pricing Level V*" means, any time when (i) no Event of Default has occurred and is continuing, (ii) the S&P Rating is BBB- (or any successor rating) or higher, or the Moody's Rating is Baa3 (or any successor rating) or higher and (iii) and Pricing Levels I, II, III and IV are not applicable.

"*Pricing Level VI*" means, any time when none of Pricing Levels I, II, III IV and V are applicable.

"*Prime Rate*" means the rate of interest per annum publicly announced from time to time by BNY as its prime commercial lending rate at its principal office in New York City; each change in the Prime Rate being effective from and including the date such change is publicly announced as being effective. The Prime Rate is not intended to be lowest rate of interest charged by BNY in connection with extensions of credit to borrowers.

"*Register*" has the meaning assigned to such term in Section 10.4(c).

"*Regulation D*" means Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"*Regulation T*" means Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"*Regulation U*" means Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"*Regulation X*" means Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"*Regulatory Change*" means (i) the adoption of any law, rule or regulation after the Agreement Date, (ii) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Agreement Date or (iii) compliance by any Credit Party (or, for purposes of Section 3.5(b), by any lending office of such Credit Party or by such Credit Party's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the Agreement Date.

"*Related Parties*" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"*Required Lenders*" means, at any time, Lenders having Commitments representing more than 50% of the total Commitments or, if the Commitments shall have terminated, Lenders having outstanding Loans representing more than 50% of the aggregate outstanding principal balance of the Loans of all Lenders.



"*Securities Transaction*" means any securities lending transaction, reverse repurchase transaction or dollar roll transaction or similar transaction that an Illinois insurance company would be permitted to engage in under applicable Illinois insurance investment law and that would be accounted for as a secured borrowing in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and related official interpretations thereof by the Financial Accounting Standards Board or any successor thereto.

"*S&P Rating*" means at any time, the then current rating (including the failure to rate) by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies (or any successor thereto) of the Company's senior unsecured, unguaranteed long term debt.

"*Statutory Accounting Principles*" means the rules and procedures prescribed or permitted by the relevant state of domicile for determining an insurer's financial condition or results of operation for statutory purposes.

"*Statutory Reserve Rate*" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one *minus* the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject for eurocurrency funding (currently referred to as "*Eurocurrency Liabilities*" in Regulation D). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"*Statutory Statement*" means, for any Insurance Company, for each fiscal year of such Insurance Company, the most recent annual statement, prepared in accordance with Statutory Accounting Principles, required to be filed with the appropriate regulatory authority and, for each fiscal quarter of such Insurance Company, the quarterly statement required by Section 6.1(e), which quarterly statement shall be prepared in accordance with Statutory Accounting Principles.

"*Subsidiary*" means, at any date, any corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Company.

"*Subsidiary Borrowers*" means Allstate Insurance and Allstate Life.

"*Syndication Agent*" means JPMorgan Chase Bank, in its capacity as syndication agent for the Lenders hereunder.

"*Total Credit Exposure*" means, with respect to any Lender at any time, such Lender's Commitment, or, if the Commitments shall have terminated, the outstanding principal balance of such Lender's Loans.

"*Transactions*" means (i) the execution, delivery and performance by each Borrower of each Loan Document to which it is a party, (ii) the borrowing of the Loans and (iii) the use of the proceeds of the Loans.

"*Trust Preferred Securities*" means the mandatorily redeemable preferred securities issued by Allstate Financing II, a subsidiary trust of the Company, and described as the 7.83% Capital Securities, due 2045, in the Company's December 31, 2003 financial statements.

"*Type*", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"*Unfunded Liabilities*" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"*U.S. Taxes*" means any present or future tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof or therein.

"*Utilization Fee*" has the meaning assigned to such term in Section 3.3(b).

"*Utilization Fee Applicability Day*" means any day on which the sum of the aggregate outstanding principal amount of the Loans of all Lenders is greater than 50% of the sum of the Commitments of all Lenders on such day.

"*Variable Interest Entity*" means an entity defined as a Variable Interest Entity under Financial Accounting Standards Board Interpretation No. 46R.

"*Wholly-Owned Subsidiary*" of a given Person means any Person, all of the shares of capital stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by the given Person or one or more other Wholly-Owned Subsidiaries or by the given Person and one or more other Wholly-Owned Subsidiaries.

### Section 1.2 *Classification of Loans and Borrowings*

For purposes of this Credit Agreement, Loans may be classified and referred to by Type (e.g., a "*Eurodollar Loan*"). Borrowings may also be classified and referred to by Type (e.g., a "*Eurodollar Borrowing*").

### Section 1.3 *Terms Generally*

The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as

referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified, (ii) any definition of or reference to any law shall be construed as referring to such law as from time to time amended and any successor thereto and the rules and regulations promulgated from time to time thereunder, (iii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iv) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Credit Agreement in its entirety and not to any particular provision hereof, (v) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Credit Agreement, (vi) any reference herein to a fiscal year or fiscal quarter shall be construed to refer to a fiscal year or fiscal quarter of the Company, and (vii) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

#### Section 1.4 *Accounting Terms; GAAP and Statutory Accounting Principles*

Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP as in effect on the Agreement Date. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in this Credit Agreement, the Company may elect to (i) compute any such ratio or requirement in accordance with GAAP as amended or (ii) continue to compute any such ratio or requirement in accordance with GAAP prior to such change therein, *provided* that, if the Company elects to continue to compute any such ratio or requirement in accordance with GAAP prior to such change therein, the Company shall provide the Administrative Agent and the Lenders financial statements and other documents required under this Credit Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

### ARTICLE 2. *THE CREDITS*

#### Section 2.1 *Commitments*

Subject to the terms and conditions set forth herein, each Lender agrees to make Loans to any Borrower in dollars from time to time during the Availability Period in an aggregate principal amount as to all Borrowers that will not result in the aggregate outstanding principal amount of such Lender's Loans to all Borrowers exceeding such Lender's Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrowers may borrow, prepay and reborrow Loans.

#### Section 2.2 *Loans and Borrowings*

(a) Each Loan made to a Borrower shall be made as part of a Borrowing consisting of Loans made by the Lenders to such Borrower ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder, *provided* that the Commitments of the Lenders are several, and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 3.4, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, in each case as the Company (on behalf of the applicable Borrower) may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan, *provided* that any

exercise of such option shall not affect the obligation of such Borrower to repay such Loan in accordance with the terms of this Credit Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing made to a Borrower, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000. At the time that each ABR Borrowing is made, such Borrowing shall be in an aggregate amount that integral multiple of \$1,000,000 and not less than \$5,000,000, *provided* that an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments. Borrowings of more than one Type may be outstanding at the same time, *provided* that there shall not at any time be more than a total of six Eurodollar Borrowings outstanding to all Borrowers.

(d) Notwithstanding any other provision of this Credit Agreement, the Company (on behalf of the applicable Borrower) shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

### Section 2.3 *Requests for Borrowings*

(a) To request a Borrowing, the Company (on behalf of the applicable Borrower) shall notify the Administrative Agent of such request by telephone (i) in the case of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (ii) in the case of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent signed by the Company (on behalf of the applicable Borrower). Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.2:

(i) the identity of the Borrower;

(ii) the aggregate amount of the requested Borrowing;

(iii) the date of such Borrowing, which shall be a Business Day;

(iv) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;

(v) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(vi) the location and number of the applicable Borrower's account to which funds are to be disbursed.

(b) If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Company (on behalf of the applicable Borrower) shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing

Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

#### Section 2.4 *Funding of Borrowings*

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. Subject to Section 5.2, the Administrative Agent will make such Loans available to the applicable Borrower by promptly crediting or otherwise transferring the amounts so received, in like funds, to the account of such Borrower as specified in the Borrowing Request pursuant to Section 2.3(a)(vi) and designated by the Company (on behalf of such Borrower) in the applicable Borrowing Request.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section, and may, in reliance upon such assumption, make available to the applicable Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the Lender and the applicable Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to such Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of such Borrower, the interest rate that would be otherwise applicable to such Borrowing. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

#### Section 2.5 *Termination, Reduction and Increase of Commitments*

(a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Company may at any time terminate, or from time to time reduce, the Commitments, *provided* that (i) the Company shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.7, the aggregate outstanding principal amount of all Lenders' Loans would exceed the total Commitments and (iii) each such reduction shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000.

(c) Upon the occurrence of a Change in Control, the Commitments shall automatically terminate and the outstanding principal amount of, and the accrued interest on, the Loans and all other amounts payable by the Borrowers hereunder and under the Notes (including any amounts payable under Section 3.6) shall forthwith be due and payable.

(d) Provided that at the time of and immediately after giving effect thereto, no Default shall exist and be continuing, the Company may at any time and from time to time, at its sole

cost, expense and effort, request any one or more of the Lenders to increase its Commitment (the decision to increase the Commitment of a Lender to be within the sole and absolute discretion of such Lender), or any other Person reasonably satisfactory to the Administrative Agent to provide a new Commitment, by submitting to the Administrative Agent an Increase Supplement duly executed by each Borrower and each such Lender or other Person, as the case may be. If such Increase Supplement is in all respects reasonably satisfactory to the Administrative Agent, it shall execute such Increase Supplement and deliver a copy thereof to the Company and each such Lender or other Person, as the case may be. Upon execution and delivery of such Increase Supplement by the Administrative Agent, (i) in the case of each such Lender, its Commitment shall be increased to the amount set forth in such Increase Supplement and (ii) in the case of each such other Person, such other Person shall become a party hereto and have the rights and obligations of a Lender under the Loan Documents and its Commitment shall be as set forth in such Increase Supplement; *provided, however*, that:

(A) immediately after giving effect thereto, the sum of all increases in the aggregate Commitments made pursuant to this Section 2.5(d) shall not exceed \$500,000,000;

(B) each such increase shall be in an amount not less than \$50,000,000 or such amount plus an integral multiple of \$10,000,000;

(C) if Loans would be outstanding immediately after giving effect to any such increase, then simultaneously with such increase (1) each such increasing Lender, each such other Person and each other Lender having a Commitment shall be deemed to have entered into a master assignment and acceptance agreement, in form and substance substantially similar to *Exhibit A*, pursuant to which each such other Lender shall have assigned to each such increasing Lender and each such other Person a portion of its Loans necessary to reflect proportionately the Commitments as adjusted in accordance with this subsection (d), and (2) in connection with such assignment, each such increasing Lender and each such other Person shall pay to the Administrative Agent, for the account of each such other Lender, such amount as shall be necessary to reflect the assignment to it of Loans, and in connection with such master assignment each such other Lender may treat the assignment of Eurodollar Borrowings as a prepayment of such Eurodollar Borrowings for purposes of Section 3.6; and

(D) each such other Person shall have delivered to the Administrative Agent and the Company all forms, if any, that are required to be delivered by such other Person pursuant to Section 3.7(c).

(e) The Company shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Company pursuant to this Section shall be irrevocable, *provided* that a notice of termination of the Commitments delivered by the Company may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Company (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Each reduction, and any termination, of the Commitments shall be permanent and each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

## Section 2.6 *Repayment of Loans; Evidence of Debt*

(a) Each Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan made to such Borrower on the Maturity Date. The amounts payable by each Borrower at any time hereunder and under the Notes to each Lender shall be a separate and independent debt.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the debt of each Borrower to such Lender resulting from each Loan made by such Lender to such Borrower, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Borrower thereof, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from each Borrower for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) or (c) of this Section shall, to the extent not inconsistent with any entries made in the Notes, be prima facie evidence of the existence and amounts of the obligations recorded therein, *provided* that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of any Borrower to repay the Loans made to it by any Lender in accordance with the terms of this Credit Agreement.

(e) Any Lender may request that the Loans made by it to a Borrower be evidenced by a single Note of such Borrower. In such event, such Borrower shall prepare, execute and deliver to such Lender, a Note payable to the order of such Lender substantially in the form of *Exhibit C*. In addition, if requested by a Lender, its Note may be made payable to such Lender and its registered assigns in which case all Loans evidenced by such Note and interest thereon shall at all times (including after assignment pursuant to Section 10.4) be represented by one or more Notes in like form payable to the order of the payee named therein and its registered assigns.

(f) In the event that a Lender has requested a Note under this Credit Agreement and thereafter requests a replacement thereof, upon receipt of (i) either the Note to be replaced or (ii) an affidavit of such Lender as to the circumstances under which such Note was destroyed or lost together an indemnification of the applicable Borrower as shall be reasonably satisfactory to it, such Borrower shall execute and deliver to such Lender a replacement Note.

## Section 2.7 *Prepayment of Loans*

(a) Each Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to the requirements of this Section.

(b) In the event of any partial reduction or termination of the Commitments, then (i) at or prior to the date of such reduction or termination, the Administrative Agent shall notify the Company and the Lenders of the aggregate outstanding principal amount of all Lenders' Loans after giving effect thereto and (ii) if such sum would exceed the total Commitments after giving effect to

such reduction or termination, then the Borrowers shall, on the date of such reduction or termination, prepay Borrowings in an aggregate amount sufficient to eliminate such excess.

(c) The Company shall notify the Administrative Agent by telephone (confirmed by facsimile) of any prepayment hereunder (i) in the case of a prepayment of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the date of the prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid, *provided* that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.5, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.5. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment under Section 2.7(a) of a Borrowing shall, when added to the amount of each concurrent reduction of the Commitments and prepayment of Borrowings under such Section, be in an integral multiple of \$1,000,000 and not less than \$5,000,000.

(d) Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 3.1.

#### Section 2.8 *Payments Generally; Pro Rata Treatment; Sharing of Setoffs*

(a) Each Borrower shall make each payment required to be made by it hereunder or under the Note made by it (whether of principal of Loans, interest or fees, or of amounts payable under Sections 3.5, 3.6, 3.7 or 10.3, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without setoff or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its office at One Wall Street, New York, New York, or such other office as to which the Administrative Agent may notify the other parties hereto, and except that payments pursuant to Sections 3.5, 3.6, 3.7 and 10.3 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal of Loans, interest, fees and commissions then due hereunder, such funds shall be applied (i) first, towards payment of interest, fees and commissions then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest, fees and commissions then due to such parties and (ii) second, towards payment of principal of Loans then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal of Loans then due to such parties.

(c) If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of, or interest on, any of its Loans made to a Borrower resulting in such Lender receiving payment of a greater proportion of the aggregate amount



of its Loans made to such Borrower and accrued interest thereon than the proportion received by any other Lender with respect to the Loans made by such other Lender to such Borrower, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans made to such Borrower of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of, and accrued interest on, their respective Loans, *provided* that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by a Borrower pursuant to and in accordance with the express terms of this Credit Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Company or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). Each Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Company prior to the date on which any payment is due from a Borrower to the Administrative Agent for the account of the applicable Credit Parties hereunder that such Borrower will not make such payment, the Administrative Agent may assume that such Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to such Credit Parties the amount due. In such event, if such Borrower has not in fact made such payment, then each such Credit Party severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Credit Party with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Credit Party shall fail to make any payment required to be made by it pursuant to Section 2.4(b), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Credit Party to satisfy such Credit Party's obligations under such Sections until all such unsatisfied obligations are fully paid.

### ARTICLE 3. *INTEREST, FEES, YIELD PROTECTION, ETC.*

#### Section 3.1 *Interest*

(a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate and the Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing *plus* the Applicable Margin.

(b) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by any Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% *plus* the rate otherwise applicable to such Loan as provided in the preceding paragraph of this Section or (ii) in the case of any other amount, 2% *plus* the Alternate Base Rate.

(c) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan, *provided* that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than the prepayment of an ABR Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(d) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent clearly demonstrable error.

### Section 3.2 *Interest Elections Relating to Borrowings*

(a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Company (on behalf of the applicable Borrower) may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Company (on behalf of the applicable Borrower) may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders.

(b) To make an election pursuant to this Section, the Company (on behalf of the applicable Borrower) shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.3 if the Company (on behalf of the applicable Borrower) were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Company (on behalf of the applicable Borrower).

(c) Each telephonic and written Interest Election Request shall specify the following information:

(i) the identity of the Borrower;

(ii) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iv) and (v) of this paragraph shall be specified for each resulting Borrowing);

(iii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iv) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(v) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Company (on behalf of the applicable Borrower) shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Company (on behalf of the applicable Borrower) fails to deliver a timely Interest Election Request prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period, such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Company (on behalf of the applicable Borrower), then, so long as an Event of Default is continuing, (i) no outstanding Borrowing of any Borrower may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing of each Borrower shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

### Section 3.3 Fees

(a) The Company agrees to pay to the Administrative Agent for the account of each Lender, a facility fee ("*Facility Fee*"), which shall accrue at a rate per annum equal to the Applicable Facility Fee Percentage on the daily amount of the Commitment of such Lender (regardless of usage) during the period from and including the Agreement Date to but excluding the date on which such Commitment terminates; *provided* that, if such Lender continues to have any Loans outstanding after its Commitment terminates, then such Facility Fee shall continue to accrue on the daily outstanding principal amount of such Lender's Loans from and including the date on which such Lender's Commitment terminates to but excluding the date on which all Loans of such Lender have been paid in full. Accrued Facility Fees shall be payable in arrears on the last day of March, June, September and December of each year, each date on which the Commitments are permanently reduced, commencing on the first such date to occur after the Agreement Date, *provided* that all unpaid Facility Fees shall be payable on the date on which the Commitments terminate. All Facility Fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) For each Utilization Fee Applicability Day during the period from and including the Effective Date through but excluding the Maturity Date, the Company agrees to pay to the Administrative Agent, for the account of each Lender, a fee (the "*Utilization Fee*") equal to the Applicable Margin per annum on the daily amount during such period of the aggregate outstanding

principal amount of such Lender's Loans. Notwithstanding the foregoing, if such Lender has any Loans outstanding after the Maturity Date, then such Utilization Fee shall continue to accrue, for each Utilization Fee Applicability Day, on the daily amount of such Lender's Loans from and including the Maturity Date to but excluding the date on which such Lender ceases to have any Loans outstanding. Accrued Utilization Fees shall be payable in arrears on the last day of March, June, September and December of each year, each date on which the Commitments are permanently reduced, commencing on the first such date to occur after the Agreement Date, *provided* that all unpaid Utilization Fees shall be payable on the Maturity Date. All Utilization Fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Company agrees to pay to each Credit Party, for its own account, fees and other amounts payable in the amounts and at the times separately agreed upon between the Company and such Credit Party.

(d) All fees and other amounts payable hereunder shall be paid on the dates due, in immediately available funds. Fees and other amounts paid shall not be refundable under any circumstances.

#### Section 3.4 *Alternate Rate of Interest*

If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines, which determination (if made on a reasonable basis) shall be conclusive, that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to the Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Company and the Lenders by telephone or facsimile as promptly as practicable thereafter and, until the Administrative Agent notifies the Company and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective, and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

#### Section 3.5 *Increased Costs; Illegality*

(a) If any Regulatory Change shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Credit Party (except any such reserve requirement reflected in the Adjusted LIBO Rate); or

(ii) impose on any Credit Party or the London interbank market any other condition affecting this Credit Agreement, any Eurodollar Loans made by such Credit Party or any participation therein,

and the result of any of the foregoing shall be to increase the cost to such Credit Party of making or maintaining any Eurodollar Loan hereunder or to increase the cost to such Credit Party or to reduce the amount of any sum received or receivable by such Credit Party hereunder (whether of principal, interest or otherwise), then the Company will pay to such Credit Party such additional amount or amounts as will compensate such Credit Party for such additional costs incurred or reduction suffered.

(b) If any Credit Party determines that any Regulatory Change regarding capital requirements has or would have the effect of reducing the rate of return on such Credit Party's capital or on the capital of such Credit Party's holding company, if any, as a consequence of this Credit Agreement or the Loans made, by such Credit Party to a level below that which such Credit Party or such Credit Party's holding company could have achieved but for such Regulatory Change (taking into consideration such Credit Party's policies and the policies of such Credit Party's holding company with respect to capital adequacy), then from time to time the Company will pay to such Credit Party such additional amount or amounts as will compensate such Credit Party or such Credit Party's holding company for any such reduction suffered.

(c) A certificate of a Credit Party setting forth the amount or amounts necessary to compensate such Credit Party or its holding company, as applicable, as specified in paragraph (a) or (b) of this Section shall be delivered to the Company and shall be conclusive absent manifest error. The Company shall pay such Credit Party the amount shown as due on any such certificate within ten days after receipt thereof.

(d) Failure or delay on the part of any Credit Party to demand compensation pursuant to this Section shall not constitute a waiver of such Credit Party's right to demand such compensation, *provided* that the Borrowers shall not be required to compensate a Credit Party pursuant to this Section for any increased costs or reductions incurred more than 90 days prior to the date that such Credit Party notifies the Borrowers of the Regulatory Change giving rise to such increased costs or reductions and of such Credit Party's intention to claim compensation therefor; *provided* further that, if the Regulatory Change giving rise to such increased costs or reductions is retroactive, then the 90-day period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Notwithstanding any other provision of this Credit Agreement, if, after the Agreement Date, any Regulatory Change shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Company and to the Administrative Agent:

(i) such Lender may declare that Eurodollar Loans will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or be continued for additional Interest Periods) and ABR Loans will not thereafter (for such duration) be converted into Eurodollar Loans, whereupon any request for a Eurodollar Borrowing or to convert an ABR Borrowing to a Eurodollar Borrowing or to continue a Eurodollar Borrowing, as applicable, for an additional Interest Period shall, as to such Lender only, be deemed a request for an ABR Loan (or a request to continue an ABR Loan as such for an additional

Interest Period or to convert a Eurodollar Loan into an ABR Loan, as applicable), unless such declaration shall be subsequently withdrawn; and

(ii) such Lender may require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans, as of the effective date of such notice as provided in the last sentence of this paragraph.

In the event any Lender shall exercise its rights under clause (i) or (ii) of this paragraph, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Loans, as applicable. For purposes of this paragraph, a notice to the Company by any Lender shall be effective as to each Eurodollar Loan made by such Lender, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Company.

### Section 3.6 *Break Funding Payments*

In the event of (a) the payment or prepayment (voluntary or otherwise) of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.7(c) and is revoked in accordance therewith), or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period or maturity date applicable thereto as a result of a request by the Company pursuant to Section 3.8(b), then, in any such event, the relevant Borrower or the Company, as applicable, shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate that such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Company (on behalf of the relevant Borrower) and shall be conclusive absent manifest error. The relevant Borrower shall pay such Lender the amount shown as due on any such certificate within ten days after receipt thereof.

### Section 3.7 *U.S. Taxes*

(a) Each Borrower agrees to pay to each Foreign Lender such additional amounts as are necessary in order that the net payment of any amount due to such Foreign Lender under the Loan Documents after deduction for or withholding in respect of any U.S. Taxes collectible by withholding and imposed with respect to such payment, will not be less than the amount stated herein to be then due and payable, *provided* that the foregoing obligation to pay such additional amounts shall not apply:

(i) to any Foreign Lender unless such Foreign Lender is, on the Agreement Date (or on the date it becomes a Lender as provided in Section 10.4) and on the date of any change in the applicable lending office of such Foreign Lender, entitled to submit the applicable forms to the Internal Revenue Service entitling it to a complete exemption from withholding on all interest to be received by it under the Loan Documents in respect of the Loans), or

(ii) to any U.S. Taxes imposed solely by reason of the failure by such Foreign Lender to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connections with the United States of America of such Foreign Lender if such compliance is required by statute or regulation of the United States of America as a precondition to relief or exemption from such U.S. Taxes.

(b) Within 30 days after paying any amount to the Administrative Agent or any Foreign Lender from which it is required by law to make any deduction or withholding, and within 30 days after it is required by law to remit such deduction or withholding to any relevant taxing or other authority, the Company (on behalf of the relevant Borrower) shall deliver to the Administrative Agent for delivery to such Foreign Lender evidence satisfactory to such Person of such deduction, withholding or payment (as the case may be).

(c) Not later than the Effective Date or, in the case of any Person that becomes a Lender pursuant to Section 10.4, the date of the execution and delivery of the Assignment and Acceptance pursuant to which such Person becomes a Lender, and annually thereafter or at such other times as the Company may reasonably request, each Lender that is a Foreign Lender (to the extent that such Lender, in its sole discretion, believes that it is so entitled), shall provide the Company and the Administrative Agent with two duly completed copies of the relevant Internal Revenue Service forms certifying its entitlement to a complete exemption from withholding on all interest to be received by it under the Loan Documents in respect of the Loans.

### Section 3.8 *Mitigation Obligations*

(a) If any Lender requests compensation under Section 3.5, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.7, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans (or any participation therein) hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.5 or 3.7, as applicable, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Company hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 3.5, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.7, then the Company may, at its sole expense (including the fees referred to in Section 10.4(b)) and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.4), all its interests, rights and obligations under the Loan

Documents to an Eligible Institution that shall assume such obligations (which Eligible Institution may be another Lender, if a Lender accepts such assignment); *provided* that (i) the Company shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the relevant Borrowers (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 3.5 or payments required to be made pursuant to Section 3.7, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Company to require such assignment and delegation cease to apply.

#### ARTICLE 4. REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Credit Parties (and each Subsidiary Borrower, as to itself, represents and warrants to the Credit Parties) that:

##### Section 4.1 *Corporate Existence; Subsidiaries*

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power to conduct its business as presently conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

(b) Each Material Subsidiary has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization, with full corporate or analogous powers to conduct its business as presently conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

(c) *Schedule 4.1* sets forth as of the Agreement Date the name of each Subsidiary that is a Wholly-Owned Subsidiary, a Listed Insurance Subsidiary or a Material Subsidiary and identifies the jurisdiction of organization of each such Subsidiary.

##### Section 4.2 *Corporate and Governmental Authorization; No Contravention*

(a) Each Borrower has full corporate power and authority to execute, deliver and perform its obligations under this Credit Agreement and the Notes executed by it and to comply with all of the provisions of this Credit Agreement and the Notes executed by it, and all necessary corporate or similar proceedings of such Borrower have been duly taken to authorize the execution, delivery and performance by such Borrower of this Credit Agreement and the Notes executed by it.

(b) No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority or any securities exchange, are necessary for the execution, delivery or performance by any Borrower of this Credit Agreement or the Notes executed by it, or for the legality, validity or enforceability hereof or thereof.



(c) None of the execution and delivery of this Credit Agreement and the Notes, the consummation of the transactions herein contemplated or compliance by any Borrower with all of the terms and provisions of this Credit Agreement or the Notes executed by such Borrower will conflict with or result in a breach which would constitute a material default under, or result in the creation or imposition of any Lien, charge or encumbrance upon any of the property or assets of such Borrower, material to such Borrower, pursuant to the terms of any indenture, loan agreement, or other agreement or instrument for borrowed money to which such Borrower is a party or by which such Borrower may be bound or to which any of the property or assets of such Borrower, material to such Borrower, is subject, nor will such action result in any material violation of the provisions of the charter or by-laws of such Borrower or any statute or any order, rule or regulation applicable to such Borrower or any of its Material Subsidiaries of any Governmental Authority having jurisdiction over such Borrower or such Subsidiary, and no consent, approval, authorization or other order of, or filing with, any Governmental Authority is required for the execution and delivery of this Credit Agreement and the Notes, the consummation of the transactions herein contemplated or compliance by the Company with all of the terms and provisions of this Credit Agreement, *provided* that (i) the Borrowers make no representations or warranties with respect to any securities or blue sky laws of political subdivisions of the United States of America or any laws or treaties of any country (or political subdivision thereof) other than the United States of America and (ii) the effect of the laws of any jurisdiction (other than the States of New York or Illinois) that limit the interest, fees or other charges any Lender may impose.

#### Section 4.3 *Binding Effect*

This Credit Agreement constitutes a valid and binding agreement of each Borrower and the Notes, when executed and delivered in accordance with this Credit Agreement, will constitute valid and binding obligations of the respective Borrower executing and delivering such Notes.

#### Section 4.4 *Financial Information*

(a) The consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of December 31, 2003 and the related statements of operations, comprehensive income, shareholders' equity and cash flows for the fiscal year then ended, reported on by Deloitte & Touche, LLP, and heretofore furnished to the Administrative Agent and each of the Lenders, present fairly in all material respects, in conformity with GAAP, the financial position of the Company and its Consolidated Subsidiaries as of such date and their results of operations and cash flows for such fiscal year.

(b) The respective Statutory Statements for Allstate Insurance and Allstate Life for the year ended at December 31, 2003 present fairly in all material respects, in conformity with Statutory Accounting Principles, the respective financial conditions of said companies as at said date and their respective results of operations for the fiscal year ended on said date.

(c) Since December 31, 2003, there has been no material adverse change in the business, financial position or results of operations of the Company and its Consolidated Subsidiaries.

#### Section 4.5 *Litigation*

Except as disclosed to the Lenders in writing (which shall include the Company's Form 10-Q for the first quarter of 2004) prior to the date hereof, there are no legal, arbitral or governmental proceedings (including any proceeding instituted by any state insurance commission or

similar regulatory body), pending to which the Company or any of its Material Subsidiaries is a party or to which any property of the Company or any of its Material Subsidiaries is the subject which, if determined adversely to the Company or any of its Material Subsidiaries (and there exists a reasonable possibility of such adverse determination), individually or in the aggregate, reasonably could be expected to have a Material Adverse Effect and, to the best of the Company's knowledge, no such proceedings are threatened.

#### Section 4.6 *Compliance with ERISA*

Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan (other than any Non-Material Subsidiary Plan) and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Plan (other than any Non-Material Subsidiary Plan). No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan (other than any Non-Material Subsidiary Plan), (ii) failed to make any contribution or payment to any Plan (other than any Non-Material Subsidiary Plan) or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan (other than any Non-Material Subsidiary Plan) or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code, *provided*, however, that in the case of a Benefit Arrangement established or maintained by or for a Subsidiary (other than a Subsidiary Borrower) such action or inaction has resulted or could result in the imposition of such a Lien or the posting of such a bond or other security in excess of \$25,000,000, or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

#### Section 4.7 *Environmental Matters*

The Company has concluded reasonably that all Environmental Laws applicable to the Company and its Material Subsidiaries are unlikely to have a Material Adverse Effect.

#### Section 4.8 *Taxes*

United States Federal income tax returns of the Company and its Material Subsidiaries have been closed through the fiscal year ended December 31, 1996. All United States Federal income tax returns and all other material tax returns which are required to be filed have been filed by or on behalf of the Company and its Material Subsidiaries and all taxes due with respect to the Company and its Material Subsidiaries pursuant to such returns and all material taxes due pursuant to any assessment received by the Company or any of its Material Subsidiaries have been paid, except those assessments being contested in good faith by appropriate proceedings and where (in the opinion of the Company) adequate charges, accruals or reserves have been established on the books of the Company and its Subsidiaries, as applicable.

#### Section 4.9 *Full Disclosure*

All written factual information heretofore furnished by the Company to the Administrative Agent or any Lender for purposes of or in connection with this Credit Agreement was true and accurate in all material respects on the date as of which such information was stated or certified.

Section 4.10 *Investment Company Act*

None of the Borrowers is required to be registered as an "investment company" within the meaning of the Investment Company Act of 1940.

Section 4.11 *Federal Reserve Regulations*

(a) Not more than 25% of the value (as determined by any reasonable method) of the assets subject to any restriction on (i) Liens set forth in Section 7.1 or (ii) sale or other disposition set forth in Section 6.6 is represented by Margin Stock.

(b) No part of the proceeds of any Loan will be used, whether immediately, incidentally or ultimately, (i) to directly or indirectly purchase, acquire or carry any Margin Stock, (ii) directly or indirectly for any purpose that entails a violation of, or that is inconsistent with, the provisions of the regulations of the Board, including Regulation T, U or X, or (iii) to make a personal loan to any director or executive officer of any Borrower or any Subsidiary in violation of Section 402 of the Sarbanes-Oxley Act of 2002.

ARTICLE 5. *CONDITIONS*

Section 5.1 *Effective Date*

The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.2):

(a) *Credit Agreement.* The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Credit Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include facsimile transmission of a signed signature page of this Credit Agreement) that such party has signed a counterpart of this Credit Agreement.

(b) *Notes.* The Administrative Agent shall have received a Note of each Borrower for each Lender that shall have requested such Notes, signed on behalf of such Borrower.

(c) *Legal Opinion.* The Administrative Agent shall have received favorable written opinions (addressed to the Credit Parties and dated the Effective Date) from (i) Mary J. McGinn, Vice President, Assistant Secretary and Assistant General Counsel of Allstate Insurance and acting as counsel to the other Borrowers, and (ii) Kirkland & Ellis LLP, special New York counsel to the Borrowers, substantially in the forms of *Exhibit B* and *B-1*, respectively, covering such other matters relating to the Borrowers, the Loan Documents and the Transactions as the Required Lenders shall reasonably request. The Borrowers hereby request such counsel to deliver such opinion.

(d) *Organizational Documents, etc.* The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to (i) the organization, existence and good standing of each Borrower (including (x) a certificate of incorporation or formation of each Borrower, certified as of a recent date by the Secretary of State (or comparable official) of the jurisdiction of its incorporation or formation and (y) certificates of good standing (or comparable certificates) for each Borrower, certified as of a recent date prior to the Effective Date, by the Secretary of State (or comparable official) of the jurisdiction of

its incorporation or formation), (ii) the authorization of the Transactions, (iii) the incumbency of its officer or officers who may sign the Loan Documents, including therein a signature specimen of such officer or officers and (iv) any other legal matters relating to Borrowers, the Loan Documents or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(e) *Officer's Certificate.* The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the chief executive officer or the chief financial officer or the chief accounting officer of the Company confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 5.2.

(f) *Fees and Expenses.* All fees, expenses and other amounts due and payable on or prior to the Effective Date, including the reasonable fees and disbursements of counsel to the Administrative Agent, to the extent invoiced shall have been paid.

(g) *Existing Credit Agreements.* The Existing Credit Agreements shall have been terminated and all amounts due thereunder shall have been paid and the Administrative Agent shall have received evidence, in form and substance satisfactory to it, thereof.

(h) *Other Documents.* The Administrative Agent shall have received such other documents as shall be reasonably required by it in connection therewith.

The Administrative Agent shall notify the Borrowers and the Credit Parties of the Effective Date, and each such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 10.2) at or prior to 3:00 p.m., New York City time, on June 30, 2004 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

#### Section 5.2 *Each Credit Event*

The obligation of each Lender to make a Loan on the occasion of any Borrowing is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrowers set forth in Article 4 (other than those contained in Section 4.4(c) and Section 4.5) shall be true and correct on and as of the date of such Borrowing.

(b) At the time of and immediately after giving effect to such Borrowing, no Default shall have occurred and be continuing.

Each Borrowing shall be deemed to constitute a representation and warranty by the Company, and, if applicable, the applicable Subsidiary Borrower, on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

#### ARTICLE 6. *COVENANTS*

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees and other amounts payable under the Loan Documents shall have been paid in full, the Company covenants and agrees (and, to the extent applicable to it, each Subsidiary Borrower covenants and agrees) with the Credit Parties that:

The Company will furnish to each Credit Party the following, *provided* that the Company need not furnish copies of the information referred to in this Section if on or before the applicable day set forth below, such information is available (A) in the case of the information referred to in subsections (a), (b) and (j) below, either on EDGAR or on the Company's web site, and (B) in the case of the information referred to in subsections (c) and (d) below, on the Company's web site:

(a) as soon as available and in any event within 120 days after the end of each fiscal year, the Company's annual proxy and its Form 10-K containing a consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of the end of such fiscal year and the related statements of income, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Deloitte & Touche, LLP or other independent public accountants of nationally recognized standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Company and its Consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) as soon as available and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year, the Company's Form 10-Q containing a consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of the end of such fiscal quarter and the related statements of income and cash flows for such fiscal quarter and for the portion of the Company's fiscal year ended at the end of such fiscal quarter;

(c) as soon as available and in any event within 120 days after the end of each fiscal year of each Subsidiary Borrower, the Statutory Statement of such Subsidiary Borrower for such fiscal year and as filed with the insurance department of the State of domicile of such Subsidiary Borrower;

(d) as soon as available and in any event within 60 days after the end of each of the first three quarterly fiscal quarters of each Subsidiary Borrower, quarterly Statutory Statements of such Subsidiary Borrower for such fiscal quarter and as filed with the insurance department of the State of domicile of such Subsidiary Borrower;

(e) promptly after the financial statements referred to in clauses (a) and (b) above have been made available to the Credit Parties either through EDGAR or the Company's web site (but in no event later than 120 days after the end of the relevant fiscal year or 60 days after the end of the relevant fiscal quarter, as applicable) or, in the event that the Company furnishes copies thereof to the Credit Parties, simultaneously with the delivery thereof, a certificate of the chief financial officer or the chief accounting officer of the Company (i) setting forth in reasonable detail the calculations required to establish whether the Company was in compliance with the requirements of Section 6.8 on the date of such financial statements and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(f) promptly after the financial statements referred to in clause (a) above have been made available to the Credit Parties either through EDGAR or the Company's web site (but in no event later than 120 days after the end of the relevant fiscal year) or, in the event that the Company

furnishes copies thereof to the Credit Parties, simultaneously with the delivery thereof, a certificate of the chief financial officer or the chief accounting officer of the Company identifying each Subsidiary which is then a Material Subsidiary;

(g) promptly after the financial statements referred to in clause (a) above have been made available to the Credit Parties either through EDGAR or the Company's web site (but in no event later than 120 days after the end of the relevant fiscal year) or, in the event that the Company furnishes copies thereof to the Credit Parties, simultaneously with the delivery thereof, a statement of the firm of independent public accountants which reported on such statements to the effect that in the course of their audit of such statements, nothing came to their attention that caused them to believe that the Company was not in compliance with the requirements of Section 6.8, insofar as such requirements relate to accounting matters;

(h) within five days after any officer of the Company obtains knowledge that any Default has occurred and is continuing, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(i) promptly after the commencement thereof, notice of all actions, suits or proceedings of the type described in Section 4.5;

(j) promptly after being filed by the Company with the Securities and Exchange Commission, copies (without exhibits thereto) of any registration statement (other than any registration statement on Form S-8 or its equivalent) or any report on Form 8-K (or its equivalent); *provided* that the Company need not furnish such copies to the extent such registration statements or reports are made available to the Credit Parties either on EDGAR or the Company's web site;

(k) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan (other than any Non-Material Subsidiary Plan) which might constitute grounds for a termination of such Plan (other than any Non-Material Subsidiary Plan) under Title IV of ERISA, or knows that the plan administrator of any Plan (other than any Non-Material Subsidiary Plan) has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan (other than any Non-Material Subsidiary Plan) is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan (other than any Non-Material Subsidiary Plan), a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan (other than any Non-Material Subsidiary Plan) under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan (other than any Non-Material Subsidiary Plan) pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan (other than any Non-Material Subsidiary Plan) or Multiemployer Plan (other than any Non-Material Subsidiary Plan) or in respect of any Benefit Arrangement or makes any amendment to any Plan (other than any Non-Material Subsidiary Plan) or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code, *provided*, however, that in the case

of a Benefit Arrangement established or maintained by or for a Subsidiary (other than a Subsidiary Borrower) such action or inaction has resulted or could result in the imposition of such a Lien or the posting of such a bond or other security in excess of \$25,000,000, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the ERISA Group is required or proposes to take;

(l) furnish to the Administrative Agent promptly such other information with documentation required by bank regulatory authorities under applicable "know your customer" and Anti-Money Laundering rules and regulations (including, without limitation, the USA Patriot Act), as from time to time may be reasonably requested by the Administrative Agent; and

(m) from time to time such additional information regarding the financial position or business of the Company and its Subsidiaries as the Administrative Agent, at the request of any Lender, may reasonably request.

#### Section 6.2 *Maintenance of Property*

The Company will keep, and will cause each Material Subsidiary to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

#### Section 6.3 *Conduct of Business and Maintenance of Existence*

(a) Neither the Company nor any of its Material Subsidiaries will engage to any substantial extent in any line or lines of business activity other than the business of owning and operating life and property and casualty insurance companies and financial services businesses (including investment operations) and businesses and activities related or incidental thereto.

(b) Subject to Section 6.6, the Company will preserve, renew and keep in full force and effect, and will cause each Material Subsidiary to preserve, renew and keep in full force and effect their respective legal existence and their respective rights, privileges and franchises material to the conduct of their respective businesses; *provided that*, subject to Section 6.6, the Company may terminate the corporate existence of any Subsidiary (other than a Subsidiary Borrower) if such termination could not reasonably be expected to have a Material Adverse Effect or otherwise to be materially disadvantageous to the Lenders.

#### Section 6.4 *Compliance with Laws*

The Company will make all good faith efforts to comply, and cause each Material Subsidiary to make all good faith efforts to comply, with all material applicable laws, ordinances, rules, regulations, and requirements of Governmental Authorities (including Environmental Laws and ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and where (in the opinion of the Company) adequate charges, accruals or reserves have been established on the books of the Company and its Subsidiaries, as applicable.

The Company will not, and will not permit any of its Subsidiaries to, create, assume or suffer to exist any Lien securing Debt on the stock of any Listed Insurance Subsidiary (or on the stock of any Subsidiary that directly, or indirectly through other Subsidiaries, owns stock of any Listed Insurance Subsidiary) now owned or hereafter acquired by it, except any Lien arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings. Notwithstanding the foregoing, in connection with marketing alliances or other promotional arrangements undertaken by one or both of the Subsidiary Borrowers, the Company or any of its Subsidiaries may pledge the stock of any Listed Insurance Subsidiary (other than stock of a Subsidiary Borrower) to secure Debt in an aggregate amount that, together with the aggregate liquidation preference of preferred stock permitted under the second sentence of Section 6.6(b), does not exceed \$450,000,000 (or its equivalent in any other currency) at any one time outstanding.

Section 6.6 *Consolidations, Mergers and Sales of Assets*

(a) The Company will not merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of its assets, except that, if at the time thereof and immediately after giving effect thereto, no Default shall or would have occurred and be continuing, any Person may merge into the Company in a transaction in which the Company is the surviving entity.

(b) Neither Subsidiary Borrower will merge into or consolidate with, any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of its assets, except that, if at the time thereof and immediately after giving effect thereto, no Default shall or would have occurred and be continuing, either Subsidiary Borrower may merge into or consolidate with any other corporation (the "*successor corporation*") organized under the laws of the United States of America or any state thereof which is (x) the Company, (y) in the case of a merger or consolidation involving Allstate Insurance (or any successor thereto), a Wholly-Owned Subsidiary, *provided* that there is no regulated entity which is a direct or indirect parent thereof, or (z) in the case of a merger or consolidation involving Allstate Life (or any successor thereto), a Wholly-Owned Subsidiary, and *provided* further that each Subsidiary Borrower covenants that any such consolidation, merger, sale or transfer shall be upon the conditions that the due and punctual payment of the principal and accrued interest on the Notes of such Subsidiary Borrower, and the due and punctual performance and observance of all the terms, covenants and conditions of this Credit Agreement to be kept or performed by such Subsidiary Borrower shall, by an agreement supplemental hereto (which supplemental agreement shall be in form and substance satisfactory to the Administrative Agent and shall become effective upon or waiver of the conditions described in Section 5.1(b), (c), (d), (e) and (h) in a form appropriate to such supplemental agreement), be assumed by the corporation (other than such Subsidiary Borrower) formed by or resulting from any such consolidation or merger, or which shall have received the transfer of all or substantially all of the property and assets of the Subsidiary Borrower, just as fully and effectually as if such successor had been the original Subsidiary Borrower; and in the event of any such sale or transfer the predecessor Subsidiary Borrower may be dissolved, wound up and liquidated at any time thereafter. In addition, in connection with marketing alliances or other promotional arrangements undertaken by one or both of the Subsidiary Borrowers, the Subsidiary Borrowers may from time to time issue preferred stock to any Person, whether or not



affiliated with the Company, having an aggregate liquidation preference (as to both Subsidiary Borrowers) that, together with the aggregate amount of Debt secured by Liens permitted under the second sentence of Section 6.5, does not exceed \$450,000,000 (or its equivalent in any other currency) at any one time outstanding. Notwithstanding anything in this Section 6.6 to the contrary, Allstate Insurance may transfer ownership of Allstate Life to the Company or to any other Wholly-Owned Subsidiary of the Company.

#### Section 6.7 *Use of Proceeds*

The proceeds of the Loans will be used only for general corporate purposes not inconsistent with the terms hereof. No part of the proceeds of any Loan will be used, whether immediately, incidentally or ultimately, (i) to directly or indirectly purchase, acquire or carry any Margin Stock, (ii) directly or indirectly for any purpose that entails a violation of any of the regulations of the Board, including Regulations T, U and X or (iii) to make a personal loan to any director or executive officer of any Borrower or any Subsidiary in violation of Section 402 of the Sarbanes-Oxley Act of 2002.

#### Section 6.8 *Ratio of Consolidated Total Debt to Consolidated Total Capital*

The Company will not permit Consolidated Total Debt at any time to exceed 37.5% of Consolidated Total Capital.

### ARTICLE 7. *GUARANTEE*

#### Section 7.1 *Guarantee*

The Company hereby guarantees to each Credit Party and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest on the Loans made by the Lenders to, and the Notes held by each Lender of, either Subsidiary Borrower and all other amounts from time to time owing to the Credit Parties by either Subsidiary Borrower under this Credit Agreement and under the Notes, in each case strictly in accordance with the terms thereof (such obligations being herein collectively called the "*Guaranteed Obligations*"). The Company hereby further agrees that if either Subsidiary Borrower shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Company will promptly pay the same, without demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal. The Company further agrees that its guarantee hereunder constitutes a guarantee of payment when due and not of collection, and waives any right to require that any resort be had by the Administrative Agent or any other Credit Party to any of the security held for payment of the Obligations or to any balance of any deposit account or credit on the books of the Administrative Agent or any other Credit Party in favor of the Borrowers or any other Person.

#### Section 7.2 *Obligations Unconditional*

The obligations of the Company under Section 7.1 are absolute and unconditional irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of either Subsidiary Borrower under this Credit Agreement, the Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or

security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 7.2 that the obligations of the Company hereunder shall be absolute and unconditional under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that, to the fullest extent permitted by law, the occurrence of any one or more of the following shall not affect the liability of the Company hereunder:

(i) at any time or from time to time, without notice to the Company, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of this Credit Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be done or omitted; or

(iii) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Guaranteed obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with.

The Company hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Administrative Agent or any Lender exhaust any right, power or remedy or proceed against either Subsidiary Borrower under this Credit Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

#### Section 7.3 *Reinstatement*

The obligations of the Company under this Article 7 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of either Subsidiary Borrower in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise and the Company agrees that it will indemnify the Administrative Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

#### Section 7.4 *Subrogation*

Until the indefeasible payment in full in cash of all of the Obligations, the Company hereby waives all rights of subrogation or contribution, whether arising by operation of law (including any such right arising under the United States Bankruptcy Code) or otherwise, by reason of any payment by it pursuant to the provisions of this Article 7.

The Company agrees that, as between the Company and the Credit Parties, the obligations of either Subsidiary Borrower under this Credit Agreement and the Notes may be declared to be forthwith due and payable as provided in Article 8 (and shall be deemed to have become automatically due and payable in the circumstances provided in said Article 8) for purposes of Section 7.1 notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against either Subsidiary Borrower and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by such Subsidiary Borrower) shall forthwith become due and payable by the Company for purposes of said Section 7.1.

Section 7.6 Continuing Guarantee

The guarantee in this Article 7 is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

ARTICLE 8. EVENTS OF DEFAULT

If any of the following events ("*Events of Default*") shall occur:

- (a) any Borrower shall fail to pay any principal of any Loan when due; or
- (b) any Borrower shall fail to pay any interest on any Loan or any fee or any other amount payable by it hereunder within three Business Days after the due date thereof; or
- (c) the Company shall fail to observe or perform any covenant contained in Sections 6.3(b), 6.5 through 6.8; or
- (d) any Borrower shall fail to observe or perform any covenant or agreement contained in this Credit Agreement (other than those referred to in clauses (a) through (c) above) for 30 days after written notice thereof has been given to the Company by the Administrative Agent at the request of any Lender; or
- (e) any representation, warranty, certification or statement made or deemed made herein (or in any modification or supplement hereto) by any Borrower, or any certificate, financial statement or other document delivered pursuant to the provisions, shall prove to have been incorrect in any material respect when made (or deemed made); or
- (f) the Company or any of its Material Subsidiaries shall fail to make any payment when due or within any applicable grace period, in respect of any Debt or Debts of the Company and/or one or more Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal amount not less than \$50,000,000 (or its equivalent in any other currency); or any event or condition shall occur which results in the acceleration of the maturity of any such Debt by holders thereof exercising their rights so to accelerate; or
- (g) any Borrower or any Material Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial

part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against any Borrower or any Material Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days; or an order for relief shall be entered against any Borrower or any Material Subsidiary (in an involuntary case or other proceeding against such company) under the Federal bankruptcy laws as now or hereafter in effect; or

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$10,000,000 (or its equivalent in any other currency), or members of the ERISA Group shall, in the aggregate, fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 (or its equivalent in any other currency), which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000 (or its equivalent in any other currency); or

(j) a judgment or order for the payment of money in excess of \$50,000,000 (or its equivalent in any other currency) shall be rendered against the Company or any of its Material Subsidiaries and such judgment or order shall continue unsatisfied and unstayed (pursuant to laws, rules, court orders or settlement agreements) for a period of 45 days;

then, and in every such event (other than an event described in clause (g) or (h) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to each Borrower, take either or both of the following actions (whether before or after the Effective Date), at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of each Borrower accrued under the Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Borrower; and in case of any event described in clause (g) or (h) of this Article, the Commitments shall automatically terminate (whether before or after the Effective Date) and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of each Borrower accrued under the Loan Documents, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Borrower.

Each Credit Party hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Person and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with any Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (i) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (ii) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Credit Parties as shall be necessary under the circumstances as provided in Section 10.2), and (iii) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Borrower or any of the Subsidiaries that is communicated to or obtained by the Person serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Credit Parties as shall be necessary under the circumstances as provided in Section 10.2) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by a Borrower or a Credit Party (and, promptly after its receipt of any such notice, it shall give each Credit Party and the Company notice thereof), and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (a) any statement, warranty or representation made in or in connection with any Loan Document, (b) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (c) the performance or observance of any of the covenants, agreements or other terms or conditions set forth therein, (d) the validity, enforceability, effectiveness or genuineness thereof or any other agreement, instrument or other document or (e) the satisfaction of any condition set forth in Article 5 or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing reasonably believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrowers), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any Affiliate or, upon prior notice to the Company (provided that such notice

shall not be required during the continuance of an Event of Default), any one or more sub-agents appointed by the Administrative Agent, *provided* that no such delegation shall serve as a release of the Administrative Agent or waiver by any Borrower of any rights hereunder. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Credit Parties and the Company. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Company, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Credit Parties, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Company or any Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Company or such Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.3 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Credit Party acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Credit Party and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Credit Agreement. Each Credit Party also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Credit Party and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon any Loan Document, any related agreement or any document furnished thereunder.

Notwithstanding anything in any Loan Document to the contrary, no Agent acting in such capacity other than the Administrative Agent shall have any duty or obligation under the Loan Documents.

## ARTICLE 10. MISCELLANEOUS

### Section 10.1 Notices

Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile, as follows:

(a) if to the Company or a Subsidiary Borrower, to the Company or to such Subsidiary Borrower c/o the Company, as applicable, at 3075 Sanders Road, Suite G2H, Northbrook, IL 60062, Attention of: Jonathan Wells (Telephone No. (847) 402-5498; Facsimile No. (847) 402-9116), with a copy to the attention of James P. Zils (Telephone No. (847) 402-3073; Facsimile No. (847) 402-9116),

(b) if to the Administrative Agent, to it at One Wall Street, 18<sup>th</sup> Floor, New York, New York 10286, Attention of: Susan Baratta (Telephone No. (212) 635-4695; Facsimile No. (212) 635-6365 or 6366 or 6367), with a copy to The Bank of New York, at One Wall Street, 17<sup>th</sup> Floor, New York, New York 10286, Attention of: Benjamin Balkind (Telephone No. (212) 635-6407; Facsimile No. (212) 809-9520), and

(c) if to any other Credit Party, to it at its address (or facsimile number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or facsimile number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Credit Agreement shall be deemed to have been given on the date of receipt.

#### Section 10.2 *Waivers; Amendments*

(a) No failure or delay by any Credit Party in exercising any right or power under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Credit Parties under the Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether any Credit Party may have had notice or knowledge of such Default at the time.

(b) Neither any Loan Document nor any provision thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrowers and the Required Lenders or by the Borrowers and the Administrative Agent with the consent of the Required Lenders, *provided* that no such agreement shall (i) increase any Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan, or reduce the rate of any interest (other than under Section 3.1(b)), or reduce any fees, payable under the Loan Documents, without the written consent of each Credit Party affected thereby, (iii) postpone the date of payment at stated maturity of any Loan, any interest or any fees payable under the Loan Documents, or reduce the amount of, waive or excuse any such payment, or postpone the stated termination or expiration of the Commitments, without the written consent of each Credit Party affected thereby, (iv) change any provision hereof in a manner that would alter the pro rata sharing of payments required by Section 2.8(c) or the pro rata reduction of Commitments required by Section 2.5(e), without the written consent of each Credit Party affected thereby, (v) change any of the provisions of this Section or the definition of the term "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of

each Lender, or (vi) release the Company from its Guarantee, or limit its liability in respect of such Guarantee, without the written consent of each Lender, and *provided*, further, that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent.

### Section 10.3 *Expenses; Indemnity; Damage Waiver*

(a) The Company shall pay (i) all reasonable out-of-pocket costs and expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of each Loan Document or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated thereby shall be consummated) and (ii) all reasonable out-of-pocket costs and expenses incurred by any Credit Party, including the reasonable fees, charges and disbursements of any counsel for any Credit Party and any expert witness fees, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made hereunder, including all such reasonable out-of-pocket costs and expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) The Company shall indemnify each Credit Party and each Related Party thereof (each such Person being called an "*Indemnitee*") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any agreement or instrument contemplated thereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated thereby, (ii) any Loan or the use of the proceeds thereof, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto, *provided* that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Company fails to pay any amount required to be paid by it to the Administrative Agent under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent an amount equal to the product of such unpaid amount *multiplied by a fraction*, the numerator of which is such Lender's Total Credit Exposure and the denominator of which is the aggregate Total Credit Exposure of all Lenders (in each case determined as of the time that the applicable unreimbursed expense or indemnity payment is sought or, in the event that no Lender shall have any Total Credit Exposure at such time, as of the last time at which any Lender had a Total Credit Exposure), *provided* that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as applicable, was incurred by or asserted against the Administrative Agent in its capacity as such.

(d) To the extent permitted by applicable law, no Borrower shall assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct and actual damages) arising out of, in connection with, or as a result of, any Loan Document or any agreement, instrument or other document contemplated thereby, the Transactions or any Loan or the use of the proceeds thereof.



(e) All amounts due under this Section shall be payable promptly but in no event later than ten days after written demand therefor.

#### Section 10.4 *Successors and Assigns*

(a) The provisions of this Credit Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, *provided* that except as otherwise provided in Section 6.6, no Borrower may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Credit Party (and any attempted assignment or transfer by any Borrower without such consent shall be null and void). Nothing in this Credit Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each Credit Party) any legal or equitable right, remedy or claim under or by reason of any Loan Document.

(b) Any Lender may assign to one or more Eligible Institutions all or a portion of its rights and obligations under this Credit Agreement (including all or a portion of its Commitment and the Loans at the time owing to it), *provided* that (i) except in the case of an assignment to a Lender or an Affiliate or an Approved Fund of a Lender, each Borrower and the Administrative Agent must give its prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Lender or an Affiliate or an Approved Fund of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$10,000,000 unless each Borrower and the Administrative Agent otherwise consent, (iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance together with, unless otherwise agreed by the Administrative Agent, a processing and recordation fee of \$3,500, and (iv) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire, and *provided* further, that any consent of the Borrowers otherwise required under this paragraph shall not be required if a Default has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under the Loan Documents, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under the Loan Documents (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under the Loan Documents, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 3.5, 3.6, 3.7 and 10.3). Any assignment or transfer by a Lender of rights or obligations under the Loan Documents that does not comply with this paragraph shall be treated for purposes of the Loan Documents as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrowers, shall maintain at one of its offices in New York City a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "*Register*"). The entries in the Register shall be conclusive absent clearly demonstrable error, and the Borrowers and each Credit Party may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of

this Credit Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrowers and any Credit Party, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Credit Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of any Borrower or any Credit Party, sell participations to one or more Eligible Institutions (each such Eligible Institution being called a "*Participant*") in all or a portion of such Lender's rights and obligations under the Loan Documents (including all or a portion of the Loans owing to it), *provided* that (i) such Lender's obligations under the Loan Documents shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrowers and the Credit Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of any Loan Documents, *provided* that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 10.2(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrowers agree that each Participant shall be entitled to the benefits of Sections 3.5, 3.6 and 3.7 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.8 as though it were a Lender, *provided* that such Participant agrees to be subject to Section 2.8(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 3.5 or 3.7 than the Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with each Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.7 unless the Company is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrowers, to comply with Section 3.7(c) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under the Loan Documents to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest, *provided* that no such pledge or assignment of a security interest shall release a Lender from any of its obligations under the Loan Documents or substitute any such pledgee or assignee for such Lender as a party hereto.

#### Section 10.5 *Survival*

All covenants, agreements, representations and warranties made by the Borrowers herein and in the certificates or other instruments prepared or delivered in connection with or pursuant

to this Credit Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of any Loan Document and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any Credit Party may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under the Loan Documents is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Sections 3.5, 3.6, 3.7 and 10.3, 10.9, 10.10 and Article 9 shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans and the termination of the Commitments or the termination of this Credit Agreement or any provision hereof.

#### Section 10.6 *Counterparts; Integration; Effectiveness*

This Credit Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which, when taken together, shall constitute but one contract. This Credit Agreement and any separate letter agreements with respect to fees payable to any Credit Party or the syndication of the credit facilities established hereunder constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.1, this Credit Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of this Credit Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Credit Agreement.

#### Section 10.7 *Severability*

In the event any one or more of the provisions contained in this Credit Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

#### Section 10.8 *Right of Setoff*

If an Event of Default shall have occurred and be continuing, each of the Lenders and their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by it to or for the credit or the account of any Borrower against any of and all the obligations of such Borrower now or hereafter existing under this Credit Agreement held by it, irrespective of whether or not it shall have made any demand under this Credit Agreement and although such obligations may be unmaturing. The rights of each the Lenders and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that it may have.

(a) This Credit Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) Each of the Borrowers hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Credit Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that, to the extent permitted by applicable law, all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by applicable law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Credit Agreement shall affect any right that the Administrative Agent or any other Credit Party may otherwise have to bring any action or proceeding relating to this Credit Agreement or the other Loan Documents against any Borrower, or any of its property, in the courts of any jurisdiction.

(c) Each of the Borrowers hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Credit Agreement or the other Loan Documents in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Credit Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.1. Nothing in this Credit Agreement will affect the right of any party to this Credit Agreement to serve process in any other manner permitted by law.

#### Section 10.10 **WAIVER OF JURY TRIAL**

**EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS CREDIT AGREEMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS CREDIT AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**

#### Section 10.11 *Headings*

Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Credit Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Credit Agreement.

#### Section 10.12 *Interest Rate Limitation*

Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan under applicable law (collectively the "*charges*"), shall exceed the maximum lawful rate (the "*maximum rate*") that may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all of the charges payable in respect thereof, shall be limited to the maximum rate and, to the extent lawful, the interest and the charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated, and the interest and the charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the maximum rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

#### Section 10.13 *Confidentiality*

Except as provided in this Section 10.13, each Credit Party expressly agrees to maintain as confidential and not to disclose, publish or disseminate to any third parties any Confidential Information (as defined below) provided to it, *provided*, however, that nothing herein shall limit the disclosure of any Confidential Information (i) to its Related Parties (other than insurance Affiliates), counsel or other representatives reasonably required, in the opinion of the Credit Party, to have such information, *provided* such Persons have agreed or are under a duty to keep all such information confidential in accordance with this Section 10.13, (ii) upon the request or demand of any regulatory agency, authority or self-regulatory body having jurisdiction over or claiming authority to regulate or oversee any aspect of the business of such Credit Party, (iii) to the extent required by applicable laws or regulations or pursuant to any subpoena, court or governmental order or similar legal process, *provided* that to the extent permitted by law and if practicable to do so under the circumstances, the Company is given prior notice of, and an opportunity to contest, the production of such Confidential Information (which notice and opportunity shall be reasonable under the circumstances), (iv) to any prospective assignee or participant in connection with any contemplated transfer pursuant to Section 10.4, *provided* that such prospective transferee shall have expressly agreed to be bound by the provisions of this Section 10.13, (v) to any other party to this Credit Agreement, (vi) to any direct or indirect contractual counterparty, or such contractual counterparty's professional advisor, provided that such contractual counterparty, or such contractual counterparty's professional advisor, shall have expressly agreed to be bound by the provisions of this Section 10.13, (vii) any nationally recognized rating agency, (viii) to the extent necessary in connection with the exercise of any remedy hereunder and (ix) in connection with any litigation or dispute to which one or more of the Borrowers and one or more of the Credit Parties is a party. Each Credit Party agrees that it will only use the Confidential Information in connection with the evaluation and administration of this credit facility and its Loans, and it will not use the Confidential Information for purposes of trading in the securities of the Company. For purposes of this Section 10.13, "Confidential Information" means any written or oral information provided under this Credit Agreement by or on behalf of any Borrower that, in the case of written information, is clearly marked "confidential" and in the case of oral information, that has been identified by its source as confidential, other than any Confidential Information which: (a) is or becomes generally available to the public other than as a result of a breach of this Section 10.13; (b) becomes available to a Credit Party on a non-confidential basis from a source other than the a Borrower, or one of its agents, which source is not known by such Credit Party to be bound by a confidentiality agreement with the Company or such Borrower; (c) was known to a Credit Party on a non-confidential basis prior to its disclosure to such Credit Party by the a Borrower, one of

its agents or another Credit Party, (d) the Company has advised the Credit Party is no longer confidential or (e) to the extent the Company shall have consented to such disclosure in writing.

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE ALLSTATE CORPORATION

By: /s/ JAMES P. ZILS

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Name: James P. Zils  
Title: Treasurer

ALLSTATE INSURANCE COMPANY

By: /s/ JAMES P. ZILS

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Name: James P. Zils  
Title: Treasurer

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ JAMES P. ZILS

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Name: James P. Zils  
Title: Treasurer

---

**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

THE BANK OF NEW YORK, individually and as  
Administrative Agent

By: /s/ BEN BALKIND

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Name: Ben Balkind  
Title: Vice President

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

JP MORGAN CHASE BANK, individually and as a  
Syndication Agent

By: /s/ LAWRENCE PALUMBO, JR.

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Name: Lawrence Palumbo, Jr.  
Title: Vice President

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

BANK OF AMERICA, N.A., individually and as a  
Documentation Agent

By: /s/ SHELLY K. HARPER

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Name: Shelly K. Harper  
Title: Principal

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

CITIBANK, N.A., individually and as a  
Documentation Agent

By: /s/ DAVID A. DODGE

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Name: David A. Dodge  
Title: Managing Director

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

WACHOVIA BANK, NATIONAL ASSOCIATION,  
individually and as a Syndication Agent

By: /s/ KIMBERLY SHAFFER

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Name: Kimberly Shaffer  
Title: Director

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ RUTH LEUNG

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Name: Ruth Leung  
Title: Director

By: /s/ CLINTON JOHNSON

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Name: Clinton Johnson  
Title: Managing Director

---

**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

SUNTRUST BANK

By: /s/ LINDA L. DASH

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Name: Linda L. Dash  
Title: Director

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

ABN AMRO BANK N.V.

By: /s/ NEIL R. STEIN

---

Name: Neil R. Stein  
Title: Group Vice President

By: /s/ MICHAEL DEMARCO

---

Name: Michael DeMarco  
Title: Assistant Vice President

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

CREDIT SUISSE FIRST BOSTON, acting through its  
Cayman Islands Branch

By: /s/ JAY CHALL

---

Name: Jay Chall  
Title: Director

By: /s/ VANESSA GOMEZ

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Name: Vanessa Gomez  
Title: Associate

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

WILLIAM STREET COMMITMENT CORPORATION  
(recourse only to the assets of  
William Street Commitment Corporation)

By: /s/ JENNIFER M. HILL

---

Name: Jennifer M. Hill  
Title: Chief Financial Officer

---

**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

LEHMAN BROTHERS BANK, FSB

By: /s/ JANINE M SHUGAN

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Name: Janine M. Shugan

Title: Authorized Signatory

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

MERRILL LYNCH BANK USA

By: /s/ LOUIS ALDER

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Name: Louis Alder

Title: Director

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

MORGAN STANLEY BANK

By: /s/ DANIEL TWENGE

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Name: Daniel Twenge  
Title: Vice President

---

**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

THE NORTHERN TRUST COMPANY

By: /s/ FORREST VOLLRATH

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Name: Forrest Vollrath  
Title: Vice President

---

**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

UBS LOAN FINANCE LLC

By: /s/ WILFRED V. SAINT

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Name: Wilfred V. Saint  
Title: Director

By: /s/ JOSELIN FERNANDES

---

Name: Joselin Fernandes  
Title: Director

---

**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

US BANK, NATIONAL ASSOCIATION

By: /s/ ELLIOT J. JAFFEE

---

Name: Elliot J. Jaffee

Title: Senior Vice President

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**ALLSTATE CORPORATION  
CREDIT AGREEMENT**

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ ROBERT MEYER

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Name: Robert Meyer  
Title: Vice President

By: /s/ BETH C. MCGINNIS

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Name: Beth C. McGinnis  
Title: Senior Vice President

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**THE ALLSTATE CORPORATION**  
**DEFERRED COMPENSATION PLAN**  
**AMENDED AND RESTATED AS OF MAY 28, 2004**

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**ARTICLE I**  
**DESIGNATION OF PLAN AND DEFINITIONS**

**1.1 TITLE**

This Plan shall be known as "The Allstate Corporation Deferred Compensation Plan." The Plan was adopted by Allstate Insurance Company effective January 1, 1995. The Plan was amended and restated by the Company, effective January 1, 1996, November 11, 1997, September 1, 1999, November 1, 2000, November 1, 2001, June 1, 2002, and October 7, 2002. The Plan was further amended and restated on May 28, 2004.

**1.2 DEFINITIONS**

The following definitions will apply:

- (a) "Account" shall mean the bookkeeping entries made to state the balance of Compensation deferred by a Participant under the Plan, as adjusted pursuant to Article IV of the Plan. A Participant's Account shall also include any cash amounts automatically directed to this Plan by action of the Board of Directors of The Allstate Corporation or a committee thereof. For purposes of this Plan, "Account" shall include any amounts deferred by a Participant, as adjusted for earnings and debits, under The Allstate Corporation Deferred Compensation Plan for Employee Agents and The Allstate Corporation Deferred Compensation Plan for Independent Contractor Exclusive Agents.
- (b) "Beneficiary" or "Contingent Beneficiary" shall mean the person or persons last designated in writing by the Participant to the Committee, in accordance with Section 8.5 of this Plan.
- (c) "Board" shall mean the Board of Directors of the Company.
- (d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
- (e) "Committee" shall mean the Committee appointed by the Board of Directors

pursuant to Article VI of this Plan, and shall mean those persons to whom the Committee has delegated administrative duties pursuant to Section 6.1(g).

- (f) "Company" shall mean The Allstate Corporation.
- (g) "Compensation" shall mean all of the items included in the term "Annual Compensation" as that term is defined in the Allstate Retirement Plan without regard to the annual compensation limit imposed by Section 401(a)(17) of the Code.
- (h) "Compensation Floor" shall be the compensation limit in effect pursuant to Section 401(a)(17) of the Code for a Plan Year.
- (i) "Controlled Group" shall mean any corporation or other business entity which is included in a controlled group of corporations, within the meaning of section 1563(a)(i) of the Code, within which the Company is also included.
- (j) "Eligible Compensation" shall mean the greater of (i) an Employee's current year Compensation annualized in such manner as the Committee shall determine; (ii) an Employee's current year base salary annualized in such manner as the committee shall determine; or (iii) an Employee's Compensation for the calendar year two years before a Plan Year. For purposes of this definition, "Compensation" shall not include any bonus amounts paid on a monthly, quarterly or other nonannual basis.
- (k) "Eligible Employee" shall mean any Employee who is eligible to participate under Article II of this Plan.
- (l) "Eligible Salary" shall mean an Employee's monthly base salary during the calendar year immediately preceding a Plan Year annualized in such manner as the Committee shall determine, plus any bonus amounts paid on a monthly, quarterly or other nonannual basis included as Compensation during the calendar year immediately preceding a Plan Year up through the date the Employee's eligibility is determined, as set forth by the Committee.
- (m) "Employee" shall mean any regular, full-time employee of the Company, of

Allstate Insurance Company, of Allstate New Jersey Insurance Company, of Allstate Bank or of any other affiliate in the Controlled Group which adopts the Plan, but shall in no event include persons classified as agents. If a person is not considered to be an "Employee" for purposes of Plan eligibility, a later change in the person's status, even if the change in status is applicable to prior years, will not have a retroactive effect for Plan purposes.

- (n) "Hardship" shall mean severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in section 152(a) of the Code) of the Participant, or loss of the Participant's property due to casualty, or similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined by the Committee.
- (o) "Incentive" shall mean the amount actually payable to a Participant under an annual cash incentive program sponsored by the Company, Allstate Insurance Company, Allstate New Jersey Insurance Company, Allstate Bank or any other member of the Controlled Group which adopts the Plan. An Incentive award earned during a Plan Year becomes payable in the calendar year next following the Plan Year. Any amounts payable to a Participant on a monthly, quarterly or any other nonannual basis under any cash incentive or award program shall not be considered an Incentive under this Plan.
- (p) "Investment" shall mean the elections made by Participants to make allocations and reallocations of deferrals and Account balances among the subaccounts described in Section 4.3(b), together with accruals and adjustments reflecting the hypothetical experience of the subaccounts.
- (q) "Participant" shall mean an Eligible Employee who has an account balance in the Plan.
- (r) "Plan" shall mean The Allstate Corporation Deferred Compensation Plan as set forth herein, and as amended from time to time in accordance with Article VII hereof.

- (s) "Plan Year" shall mean the fiscal year of the Company, which is a calendar year.
- (t) "Separation from Service" means the termination of a Participant's employment with any company in the Controlled Group for any reason whatsoever, including retirement, resignation, dismissal or death, but does not include a transfer of status to an employee agent or to an Exclusive Agent Independent Contractor or Exclusive Financial Specialist Independent Contractor for Allstate Insurance Company, Allstate New Jersey Insurance Company, Allstate Life Insurance Company or for any other member of the Controlled Group. "Separation from Service" shall also mean the subsequent termination of any Exclusive Agent Independent Contractor or Exclusive Financial Specialist Independent Contractor agreement, unless such termination results from acceptance of employment with any member of the Controlled Group.

**ARTICLE II**  
**PARTICIPATION**

**2.1 ELIGIBILITY**

An Employee shall be an Eligible Employee if either his Eligible Compensation or his Eligible Salary is equal to or in excess of the Compensation Floor for the Plan Year. An Eligible Employee shall be eligible to make deferrals as follows:

- (a) An Eligible Employee shall be eligible to defer base salary for a Plan Year if his or her Eligible Salary is equal to or exceeds the Compensation Floor for the Plan Year.
- (b) An Eligible Employee shall be eligible to defer Incentive if his or her Eligible Compensation is equal to or exceeds the Compensation Floor for the Plan Year.

**2.2 NOTICE OF ELIGIBILITY**

The Committee or its appointed representative shall notify each Eligible Employee no later than a) with respect to base salary deferrals, 30 days prior to the first business day of any Plan Year and b) with respect to Incentive deferrals, June 1, or, in either case, as soon thereafter as practicable, that he/she is entitled to become a Participant in the Plan for such Plan Year.

**2.3 PARTICIPATION ELECTION**

- (a) Pursuant to Section 2.1, an Eligible Employee may elect to defer base salary and Incentive into the Plan in accordance with procedures and during the time frames established by the Committee or its representative. The salary deferral election must be received by the Committee or its designated representative no later than the last business day of the preceding calendar year or such earlier date as determined by the Committee. The Incentive deferral election must be received by the Committee or its designated representative no later than June 30 of the Plan Year or such earlier date as determined by the Committee. These

elections shall specify the percentage of base salary and/or Incentive to be deferred during the Plan Year. A Participant may not change his or her salary deferral election for the Plan Year after the Plan Year has commenced, and may not change his/her Incentive deferral election after June 30 of the Plan Year. However, a Participant may at any time irrevocably elect to suspend deferrals in the Plan for the remainder of a Plan Year, but only as to future deferrals of base salary. If during a Plan Year a Participant receives a hardship withdrawal distribution from The Savings and Profit Sharing Fund of Allstate Employees or any other qualified or nonqualified plan of deferred compensation maintained by the Company or any member of the Controlled Group, the Participant shall be subject to the suspension of deferrals into this Plan for the remainder of the Plan Year and for the next succeeding Plan Year.

- (b) Any person who the Committee determines to be an Eligible Employee in the Plan Year in which he/she first becomes an Employee shall be provided an opportunity within 30 days of employment to participate in the Plan for that Plan Year.



**ARTICLE III**  
**DEFERRALS**

**3.1 AMOUNT OF DEFERRAL**

- (a) If eligible, a Participant may elect to defer, in whole number percentages, up to 80% of base salary for the Plan Year. No deferrals of base salary will be recognized until Compensation in the Plan Year reaches the Compensation Floor for the Plan Year.
- (b) If eligible, a Participant may elect to defer, in whole number percentages, up to 100% of the Incentive earned in the Plan Year and paid in the calendar year following the Plan Year (the "next Plan Year"). The amount of a Participant's Incentive deferral will be reduced to the portion which, when added to the Participant's other amounts included in projected Compensation for the next Plan Year, exceeds the Compensation Floor for the next Plan Year.
- (c) Deferrals shall be recognized only after all other deductions required by federal or state law or elected by the Participant have been withheld. Deferrals may be reduced by the Committee to the extent necessary to permit required or elected withholdings.
- (d) Except as provided in Section 3.1(e), if a Participant has elected to defer Compensation for a Plan Year which would otherwise be includible in the calculation of the Participant's pension benefit under the Allstate Retirement Plan or the Agents Pension Plan for such Plan Year the Company shall, prior to the end of such Plan Year, refund such excess deferral to the Participant.
- (e) To the extent a Participant is on leave of absence for all or part of the Plan Year, and the Participant's Compensation less any amounts deferred is less than the Compensation Floor for such year, the Company shall, prior to the end of such Plan Year, pay the Participant the lesser of:
  - (1) The amount deferred during the year; or

- (2) The difference between (i) the Compensation Floor and (ii) the amount of the Participant's Compensation less the amount the Participant deferred.

### **3.2 EFFECTIVE DATE OF DEFERRAL**

Compensation deferred shall be credited to a Participant's Account by bookkeeping entry as set forth in Section 4.2.

### **3.3 USE OF AMOUNTS DEFERRED**

Amounts credited to Accounts shall be a part of the general funds of the Company, shall be subject to all the risks of the Company's business, and may be deposited, invested or expended in any manner whatsoever by the Company.

**ARTICLE IV**  
**ACCOUNTS AND VESTING**

**4.1 ESTABLISHMENT OF ACCOUNT**

The Committee shall establish, by bookkeeping entry on the books of the Company, an Account for each Participant. Accounts shall not be funded in any manner.

**4.2 CONTRIBUTIONS TO ACCOUNT**

The Committee shall cause deferred Compensation to be credited by bookkeeping entry to each Participant's Account as of the last day of the month in which the Compensation or any cash amounts automatically directed to this Plan otherwise would have been payable to the Participant, or as soon thereafter as is administratively practicable.

**4.3 MAINTENANCE OF ACCOUNT BALANCES—SUBACCOUNT ELECTIONS**

- (a) Investment of deferrals shall be made among one or more of the Subaccounts described in Section 4.3(b). Each Investment shall be made in accordance with procedures established by the Committee and shall specify that portion of the Participant's deferrals on the date of such election to be invested in each Subaccount. In its sole discretion, the Committee may withhold one or more of the Subaccounts from Investment by Participants for a Plan Year or Years. Investments of deferrals must be made in whole percentage increments.

Each Account shall be adjusted, as applicable, to apply credits for contributions, interest, dividend equivalents and other earnings and to apply debits for Plan administration and investment expenses, for losses and for distributions. All such adjustments shall be bookkeeping entries reflecting hypothetical experience for the Subaccounts in which Investments are made.

(b) The Subaccounts in which Investments may be made are:

- (1) Subaccount #1—*SSgA Short Term Investment Fund*—a diversified portfolio of short term fixed-income securities managed by State Street Global Advisors (SSgA). The fund's objective is to maximize current income while preserving capital and liquidity. The fund's yield reflects short-term interest rates.
- (2) Subaccount #2—*SSgAPassive Bond Market Index Securities Lending Fund Series A*—a collective fund of fixed-income securities managed by State Street Global Advisors (SSgA). The fund invests in U.S. Treasury, agency, corporate, mortgage-backed, and asset-backed debt securities. The fund's objective is to match the total rate of return of the Lehman Brothers Aggregate Bond Index, a broad-based domestic bond index composed of more than 5,000 debt securities with all securities having an average life of at least one year. The rate of return on the Bond Fund is influenced by, among other things, changes in interest rates, the market price of bonds and the financial stability of the issuers.
- (3) Subaccount #3—*SSgA S&P 500 Flagship Fund Series A*—a collective fund managed by State Street Global Advisors (SSgA), which invests in a diversified portfolio of stocks in a broad array of large, established companies. The fund's objective is to match the total rate of return of the Standard & Poor's (S&P) 500 Index<sup>1</sup>, which consists of 500 stocks chosen for market size, liquidity and industry group representation. SSgA replicates the index by purchasing all 500 component equities in the appropriate market-value weighted proportions. The rate of return on the S&P 500 Fund is influenced by the market price and dividends of the stocks held in the fund.
- (4) Subaccount #4—*SSgA Daily EAFE Securities Lending Fund Series T*—a fund, managed by State Street Global Advisors (SSgA), which invests in a diversified portfolio of stocks outside of North and South America. The fund's objective is to match the total rate of returns and characteristics of the Morgan Stanley Capital International (MSCI) Europe, Australia, Far East (EAFE) Index. The index consists of more than 1,000 stocks in over 21 countries outside of North and South America and represents approximately 85% of the total market capitalization in those countries. SSgA employs an index replication approach to construct a fund whose return tracks the MSCI EAFE Index. The rate of return on the International Equity Fund is influenced by the market price of the stocks held in the fund, dividends and other income and foreign currency exchange rates. Trading limits apply to investments in the Series T Fund.
- (5) Subaccount #5—*SSgA Russell 2000 Index Securities Lending Fund Series A*—a collective fund managed by State Street Global Advisors

(SSgA), which invests in a diversified portfolio of small capitalized U.S. stocks. The fund's objective is to match the total rate of returns and characteristics of the Russell 2000 Index, which consists of the smallest 2000 U.S. securities in the Russell 3000 Index. SSgA employs an index replication approach to construct a fund whose return tracks the Russell 2000 index. The rate of return on the Russell 2000 Fund is influenced by the market price and dividends of the stocks held in the fund.

- (c) A Participant may change his Subaccount investment elections at such time and in such manner, and with respect to such existing Account balances and future contributions, as the Committee shall determine; any such changes to be effective only in accordance with such procedures as established from time to time by the Committee. Any reallocations of existing Account balances must be made in whole percentage increments. A reallocation election will become effective as set forth in Plan procedures. Any reallocations of existing Account balances made under this Plan will simultaneously apply to any amounts the Participant may have deferred under either The Allstate Corporation Deferred Compensation Plan for Employee Agents or The Allstate Corporation Deferred Compensation Plan for Independent Contractor Exclusive Agents.

#### **4.4 VESTING**

A Participant shall be fully vested in his/her Account at all times, subject to Sections 3.3 and 8.2.

**ARTICLE V**  
**PAYMENTS**

**5.1 EVENTS CAUSING ACCOUNTS TO BECOME DISTRIBUTABLE**

- (a) A Participant's Account shall become distributable upon notification to the Plan of the Participant's Separation from Service or, at the election of the Participant pursuant to Section 5.4, in one of the first through fifth years after Separation from Service. In either event, the Participant may elect to receive payment in a lump sum or in annual installments as provided in Section 5.3.
- (b) That portion of a Participant's Account determined to be necessary to alleviate a demonstrated Hardship shall become distributable upon the date of such determination, subject to Section 5.2, and such determination shall be subject to the suspension of deferrals in the Plan by the Participant for the remainder of the Plan Year and for the next succeeding Plan Year.
- (c) A Participant may make an irrevocable election prior to September 1, 1999, to receive a distribution as of the first day of any Plan Year prior to Separation from Service, provided such date occurs subsequent to the Plan Year in which the Participant first participates in this Plan and at least three years after the date the Participant makes an election pursuant to this Section 5.1(d). In such case, that portion of the Participant's Account attributable to Compensation deferred, and accruals thereon, after the Committee receives such election shall become distributable on the date elected. Any balance in the Participant's Account remaining after any payment under this paragraph and any balance in the Account attributable to participation in the Plan in any year subsequent to the year in which a payout on such date certain occurs, shall become distributable to the Participant as provided in paragraphs (a), (b) or (d) of this Section.
- (d) Effective September 1, 1999, a Participant may at any time irrevocably elect to receive distribution of his/her entire Account balance, subject to the forfeiture to the Company of 10% of such Account balance and subject to

suspension of deferrals in the Plan by the Participant for the remainder of the Plan Year and for the next succeeding Plan Year ("Suspension Period"). Such election will cause any pending election of Incentive deferrals payable during the Suspension Period to be voided. The Participant's Account balance shall become distributable subject to Section 5.2 following the date of such election.

- (e) In the event of a Participant's death prior to distribution of his/her entire Account balance, the remaining Account balance shall become distributable following the date on which all events have occurred which entitle the Beneficiary or Beneficiaries to payment.

## **5.2 NOTICE OF ACCOUNT PAYMENT AND COMMENCEMENT OF DISTRIBUTION**

The Committee or its appointed representative shall notify a Participant or Beneficiary, as the case may be, as soon as practicable after the first day of the month next following the date on which the Account becomes distributable, that he/she is entitled to receive payment from an Account, the balance of which shall be computed as of the close of business on the last day of the month in which the Account becomes distributable. Distribution of Account balances shall commence as soon as practicable after the first day of the month next following the date on which the Account becomes distributable.

## **5.3 FORM OF PAYMENT**

- (a) Except as provided in paragraphs (c) and (d) of this Section 5.3 and Article VIII hereof, payments of Account balances to a Participant shall be in the form of one lump sum payment or annual cash installment payments over a period of from 2 to 10 years, at the election of the Participant.
- (b) The amount of each annual installment payable to a Participant who has elected to receive installment payments shall be as follows: The first annual installment payment shall, for a Participant who has elected to receive installment payments commencing upon his/her Separation from

Service, be computed as of the close of business on the last day of the month in which the Account becomes distributable, and the amount of such payment shall equal his/her Account balance as of such date, divided by the number of installments including the one being paid. The first annual installment payment shall, for a Participant who has elected to receive installment payments commencing in one of the first through fifth years after Separation from Service, be computed as of the close of the first business day of the year preceding the year in which the Account balance becomes distributable, and the amount of such payment shall equal his/her Account balance as of such date, divided by the number of installments including the one being paid. Each subsequent installment payment shall be computed as of the close of the last business day of the year thereafter, and the amount of each subsequent payment shall equal his/her remaining Account balance, divided by the number of remaining installments including the one being paid. Interest accruals and other adjustments shall continue with respect to the entire unpaid Account balance, as provided in Section 4.3.

- (c) In the event of a Participant's death prior to distribution of his/her entire Account balance, the remaining Account balance shall be paid in a lump-sum to the Participant's Beneficiary or Beneficiaries, as soon as practicable after the date on which the Account balance shall become distributable pursuant to Section 5.1(e).
- (d) Notwithstanding the provisions of paragraph (b) above, if the remaining unpaid Account balance is \$5,000 or less on any date a payment is to be made to a Participant, the payment shall be the remaining unpaid Account balance.

#### **5.4 DISTRIBUTION ELECTION**

- (a) Each Participant shall elect his/her desired form of payment, in accordance with procedures established by the Committee, at the time of his/her initial participation election set forth in Section 2.3.



- (b) Except for distribution elections under Section 5.1(c) and (d), each Participant may from time to time revise the terms of distribution of the Participants Accounts, in accordance with the procedures established by the Committee, provided that (i) the revised notice of the desired form of payment shall be made by the Participant no less than twelve months prior to the date on which payment is to commence, but in any event no later than the day before the date of the Participant's Separation from Service and (ii) in any event, distribution of the Participant's Account shall not commence earlier than twelve months after the Participant's revised notice of the desired form of payment is made.

**ARTICLE VI**  
**ADMINISTRATION**

**6.1 GENERAL ADMINISTRATION; RIGHTS AND DUTIES**

The Board shall appoint the Committee, which, subject to the express limitations of the Plan, shall be charged with the general administration of the Plan on behalf of the Participants. The Committee shall also be responsible for carrying out its provisions, and shall have all powers necessary to accomplish those purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the Plan;
- (b) To compute the amount of benefits payable to Participants;
- (c) To authorize all disbursements by the Company of Account balances pursuant to the Plan;
- (d) To maintain all the necessary records for the administration of the Plan;
- (e) To make and publish rules for administration and interpretation of the Plan and the transaction of its business;
- (f) To make available to each Participant the current value of their Account;
- (g) To delegate the administration of the Plan in accordance with its terms to officers or employees of the Company, of Allstate Insurance Company or of an independent consultant retained by the Committee who the Committee believes to be reliable and competent. The Committee may authorize officers or employees of the Company or of Allstate Insurance Company to whom it has delegated duties under the Plan to appoint other persons to assist the delegate in administering the Plan; and
- (h) To refuse to accept the deferral of amounts the Committee or its delegate considers too small to be administratively feasible.

The determination of the Committee as to any disputed question or controversy shall be conclusive.

## 6.2 CLAIMS PROCEDURES

Each Participant or Beneficiary (for purposes of this Section 6.2 referred to as a "Claimant") may submit a claim for benefits to the Committee (or other person designated by the Committee) in writing in such form as is permitted by the Committee. A Claimant shall have no right to seek review of a denial of benefits, or to bring any action in any court to enforce a claim for benefits, prior to his filing a claim for benefits and exhausting his rights to review in accordance with this Section 6.2

A properly filed claim for benefits shall be evaluated and the Claimant shall be notified in writing of the approval or the denial within ninety (90) days after the receipt of such claim unless special circumstances require an extension of time for processing the claim. If such an extension of time is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period, and such notice shall specify the special circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than one hundred and eighty (180) days after the date on which the claim was filed). Written notice to a Claimant shall advise whether the claim is granted or denied, in whole or in part, and if denied, shall contain (1) the specific reasons for the denial, (2) references to pertinent Plan provisions on which the denial is based, (3) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary, and (4) the Claimant's rights to seek a review of the denial.

If a claim is denied, in whole or in part, the Claimant shall have the right to request that the Committee (or person designated by the Committee) review the denial, provided that he files a written request for review with the Committee within sixty (60) days after the date on which he received written notice of the denial. A Claimant (or his duly authorized representative) may review pertinent documents and submit issues and comments in writing to the Committee. Within

sixty (60) days after a request for review is received, the review shall be made and the Claimant shall be advised in writing of the decision on review, unless special circumstances require an extension of time for processing the review, in which case the Claimant shall, within such initial sixty (60) day period, be given a written notice specifying the reasons for the extension and when such review shall be completed (provided that such review shall be completed within one hundred and twenty (120) days after the date on which the request for review was filed). The decision on review shall be forwarded to the Claimant in writing and shall include specific reasons for the decision and references to Plan provisions upon which the decision is based. A decision on review shall be final and binding on all persons for all purposes.

**ARTICLE VII**  
**PLAN AMENDMENTS AND TERMINATION**

**7.1 AMENDMENTS**

The Company shall have the right to amend this Plan from time to time by resolutions of the Board or by the Committee, and to amend or rescind any such amendments; provided, however, that no action under this Section 7.1 shall in any way reduce the amount of Compensation deferred or any accruals or other adjustments provided in section 4.3 up to and including the end of the month in which such action is taken. Interest will continue to accrue as provided in Section 4.3. All amendments shall be in writing and shall be effective as provided subject to the limitations in this Section 7.1.

**7.2 TERMINATION OF PLAN**

Although the Company expects that this Plan will continue indefinitely, continuance of this Plan is not a contractual or other obligation of the Company, and the Company expressly reserves its right to discontinue this plan at any time by resolutions of the Board, effective as provided by the Board in such resolutions. However, no such action shall in any way reduce the amount of Compensation deferred or any accruals thereon, up to and including the end of the month in which such action is taken. Accruals to Accounts shall continue until distribution as provided in Section 4.3.

**ARTICLE VIII**  
**MISCELLANEOUS**

**8.1 NOTIFICATION TO COMMITTEE**

Any election made or notification given by a Participant pursuant to this Plan shall be made in accordance with procedures established by the Committee or its designated representative, and shall be deemed to have been made or given on the date received by the Committee or such representative.

**8.2 PARTICIPANT'S EMPLOYMENT**

Participation in this Plan shall not give any Participant the right to be retained in the employ of the Company, Allstate Insurance Company of any member of the Controlled Group, or any right or interest other than as herein provided. No Participant or Employee shall have any right to any payment or benefit hereunder except to the extent provided in this Plan. The members of the Controlled Group expressly reserve the right to dismiss any Participant without any liability for any claim against them, except to the extent expressly provided herein.

**8.3 STATUS OF PARTICIPANTS**

This Plan shall create only a contractual obligation on the part of the Company and shall not be construed as creating a trust or other fiduciary relationship with Participants. Participants will have only the rights of general unsecured creditors of the Company with respect to Compensation deferred and interest credited to their Accounts.

**8.4 OTHER PLANS**

This Plan shall not affect the right of any Employee or Participant to participate in and receive benefits under and in accordance with the provisions of any other Company plans which are now or may hereafter be in existence.

## 8.5 BENEFICIARIES AND CONTINGENT BENEFICIARIES

- (a) Each Participant shall, in accordance with procedures established by the Committee, designate one or more persons or entities (including a trust or trusts or his/her estate) to receive any balance in his/her Account, including accruals thereon, payable to him/her under this Plan in the event of his/her death prior to full payment thereof. The Participant may also designate a person or persons as a Contingent Beneficiary who shall succeed to the rights of the person or persons originally designated as Beneficiary, in case the latter should die. He/she may from time to time change any designation of Beneficiary or Contingent Beneficiary so made, by submitting a new designation in accordance with procedures established by the Committee. For purposes of this Plan, any valid Beneficiary or Contingent Beneficiary designation (or any change to such designation) made under this Plan, The Allstate Corporation Deferred Compensation Plan for Employee Agents or The Allstate Corporation Deferred Compensation Plan for Independent Contractor Exclusive Agents (collectively, the "Allstate Plans") shall be considered valid and applicable to amounts deferred under the Allstate Plans in the aggregate. The last valid designation made by a Participant under any of the Allstate Plans, in accordance with procedures established by the Committee, shall be controlling.

In the event a Participant designates a person other than his/her spouse as Beneficiary of any interests under this Plan, the Participant's spouse shall sign a notarized statement specifically approving such designation and authorizing the Committee to make payment of such interests in the manner provided in such designation.

- (b) In the absence of such designation by the Participant, or in the absence of spousal approval and authorization as herein above provided, or in the event of the death, prior to or simultaneous with the death of the Participant, of all Beneficiaries or Contingent Beneficiaries, as the case may be, to whom payments were to be made pursuant to a designation by the Participant, such payments or any balance thereof shall be paid to the Participant's spouse or, if there is no surviving spouse, to the Participant's

descendants, including adopted children (distributed in equal shares) or, if there are no surviving descendants, to the Participant's parents (distributed in equal shares) or, if there are no surviving parents, to the Participant's sisters and brothers (distributed in equal shares) or, if there are none, to the estate of the Participant.

- (c) In the event of the death, subsequent to the death of the Participant, of a Beneficiary or Contingent Beneficiary, as the case may be, to whom such payments were to be made or were being made pursuant to a designation under this section, such payments or any balance thereof shall be paid to the estate of such Beneficiary or Contingent Beneficiary.

#### **8.6 TAXES AND OTHER CHARGES**

To the extent permitted by law, if the whole or any part of a Participant's Account shall become the subject of any estate, inheritance, income or other tax or other charge which the Company shall legally be required to withhold and/or pay, the Company shall have full power and authority to pay such tax or other charge out of any monies or other property in its hands and charge such amounts paid against the Account of the Participant whose interest hereunder is subject to such tax or other charge. Prior to making any such payment, the Company may require such releases or other documents from any lawful authority as the Company shall deem necessary.

#### **8.7 BENEFITS NOT ASSIGNABLE; OBLIGATIONS BINDING UPON SUCCESSORS**

Benefits under this Plan and rights to receive the amounts credited to the Account of a Participant shall not be assignable or transferable and any purported transfer, assignment, pledge or other encumbrance or attachment of any payments or benefits under this Plan shall not be permitted or recognized. Obligations of the Company under this Plan shall be binding upon successors of the Company.



## **8.8 ILLINOIS LAW GOVERNS; SAVING CLAUSE**

The validity of this Plan or any of its provisions shall be construed and governed in all respects under and by the laws of the State of Illinois. If any provisions of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

## **8.9 HEADINGS NOT PART OF PLAN**

Headings and subheadings in this Plan are inserted for reference only, and are not to be considered in the construction of the provisions hereof.

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<sup>1</sup> *Standard & Poor's*®, *S&P*®, *S&P 500 Index* and *Standard & Poor's 500 Index* are trademarks of Standard & Poor's Corporation (S&P) and have been licensed for use by State Street Bank and Trust Company. The product is not sponsored, endorsed, listed, sold or promoted by S&P, and S&P makes no representation regarding the advisability of investing in this product.



To the Board of Directors and Shareholders of  
The Allstate Corporation:

We have reviewed, in accordance with standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of The Allstate Corporation and subsidiaries for the three-month and six-month periods ended June 30, 2004 and 2003, as indicated in our report dated August 3, 2004; because we did not perform an audit, we expressed no opinion on such financial information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, is incorporated by reference in the following Registration Statements:

**Forms S-3 Registration Nos.**

333-34583  
333-39640  
333-108253

**Forms S-8 Registration Nos.**

33-77928  
33-93760  
33-93762  
33-99132  
33-99136  
33-99138  
33-99138  
333-04919  
333-16129  
333-40283  
333-40285  
333-40289  
333-49022  
333-60916  
333-73202  
333-100405  
333-100406  
333-105632

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Chicago, Illinois  
August 3, 2004



## CERTIFICATIONS

I, Edward M. Liddy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 3, 2004

/s/ EDWARD M. LIDDY

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Edward M. Liddy  
Chairman of the Board, President and Chief Executive Officer



I, Danny L. Hale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 3, 2004

/s/ DANNY L. HALE

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Danny L. Hale  
Vice President and Chief Financial Officer





**CERTIFICATIONS PURSUANT TO 18 UNITED STATES CODE §1350**

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended June 30, 2004 of The Allstate Corporation filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of The Allstate Corporation.

August 3, 2004

/s/ EDWARD M. LIDDY

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Edward M. Liddy  
Chairman of the Board, President and Chief Executive Officer

/s/ DANNY L. HALE

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Danny L. Hale  
Vice President and Chief Financial Officer

