

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1998

OR

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

Commission file number 1-11840

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

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

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

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$0.01 per share	New York Stock Exchange Chicago Stock Exchange
7.95% Cumulative Quarterly Income Preferred Securities, Series A (issued by a wholly-owned trust of the Registrant)	New York Stock Exchange
7.125% Senior Quarterly Interest Bonds	New York Stock Exchange

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

On January 31, 1999, Registrant had 813,386,882 shares of common stock outstanding. Approximately 754,000,000 of these shares, having an aggregate market value (based on closing prices on January 29, 1999 reported in the New York Stock Exchange Composite listing) of approximately \$28.28 billion, were owned by stockholders other than the Registrant's directors and executive officers and Northern Trust Corporation, which is the trustee for The Savings and Profit Sharing Fund of Allstate Employees.

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

Yes No

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

Documents Incorporated By Reference

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

Parts I, II and III of this Form 10-K incorporate by reference certain information from the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on May 18, 1999 (the "Proxy Statement").

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Part I

ITEM 1. BUSINESS

The Allstate Corporation (the "Company") was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company ("AIC"). The Company's business is conducted principally through AIC and AIC's subsidiaries (collectively, including the Company, "Allstate"). Allstate is engaged, principally in the United States and Canada, in the property-liability insurance and life insurance and savings businesses. Allstate is the country's second largest property-liability insurer on the basis of 1997 statutory premiums written and is a major life insurer. Allstate's life insurance and savings operations are conducted through Allstate Life Insurance Company ("ALIC"), a wholly-owned subsidiary of AIC, and through various ALIC subsidiaries ("Life and Savings").

Allstate's primary business is the sale of private passenger auto and homeowners insurance. In 1997, Allstate maintained estimated national market shares in these lines of approximately 12.3% and 11.3%, respectively. Allstate's Property-Liability operations consist of two business segments: personal property and casualty ("PP&C") and Discontinued Lines and Coverages. PP&C is principally engaged in the sale of private passenger auto insurance and homeowners insurance to individuals in both the United States and in other countries. Discontinued Lines and Coverages consists of business no longer written by Allstate. Allstate markets its products through a variety of distribution channels, with the core of its PP&C distribution system being a broad-based network of approximately 15,500 exclusive agents (employee and non-employee) in the United States and Canada, and over 3,000 independent agents who offer Allstate products primarily in rural areas not served by Allstate agents. Allstate also uses independent and specialized brokers to expand market reach, including approximately 13,000 independent agents appointed to market non-standard auto business.

Life and Savings markets a broad line of life insurance, savings and group pension products. Life and Savings distributes its products through Allstate agents (including life specialists), banks, independent agents and brokers and through direct response marketing.

Allstate's Corporate and Other business segment is comprised of holding company activities and certain non-insurance operations.

Information regarding the last three years' revenues and operating profit or loss, and the last two years' identifiable assets attributable to each of Allstate's four business segments is contained in note 15 of the Notes to Consolidated Financial Statements on pages C-62 to C-64 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof.

RECENT DEVELOPMENTS

On March 3, 1999, ALIC and Putnam Investments, a leading investment management company, announced a joint venture to create and distribute a co-branded variable insurance product line. A joint venture executive committee consisting of executives from ALIC and Putnam will manage the partnership. Putnam's portfolio managers will oversee the mutual fund investments and ALIC will manage the insurance assets. The products will be distributed via Putnam's wholesaling force, and through its partnerships with banks, broker-dealers and financial advisors.

On February 12, 1999, the Company announced a Rights Agreement under which shareholders of record on February 26, 1999 will receive a dividend distribution of one preferred share purchase right (a "Right") on each outstanding share of the Company's common stock. The Rights become exercisable ten days after it is publicly announced that a person or group has acquired 15% or more of the Company's common stock or ten business days after the beginning of a tender or exchange offer to acquire 15% or more of the Company's common stock. Then the Rights become exercisable at a price of \$150 for a number of shares of the Company's common stock having a market value equal to \$300. The Company may redeem the Rights at a price of \$.01 per Right. The Rights expire on February 12, 2009. The Rights are intended to protect shareholders from unsolicited takeover attempts that may unfairly pressure shareholders and deprive them of the full value of their shares. Management is not aware of any such attempt at this time.

On September 21, 1998, the Company's Board of Directors announced that Jerry D. Choate, the Company's Chairman and Chief Executive Officer, would retire at the end of 1998, and that Edward M. Liddy had been elected, effective January 1, 1999, to replace Mr. Choate. Mr. Liddy had been the Company's President and Chief Operating Officer since August 1994. As of January 1, 1999, Mr. Liddy became the Company's Chairman, President and Chief Executive Officer.

During 1998, the Company received a charter from the Office of Thrift Supervision to operate a federal savings bank, Allstate Federal Savings Bank ("AFSB"). AFSB offers electronic commerce services to AIC specifically for pre-authorized payments of customers' premiums and other consumer transactions. AFSB is also committed to investing \$15 million annually in the redevelopment of urban communities, and plans to form strategic alliances with community organizations and other groups in connection with these investments. During 1999, AFSB plans to introduce personal trust, financial planning services and other products based on customer needs and regulatory approvals.

RISK FACTORS AFFECTING ALLSTATE AS AN INSURER

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

See also "Forward-Looking Statements," below, for several important factors that could cause the Company's actual results and experience, with respect to forward-looking statements in this Form 10-K to differ materially from anticipated results or other expectations expressed in the Company's forward-looking statements.

ALLSTATE STRATEGY

Allstate's strategy is to focus on the profitable growth of its private passenger auto and homeowners insurance business; to improve customer retention and to increase cross-sales of its products to its customer base; to manage its catastrophe exposure; to expand its offering of Life and Savings products through existing non-agency distribution channels and through the addition of new distribution channels; and to seek opportunities in the international markets. This

strategy is designed to capitalize on: (1) the strength of the Allstate name, (2) Allstate's network of exclusive agents, (3) Allstate's auto and homeowners insurance capabilities, and (4) additional distribution channels available to Allstate.

Allstate is experiencing increased competition in both its PP&C and Life and Savings segments. The increase in PP&C competition is due, in part, to increased consolidation in the industry, to the entry of new companies to the market attracted by historically high profit margins on auto insurance, and to the expansion and redefinition of underwriting risk selection and tolerance by many competitors. Increased competition in the Life and Savings segment is due, in part, to demutualization and consolidation currently being experienced in this industry. There is also a possibility of federal legislation that would allow banks, securities firms and insurance companies to affiliate.

Allstate expects that the competitive pricing environment in the personal property and casualty industry will put pressure on its premium growth and profit margins, and plans to offset this pressure by initiating the following actions to increase growth and to improve expense margins:

- o implementing processes designed to control the cost of settling homeowners claims;
- o expanding its independent agent distribution channel with the intent to grow standard, non-standard and homeowners premiums written;
- o increasing sales of auto and homeowners related services such as auto and home equity financing, and auto parts and labor warranties in order to provide a more complete set of services to customers; and
- o expanding its domestic and international presence through the development of start-up operations, acquisitions, partnerships and expanded distribution channels.

Allstate's marketing strategy for auto and homeowners insurance varies by geographic area. Allstate is attempting to grow its auto business in the United States more rapidly in states where the regulatory climate is more conducive to attractive returns. Allstate is attempting to manage its homeowners exposure on policies in areas where the potential loss from catastrophes exceeds acceptable levels. Allstate's process of designating geographic areas as growth and limited growth is dynamic and may be revised as changes occur in the legal, regulatory and economic environments, as catastrophe exposure is reduced and as new insurance policies are approved and introduced. Allstate continuously monitors its designated growth and limited growth areas and adjusts its actions, including limiting premium growth, as necessary, to maintain acceptable catastrophe exposure levels in these areas. As of December 31, 1998, the areas designated as auto limited growth markets represent an insignificant percentage of the total United States population. As a result of Allstate's efforts to introduce policy changes and to purchase catastrophe insurance coverage, the homeowners limited growth markets have been reduced to areas where approximately 4% of the United States population resides.

Allstate separates the voluntary personal auto insurance business into two categories for underwriting purposes according to insurance risks: the standard market and the non-standard market, and has determined its growth strategy accordingly. The standard market consists of drivers who meet criteria indicating that they have low to average risk of loss expectancy. The non-standard auto insurance market consists of drivers who have higher-than-average risk profiles due to their driving records, to their lack of prior insurance or to the types of cars they own. Allstate has achieved the leading market share in this market. This has been a market in which Allstate has competed by capitalizing on an established distribution system, technology and claim handling capabilities and by tailoring pricing and products to reach a broader market. Allstate plans to continue to develop opportunities in this market in part, by expanding its independent agent distribution channel.

Life and Savings has been growing its business through the development of new customer focused products, the establishment of new marketing arrangements, increased cross-sales of Life and Savings products to existing Allstate customers, offering a variety of competitive fee-based and interest-sensitive products to satisfy customer preferences in various interest rate environments, and leveraging existing scale to increase efficiency and effectiveness, in part, through investments in technology. Life and Savings' products are marketed through Allstate agents (including life specialists), banks, independent agents and brokers and through direct response marketing. Specialized brokers are used to distribute group pension and structured settlement products not offered by Allstate's agency force. Life and Savings' direct response marketing program principally targets customers of credit card issuers who prefer to purchase, through the mail or telephone, selected products not offered by Allstate's agency force.

Allstate's exclusive agency force of approximately 15,500 full-time agents is at the core of its PP&C distribution system. Allstate also uses over 3,000 independent agents to market a full range of Allstate insurance products to individuals, mostly in rural markets not served by Allstate agents, and approximately 13,000 independent agents appointed by Allstate's subsidiary, Deerbrook Insurance Company ("Deerbrook"), to market non-standard auto business.

Allstate's international operations have included the sale of auto insurance in Canada for over 40 years. In 1997, Allstate commenced the sale of private passenger auto insurance in Germany through direct response marketing. Allstate plans similar direct response marketing of auto insurance in other western European countries and in Japan. Allstate has also identified areas in Asia and the Pacific Rim as attractive markets, principally for life insurance, and plans to pursue these and other international opportunities as an avenue to grow both its revenues and profitability. Allstate believes that it will take a number of years before its new and planned international businesses contribute significantly to its financial results.

Allstate plans to pursue selective business start-ups, acquisitions, partnerships, and expanded distribution channels, both in the United States and internationally in the pursuit of its business strategy.

PROPERTY-LIABILITY INSURANCE BUSINESS

Allstate's Property-Liability insurance business consists of the PP&C and Discontinued Lines and Coverages segments. PP&C, which accounted for \$19.5 billion (or 78%) of Allstate's 1998 statutory written premiums, writes primarily private passenger auto and homeowners insurance policies in 50 states, the District of Columbia, Puerto Rico, Canada and Germany. Operating in approximately 11,800 locations, Allstate agents produce more than 94.2% of PP&C's annual statutory written premiums, with the balance generated by independent agents largely in locations not currently served by Allstate agents. Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and mass tort losses, mortgage pool insurance business and other commercial insurance business in run-off, as well as the historical results of the commercial and reinsurance businesses sold in 1996.

PP&C is principally engaged in private passenger auto and homeowners insurance, and accounted for substantially all of Allstate's total Property-Liability statutory premiums. Allstate was the country's second largest personal property and casualty insurer for both private passenger auto and homeowners insurance in 1997. Although private passenger auto and homeowners insurance account for the majority of its business, PP&C also writes coverages for product lines such as motorcycles, motor homes, mechanical breakdown, renters, condominium, residential and landlord, comprehensive personal liability, fire, personal umbrella, recreational vehicle, mobile home, boat owners, parts and labor warranties and selected commercial property and casualty coverages. PP&C also operates the AEI Group, Inc., whose principal subsidiary Allstate Motor Club provides members with travel plans and emergency road service. Allstate customers are also offered access to auto and home equity loans provided by a third party.

The Company separates the voluntary personal auto insurance business into two basic categories according to insurance risk; the standard market and the non-standard market. The standard market consists of drivers who meet certain criteria which classify them as having low to average risk of loss expectancy. The non-standard market consists of drivers who have higher-than-average risk profiles due to their driving records, lack of prior insurance or the types of cars they own. Allstate's presence in the non-standard market as well as the standard market allows Allstate agents to offer insurance products to the vast majority of drivers who apply for insurance. PP&C has a refined price structure and policy features which address the special needs of drivers in the non-standard market. These policies are written at higher than standard rates. Allstate writes policies covering these risks principally through AIC's subsidiary, Allstate Indemnity Company. Deerbrook also writes non-standard insurance through independent agencies. Allstate had a countrywide market share of approximately 18.5% of the non-standard market in 1997.

As a condition of its license to do business in each state, Allstate, like all other auto insurers, is required to write or share the cost of private passenger auto insurance for higher risk

individuals who would otherwise be unable to obtain such insurance. This "Involuntary," or "Shared," market is governed by the applicable laws and regulations of each state, and policies written in this market are generally written at higher than standard rates. Allstate has generally experienced losses in its participation in the shared market.

PP&C, in addition to writing insurance for standard homes, also insures high value homes and non-standard homes, such as those with increased exposure given their distance from fire protection services, and also insures risks in the renters and condominium markets. Allstate has targeted the homeowners insurance business as a market with substantial profitable growth opportunities for the Company as the implementation of catastrophe management initiatives allows the Company to re-enter certain homeowners markets.

Allstate, unlike the majority of its competitors, does not rely on rating bureaus in establishing prices for its PP&C products. Instead Allstate uses its proprietary database, which contains many years of its own extensive underwriting and pricing experience. Accordingly, subject to applicable state regulations, different prices are derived according to numerous variables which apply to each specific risk, including, in the case of private passenger auto insurance, factors relating to the automobile (such as its age, make and model) as well as factors relating to the insured (such as previous driving record). In management's opinion, the extensive use and analysis of this database, rather than rating bureaus, provides PP&C with the basis for its market segmentation strategy to price risks accordingly.

Allstate has attempted to reduce its PP&C claims costs through centralized claims administration, specialization and additional training of claims personnel, and intensive and early investigation, evaluation and negotiation of claims. During 1998, Allstate completed the implementation of redesigned claim settlement procedures for auto physical damage claims. In addition, Allstate has continued the design and testing of new procedures for personal injury claims and for property claims involving fire and roof damage.

As is true for the property-liability industry in general, first-year costs attributable to PP&C's products are generally higher than for subsequent years. Accordingly, customer retention is an important factor in the profitability of PP&C's products, since policies that remain in force generally become more profitable over time. Allstate customer retention rates in 1998 for standard and non-standard auto were approximately the same as in 1997. Retention rates for homeowners increased slightly in 1998, having declined in 1997, due to the adverse impact of Allstate's catastrophe management initiatives. These initiatives are discussed below, under "Catastrophe Exposure." Homeowners' retention improved significantly in Florida in 1998, after a decline in 1997 due to the non-renewal and sale of renewal rights of certain homeowners' policies.

The personal lines private passenger auto and homeowners businesses are highly

competitive. As of December 31, 1997 over 1,400 insurance companies were in the market, with five groups of companies (State Farm, Allstate, Farmers, Nationwide and Progressive) writing approximately 47% of the private passenger auto premiums written. Approximately 48% of the homeowners premiums written in the United States were written by five groups of companies (State Farm, Allstate, Farmers, Nationwide and Travelers). State Farm maintains the leading share in the auto and homeowners insurance market and had 20.5% of the auto market and 23.0% of the homeowners market in 1997. Together, State Farm and Allstate had 32.8% and 34.3%, respectively, of the total United States' auto and homeowners market in 1997.

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

In 1997, approximately \$48 billion of industry personal lines premiums were generated by independent agencies, and the remaining \$95 billion of premiums were generated by insurers placing their products directly with the consumer through employee agents, independent contractor exclusive agents, direct response and mail order. Allstate believes its exclusive agency force provides it with an advantage in distributing PP&C products. However, some competitors, operating solely with exclusive agents who are independent contractors or distributing through direct response or mail order marketing, or operating with non-exclusive independent agents have also been able to operate effective distribution systems.

Approximately one half of Allstate's approximately 15,500 exclusive agents are employee agents. In future years, Allstate expects that the percentage of its agents who are independent contractor exclusive agents will increase substantially. In 1990, Allstate instituted an independent contractor exclusive agent contract under which persons are hired for an 18-month period during which they are trained as agents. Upon completion of the period, Allstate offers contracts to some of the trainees to serve as independent contractors who are exclusive agents for Allstate. With very limited exceptions, persons hired since 1990 for eventual consideration as Allstate agents have been hired on this basis. In addition, employee agents who were hired prior to 1990 have been permitted to convert to independent contractor exclusive agent status.

At December 31, 1998, independent contractor exclusive agents, including agents in training to become independent contractor exclusive agents, represented approximately 47% of Allstate agents. Allstate has a strategic initiative intended to improve agencies' productivity to sell to and to service customers and to align local processes, programs and policies, including workers classification, with Allstate objectives. Allstate has entered into an agreement with the Internal Revenue Service which permits continuation of the employee agent programs under specified conditions.

CATASTROPHE EXPOSURE AND CATASTROPHE MANAGEMENT

Catastrophes are an inherent risk of the property-liability insurance business which have contributed, and will continue to contribute, to material year-to-year fluctuations in Allstate's results of operations and financial position. The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. Allstate has experienced two severe catastrophes in recent years, each of which resulted in losses of approximately \$2 billion. While management believes Allstate's catastrophe management strategies, described below, have reduced the severity of possible future losses, Allstate continues to be exposed to similar or greater catastrophes (see ARisk Factors" and AForward-Looking Statements" in this Form 10-K).

A "catastrophe" is defined by Allstate as an event that produces pre-tax losses before reinsurance in excess of \$1 million involving multiple first party policyholders. Catastrophes are caused by various events, including hurricanes, earthquakes, tornadoes, wind and hail storms, and fires. Although catastrophes can cause losses in a variety of PP&C lines, homeowners insurance has in the past generated the vast majority of catastrophe-related claims. For Allstate, major areas of potential losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Allstate's exposure to potential earthquake losses in California is now limited by its participation in the California Earthquake Authority ("CEA"), as described below. Other areas in the United States in which Allstate is exposed to potential losses from earthquakes include areas in the central United States surrounding the New Madrid fault system in the Midwest and faults in and around Seattle, Washington and Charleston, South Carolina.

Allstate has implemented initiatives to limit, over time, its insurance exposures in certain regions prone to catastrophes, subject to the requirements of insurance laws and regulations and as limited by competitive considerations. These initiatives include limits on new business production, limitations on certain policy coverages, increases in deductibles, policy brokering and participation in catastrophe pools. In addition, Allstate has requested and received rate increases and continues to expand its use of deductibles in certain regions prone to catastrophes. While management believes that its initiatives have reduced or will reduce Allstate's exposure to catastrophes in certain geographic regions over time, the extent of such reduction is uncertain and is constrained by state insurance laws and regulations. See "Regulation - Shared Markets" below.

Allstate formed Allstate Floridian Insurance Company ("Floridian") and Allstate Floridian Indemnity Company ("AFI") which are operating to sell and service residential property customers in Florida. Floridian entered into a catastrophe reinsurance agreement with a non-affiliated entity which provides access to 80% of \$500 million of catastrophe reinsurance protection for any loss in excess of approximately \$1.00 billion, up to an aggregate limit of \$800 million. In addition, Floridian has access to 90% of an estimated \$950 million of reimbursements of losses from the Florida Hurricane Catastrophe Fund ("FHCF").

The FHCF has the authority to issue bonds to pay its obligations to participating insurers. The bonds issued by the FHCF are funded by assessments on all property and casualty premiums written in the state, except workers' compensation and accident and health insurance. These assessments are limited to 4% and are recoupable immediately through increases in policyholder rates. A rate filing or any portion of a rate change attributable entirely to the assessment is deemed approved when made to the Florida Department of Insurance (the "Department"), subject to the Department's statutory authority to review the "adequacy" of any rate at any time.

In addition to direct hurricane losses, Floridian and AFI are also subject to assessments from the Florida Windstorm Underwriting Association ("FWUA") and the Florida Property and Casualty Joint Underwriting Association ("FRPCJUA") which are organizations created to provide coverage for catastrophic losses to property owners unable to obtain coverage in the private market. Regular assessments are levied on participating companies if the deficit in the calendar year is less than or equal to 10% of the Florida property premiums industry-wide for the year. An insurer may recoup a regular assessment through a surcharge to policyholders subject to a cap on the amount that can be charged in any one year. If the deficit exceeds 10%, the FWUA and/or FRPCJUA will fund the deficit through the issuance of bonds. The costs of these bonds are then funded through a regular assessment in the first year following the deficit and through emergency assessments in subsequent years. Companies are required to collect emergency assessments directly from the policyholders and remit these monies to the organizations as they are collected. Participating companies are also required to purchase any unsold bonds issued by the FWUA and/or FRPCJUA. The insurer must file any recoupment surcharge with the Department at least 15 days prior to imposing the surcharge on policies. The surcharge may be used automatically after the expiration of the 15 days, unless the Department has notified the insurer in writing that any of its calculations are incorrect.

While the Florida statutes are designed so that the ultimate cost is borne by the policyholders, the exposure to assessments and availability of recoveries may not offset one another in the insurers' financial statements due to timing and to the possibility of policies not being renewed in subsequent years.

Allstate entered into a three-year excess of loss reinsurance contract covering property policies in the northeastern portion of the United States ("Northeast"), effective June 1, 1997. The reinsurance program provides up to 95% of \$500 million of reinsurance protection for catastrophe losses in excess of an estimated \$750 million retention subject to an annual limit of \$500 million and an aggregate limit of \$1.00 billion over a three-year contract period. The deductibles on residential property policies in New York are being converted to include a hurricane deductible that is triggered by hurricane

winds greater than 100 miles per hour, and at December 31, 1998, this conversion process was 40% complete.

Allstate participates in the CEA, a privately-financed, publicly-managed state agency created to provide coverage for earthquake damage. Insurers selling homeowner insurance in California are required to offer earthquake insurance to their customers either through their company or by participation in the CEA. All of Allstate's traditional earthquake policies and mini-earthquake policies have been either (i) renewed into the CEA, or (ii) not renewed in accordance with customer requests. Allstate's homeowners policy will continue to include coverages for losses caused by explosions, theft, glass breakage and fires following an earthquake, which are not underwritten by the CEA.

Approximately \$700 million of the capital needed to create the CEA was obtained from assessments of participating insurance companies. In 1996, Allstate's pretax assessment, including related expenses, was approximately \$150 million. Should losses arising from an earthquake cause a deficit in the CEA, additional capital needed to operate the CEA will be obtained through assessments of participating insurance companies, reinsurance and bond issuances funded by policyholder assessments. Participating insurers are required to fund a second assessment, not to exceed \$2.15 billion, if the capital of the CEA falls below \$350 million. Participating insurers are required to fund a third assessment, not to exceed \$1.43 billion, if the aggregate CEA earthquake losses exceed \$5.81 billion or the capital of the CEA falls below \$350 million. At December 31, 1998, the CEA's capital balance was approximately \$432 million. If the CEA assesses its member insurers for any amount, the amount of future assessments on members is reduced by the amounts previously assessed. To date, the CEA has not assessed member insurers beyond the initial assessment. The authority of the CEA to assess participating insurers expires when it has completed twelve years of operation. At the end of 1998, the CEA had completed two years of operation. All future assessments to participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. Assuming its current CEA market share does not materially change, Allstate does not expect its portion of these additional contingent assessments, if any, to exceed \$540 million, as the likelihood of an earthquake causing losses in excess of the CEA industry capacity of \$5.81 billion is less than .2%. Management believes Allstate's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

Allstate continues to support passage of legislation in Congress such as the Homeowner's Insurance Availability Act which could, if enacted, lessen the impact to Allstate of catastrophic natural disasters such as hurricanes and earthquakes. Allstate is a founding member of a coalition whose members include property insurers and insurance agents. This group is promoting a measure that would provide federal reinsurance to state disaster plans. Proposed legislation, H.R. 21, was introduced at the beginning of the 106th Congress and was referred to the House Banking and Financial Services Committee. Allstate is unable to determine whether, or in what form, such proposed legislation could be enacted or any resulting effect on Allstate.

Allstate establishes property-liability loss reserves to cover its estimated ultimate liability for losses and loss adjustment expenses with respect to reported claims and claims incurred but not yet reported as of the end of each accounting period. In accordance with applicable insurance laws and regulations and generally accepted accounting principles ("GAAP"), no specific claim reserves are established until a loss occurs, including a loss from a catastrophe. Underwriting results of the two Property-Liability segments are significantly influenced by estimates of property-liability claims and claims expense reserves (see Note 6 of the Notes to Consolidated Financial Statements on pages C-48 to C-51 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof). These reserves are an accumulation of the estimated amounts necessary to settle all outstanding claims, including claims which are incurred but not reported, as of the reporting date. These reserve estimates are based on known facts and on interpretations of circumstances, including Allstate's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes. The effects of inflation are implicitly considered in the reserving process. The establishment of reserves, including reserves for catastrophes, is an inherently uncertain process and the ultimate cost may vary materially from the recorded amounts. Allstate regularly updates its reserve estimates as new facts become known and further events occur which may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determined to be needed.

The Company, in the normal course of business, may supplement its claims and underwriting processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Establishing net loss reserves for environmental, asbestos and mass tort claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, availability and collectibility of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether these losses are, or were ever intended to be covered, are complex. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future. See Note 6 of the Notes to Consolidated Financial Statements on pages C-48 to C-51 of the Proxy Statement,

incorporated herein by reference in response to Item 8 hereof.

The following tables are summary reconciliations of the beginning and ending property-liability insurance claims and claims expense reserves, displayed individually for each of the last three years. The first table presents reserves on a gross (before reinsurance) basis. The end of year gross reserve balances are reflected in the Consolidated Statements of Financial Position on page C-32 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof. The second table presents reserves on a net (after reinsurance) basis. The total net property-liability insurance claims and claims expense amounts are reflected in the Consolidated Statements of Operations on page C-30 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof.

GROSS
(\$ in millions)

	Year Ended December 31,		
	1998	1997	1996
Gross reserve for property-liability claims and claims expense, beginning of year	\$ 17,403	\$ 17,382	\$ 17,687
Acquisitions	96	0	0
Total gross reserve adjusted	17,499	17,382	17,687
Incurred claims and claims expense			
Provision attributable to the current year	14,614	14,268	15,186
Decrease in provision attributable to prior years	(695)	(618)	(338)
Total claims and claims expense	13,919	13,650	14,848
Claim payments			
Claims and claims expense attributable to current year	8,909	8,300	8,073
Claims and claims expense attributable to prior years	5,628	5,329	5,711
Claims and claims expense attributable to disposition of operations	0	0	1,369
Total payments	14,537	13,629	15,153
Gross reserve for property-liability claims and claims expense, end of year as shown on 10-K loss reserve development table	\$ 16,881	\$ 17,403	\$ 17,382

NET
(\$ in millions)

	Year Ended December 31,		
	1998	1997	1996
Net reserve for property-liability claims and claims expense, beginning of year	\$ 15,773	\$ 15,598	\$ 16,156
Acquisitions	58	0	0
Total net reserves adjusted	15,831	15,598	16,156
Incurred claims and claims expense			
Provision attributable to the current year	14,301	14,013	14,823
Decrease in provision attributable to prior years	(700)	(677)	(336)
Total claims and claims expense	13,601	13,336	14,487
Claim payments			
Claims and claims expense attributable to current year	8,521	8,148	7,522
Claims and claims expense attributable to prior years	5,488	5,013	5,787
Claims and claims expense attributable to disposition of operations	0	0	1,736
Total payments	14,009	13,161	15,045
Net reserve for property-liability claims and claim expense, end of year as shown on 10-K loss reserve development table (1)	\$ 15,423	\$ 15,773	\$ 15,598

(1) Reserves for claims and claims expense are net of reinsurance of \$1.46 billion, \$1.63 billion and \$1.78 billion, at December 31, 1998, 1997 and 1996, respectively.

The year-end 1998 gross reserves of \$16.88 billion for property-liability insurance claims and claims expense, as determined under GAAP, were \$1.90 billion more than the reserve balance of \$14.98 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal difference is the reinsurance recoverable from third parties totaling \$1.46 billion that reduces reserves for statutory reporting and is recorded as an asset for GAAP reporting. Additional differences are caused by the reserves of the international subsidiaries which are not included in the combined United States statutory statement.

As the tables above illustrate, Allstate's net reserve for property-liability insurance claims and claims expense at the end of 1997 developed favorably in 1998 by \$700 million, compared to favorable development of the gross reserves of \$695 million. Net reserve development in 1998 and 1997 was more favorable than favorable gross reserve development in these years. This relationship was due to the fact that Allstate's principal Property-Liability lines, such as private passenger auto and homeowners, were not significantly affected by reinsurance, whereas Discontinued Lines and Coverages involved a higher level of ceded reinsurance protection. The more favorable development in the net reserves was due to higher anticipated reinsurance cessions on increased reserve reestimates for Discontinued Lines and Coverages. In 1996, following completion of a comprehensive review of available reinsurance for Discontinued Lines and Coverages, the Company decreased ceded loss reserves. This decrease offset the favorable effect of higher reinsurance cessions related to increased reestimates of gross reserves for Discontinued Lines and Coverages. See "Property-Liability Claims and Claims Expense Reserves" on pages C-10 to C-14 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof. For further discussion of the Company's reinsurance programs, see "Property-Liability Reinsurance Ceded" on pages C-13 and C-14 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof.

The loss reserve development table below illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of various calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year which is the result of Allstate's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve originally established, and indicates whether or not the original reserve was adequate or inadequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable. This presentation appears for all periods in which the income recognition provisions of Statement of Financial Accounting Standards No. 113 have been applied.

The loss reserve development table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

Loss Reserve Development

(\$ in millions)

	December 31, (1)										
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Gross Reserves for Unpaid Claims and Claims Expense	\$10,035	\$10,962	\$12,117	\$13,136	\$14,902	\$15,209	\$16,414	\$17,326	\$17,382	\$17,403	\$16,881
Deduct: Reinsurance Recoverable	1,180	1,066	1,028	1,066	1,419	1,338	1,298	1,490	1,784	1,630	1,458
Reserve For Unpaid Claims and Claims Expense	\$8,855	\$9,896	\$11,089	\$12,070	\$13,483	\$13,871	\$15,116	\$15,836	\$15,598	\$15,773	\$15,423
Paid (cumulative) as of:											
One year later	3,516	4,295	4,558	4,550	4,955	4,472	4,748	5,787	5,013	5,488	
Two years later	5,279	6,338	6,723	6,688	7,068	6,519	7,749	8,232	7,952		
Three years later	6,433	7,584	8,010	7,935	8,283	8,273	9,247	10,083			
Four years later	7,161	8,338	8,778	8,694	9,430	9,140	10,400				
Five years later	7,611	8,824	9,279	9,508	9,985	9,849					
Six years later	7,927	9,180	9,883	9,907	10,467						
Seven years later	8,189	9,651	10,196	10,284							
Eight years later	8,560	9,921	10,512								
Nine years later	8,803	10,206									
Ten years later	9,065										
Reserve Reestimated as of:											
End of year	8,855	9,896	11,089	12,070	13,483	13,871	15,116	15,836	15,598	15,773	15,423
One year later	8,891	10,312	11,367	11,990	13,081	13,159	14,691	15,500	14,921	15,073	
Two years later	9,006	10,617	11,576	11,909	12,745	12,890	14,295	14,917	14,450		
Three years later	9,323	10,990	11,680	11,905	12,735	12,832	13,928	14,700			
Four years later	9,686	11,105	11,777	12,010	12,877	12,617	13,835				
Five years later	9,817	11,245	11,954	12,322	12,830	12,585					
Six years later	9,974	11,447	12,378	12,395	12,895						
Seven years later	10,212	11,962	12,503	12,499							
Eight years later	10,762	12,091	12,612								
Nine years later	10,896	12,216									
Ten years later	11,022										
Initial reserve in excess of (less than) reestimated reserve:											
Amount	(\$2,167)	(\$2,320)	(\$1,523)	(\$429)	\$588	\$1,286	\$1,281	\$1,136	\$1,148	\$700	
Percent	(24.5%)	(23.4%)	(13.7%)	(3.6%)	4.4%	9.3%	8.5%	7.2%	7.4%	4.4%	
Gross Reestimated Liability-Latest					\$14,723	\$14,274	\$15,394	\$16,238	\$16,267	\$16,708	
Reestimated Recoverable-Latest					1,828	1,689	1,559	1,538	1,817	1,635	
Net Reestimated Liability-Latest					\$12,895	\$12,585	\$13,835	\$14,700	\$14,450	\$15,073	
Gross Cumulative Excess (Deficiency)					\$179	\$935	\$1,020	\$1,088	\$1,115	\$695	

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

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

Allstate has gained access to complex databases developed by outside experts to estimate the cost of liabilities for environmental claims. Allstate's policy files were compared to the databases to determine an estimate of the Company's potential environmental loss. The Company also refined its own estimation techniques to estimate environmental and asbestos losses. Allstate has used a combination of these resources, along with an extensive internal review of its current claim exposures to estimate environmental and asbestos reserves. The Company has also performed in-depth analysis of its reinsurance recoverables. During 1996, based upon the Company's re-evaluation, loss reserves for environmental and asbestos exposures, net of reinsurance, were increased by \$172 million and \$72 million, respectively. These studies and re-evaluations resulted in Allstate's actions to increase reserves as described in AProperty-Liability Claims and Claims Expense Reserves" on pages C-10 to C-14 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof. Allstate updates its evaluations of environmental, asbestos and mass tort reserves annually. While Allstate believes the improved actuarial techniques and databases described above have assisted in its ability to estimate environmental, asbestos and mass tort net loss reserves, these refinements may prove to be inadequate indicators of the extent of probable loss. See note 6 of the Notes to the Consolidated Financial Statements on pages C-48 to C-51 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof.

The following table is derived from the Loss Reserve Development table and summarizes the effect of reserve reestimates, net of reinsurance, on calendar year operations for the same ten-year period ended December 31, 1998. The total of each column details the amount of reserve reestimates made in the indicated calendar year and shows the accident years to which the reestimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve reestimates for the indicated accident year(s).

Effect of Net Reserve Reestimates on
Calendar Year Operations

(\$ in millions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	TOTAL
	----	----	----	----	----	----	----	----	----	----	-----
BY ACCIDENT YEAR											
1988 & PRIOR	\$36	\$115	\$317	\$363	\$131	\$157	\$238	\$550	\$134	\$126	\$2,167
1989		301	(12)	10	(16)	(17)	(36)	(35)	(5)	(1)	189
1990			(27)	(164)	(11)	(43)	(25)	(91)	(4)	(16)	(381)
1991				(289)	(185)	(101)	(72)	(112)	(52)	(5)	(816)
1992					(321)	(332)	(115)	(170)	(120)	(39)	(1,097)
1993						(376)	(259)	(200)	(168)	(97)	(1,100)
1994							(156)	(338)	(152)	(61)	(707)
1995								60	(216)	(124)	(280)
1996									(94)	(254)	(348)
1997										(229)	(229)
TOTAL	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$36	\$416	\$278	(\$80)	(\$402)	(\$712)	(\$425)	(\$336)	(\$677)	(\$700)	(\$2,602)
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Favorable calendar year reserve development in 1992 through 1998 was the result of favorable severity trends in each of the seven years, which more than offset adverse development in Discontinued Lines and Coverages.

The favorable severity trend during this seven-year period was largely due to lower than anticipated medical cost inflation for personal auto injury claims. Improvements in the Company's claim settlement processes are also believed to have contributed to favorable development since 1995. The reduction in the anticipated medical cost inflation trend has emerged over time as actual claim settlements validated the effect of the steady decline in the rate of inflation. In addition, while the claim settlement process changes are believed to have contributed to favorable severity trends on closed claims, these changes introduce a greater degree of variability in reserve estimates for the remaining outstanding claims at December 31, 1998. Future reserve releases, if any, are expected to be adversely impacted by anticipated increases in medical cost inflation rates. See "Risk Factors Affecting Allstate" and "Forward-Looking Statements" in this Form 10-K.

DISCONTINUED LINES AND COVERAGES

An Allstate subsidiary wrote excess and surplus lines coverages from 1972 to 1985, including professional liability coverages, principally on claims-made coverage forms. The subsidiary also wrote substantial umbrella and excess liability coverages on an occurrence basis, including medical and other product liability coverages, for major United States corporations. In 1985, the subsidiary was merged into AIC with AIC assuming all of its assets and liabilities. Since the early 1980's, Allstate has experienced significant increases in losses for years prior to 1980 arising out of the subsidiary's umbrella and excess liability coverage for large corporations. Since the late 1980's, most of these losses have related to environmental damages, asbestos-related damages or mass-tort settlements. AIC continues to be involved in coverage litigation with the subsidiary's insureds.

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

Allstate's environmental and asbestos exposures are primarily limited to policies written in periods prior to 1986 with the preponderance of the losses emanating from policies written in the 1970's. New environmental and asbestos claims, however, continue to be reported. Allstate has established substantial reserves for the environmental and asbestos damage claims, and for mass tort exposures. Mass tort exposures primarily relate to product liability claims, such as those for medical devices and other products, and general liabilities. However, there are significant inherent uncertainties in estimating the ultimate cost of these claims, as discussed below. Further information regarding the foregoing is contained in "Property-Liability Claims and Claims Expense Reserves" on pages C-10 to C-14 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof. For information regarding Superfund proposed legislation, see "Regulatory Initiatives and Proposed Legislation" below.

LIFE AND SAVINGS BUSINESS

Life and Savings markets a broad line of life insurance, savings and group pension products. Life insurance includes traditional products such as whole life and term life insurance, as well as universal life, variable life and other interest-sensitive life products. Savings products include both deferred annuities, such as variable annuities and fixed rate single premium deferred annuities, flexible premium deferred annuities and immediate annuities such as structured settlement annuities. Life and Savings' group pension products include guaranteed investment contracts and retirement annuities. The assets and liabilities relating to flexible premium deferred variable annuities, variable life, variable universal life and certain guaranteed investment contracts are legally segregated and reflected as assets and liabilities of the Separate Accounts. In 1998, annuity premiums and deposits represented 56% of Life and Savings' total statutory premiums and deposits.

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

Life and Savings markets individual and group life insurance, savings and group pension products and reaches a broad market of potential customers throughout the United States and in other countries through Allstate agents (including life specialists), banks, independent agents and brokers and through direct response marketing. Products bearing the "Allstate Life Insurance Company" name are generally sold by Allstate agents, specialized brokers, and through direct marketing techniques. Other products, many of which are of similar types to those bearing the "Allstate Life Insurance Company" name but which bear other brand names, are distributed through independent insurance agents, brokers, banks and direct marketing techniques. Life insurance in force, net of reinsurance, was \$202 billion at December 31, 1998 and \$194 billion at December 31, 1997. As of December 31, 1998, Life and Savings had \$41.86 billion of investments, including \$10.10 billion of Separate Account assets.

ALIC subsidiary Northbrook Life Insurance Company ("Northbrook") has a strategic alliance with Dean Witter Reynolds, Inc., a wholly-owned subsidiary of Morgan Stanley Dean Witter & Co. ("Dean Witter") for the marketing and distribution of Northbrook's life and annuity products through Dean Witter's broker sales force. ALIC subsidiary Glenbrook Life and Annuity Company has also entered into marketing arrangements with banks and brokers for the sale of life and annuity products, including an arrangement with the AIM mutual fund group under which AIM markets Glenbrook Life and Annuity Company variable annuities. In 1998 Glenbrook Life and Annuity also began distributing a no-load variable annuity product through direct marketing. Life and Savings is committed to broadening its bank and broker distribution outlets in an effort to increase the sales of its annuity products, and to participate in the market for life insurance products sold through banks. Although Allstate currently benefits from agreements with financial services entities who market and distribute its products, change in control of these non-affiliated entities with which Allstate has alliances could have a detrimental effect on Life and Savings sales. See

"Recent Developments," above, concerning the joint venture between ALIC and Putnam Investments to sell variable insurance products.

Life and Savings utilizes certain services shared with AIC such as investment, finance, information technology and legal services. Although Life and Savings' management develops overall strategies for its business, the primary management of each distribution channel is largely decentralized. Accordingly, management of each distribution channel is primarily responsible for determining its own product mix and product features appropriate for its target market. Life and Savings believes that its range of distribution channels promotes flexibility, extends market reach, reduces dependency on any one distribution system, and allows Life and Savings to focus on distinct, generally non-overlapping markets.

The establishment of reserve and contractholder fund liabilities in recognition of Allstate's future benefit obligations under life and annuity policies and other Life and Savings products are discussed in Note 2 of the Notes to the Consolidated Financial Statements on pages C-36 to C-40 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof.

The market for financial services, including the various types of life insurance and annuities sold by Life and Savings, is highly competitive. As of December 31, 1998, there were approximately 830 groups of life insurance companies in the United States, most of which offer one or more products similar to those offered by Life and Savings and many of which use similar marketing techniques. Based on information contained in statements filed with insurance departments, in 1997 approximately 68% of the life insurance and annuity premiums and deposits were written by 25 groups of companies. Life and Savings ranked 13th based on ordinary life insurance in force and 20th based on statutory admitted assets. Banks and savings and loan associations in certain jurisdictions compete with Life and Savings in the sale of life insurance products. In addition, because certain life insurance and annuity products include a savings or investment component, competition also comes from brokerage firms, investment advisors and mutual funds as well as from banks and other financial institutions. Despite a large number of life company acquisitions in recent years, the life insurance and annuity market continues to be highly fragmented and competitive.

YEAR 2000

The Company is heavily dependent upon complex computer systems for all phases of its operations, including customer service, insurance processing, underwriting, loss reserving, investments and other enterprise systems. Since many of the Company's older computer software programs recognize only the last two digits of the year in any date, some software may fail to operate properly in or after the year 1999, if the software is not reprogrammed, remediated, or replaced ("Year 2000"). Also, many systems and equipment that are not typically thought of as computer-related (referred to as "non-IT") contain embedded hardware or software that may have a Year 2000 sensitive component. Allstate believes that many of its counterparties and suppliers also have Year 2000 issues and non-IT issues which could affect the Company.

In 1995, the Company commenced a plan consisting of four phases which are intended to mitigate and/or prevent the adverse affects of the Year 2000 issues on its systems: 1) inventory and assessment of

affected systems and equipment, 2) remediation and compliance of systems and equipment through strategies that include the replacement or enhancement of existing systems, upgrades to operating systems already covered by maintenance agreements and modifications to existing systems to make them Year 2000 compliant, 3) testing of systems using clock-forward testing for both current and future dates and for dates which trigger specific processing, and 4) contingency planning which will address possible adverse scenarios and the potential financial impact to the Company's results of operations, liquidity or financial position.

The Company believes that the first three steps of this plan, assessment, remediation and testing, including clock-forward testing which is being performed on the Company's systems and non-IT, are mostly complete for the Company's critical systems. In April 1998, the Company announced its main premium application system, ALERT, which manages more than 20 million auto and homeowners policies is Year 2000 compliant. The Company is relying on other remediation techniques for its midrange and personal computer environments, and certain mainframe applications.

Certain investment processing systems, midrange computers and personal computer environments are planned to be remediated by the middle of 1999, and some systems and non-IT related to discontinued or non-critical functions of the Company are planned to be abandoned by the end of 1999.

The Company is currently in the process of identifying key processes and developing contingency plans in the event that the systems supporting these key processes are not Year 2000 compliant at the end of 1999. Management believes these contingency plans should be completed by mid-1999. Until these plans are complete, management is unable to determine an estimate of the most reasonably possible worst case scenario due to issues relating to the Year 2000.

In addition, the Company is actively working with its major external counterparties and suppliers to assess their compliance efforts and the Company's exposure to both their Year 2000 issues and non-IT issues. This assessment has included the solicitation of external counterparties and suppliers, evaluating responses received and testing third party interfaces and interactions to determine compliance. Currently the Company has solicited approximately 1,500 and has received responses from approximately 75% of its counterparties and suppliers. Allstate will continue its efforts to solicit responses on Year 2000 compliance from these parties. The majority of these responses have stated that the counterparties and suppliers believe that they will be Year 2000 compliant and that no transactions will be affected. However, some key vendors have not provided affirmative responses to date. The Company has also decided to test certain interfaces and interactions to gain additional assurance on third party compliance. If key vendors are unable to meet the Year 2000 requirement, Allstate is preparing contingency plans that will allow the Company to continue to sell its products and to service its customers. Management believes these contingency plans should be completed by mid-1999. The Company currently does not have sufficient information to determine whether or not all of its external counterparties and suppliers will be Year 2000 ready.

The Company is currently assessing the level of Year 2000 risk associated with certain personal lines policies that have been issued. To date, no changes have been made in coverages provided by the Company's personal auto and homeowners lines policies to specifically exclude coverage for Year 2000

related claims. This does not mean that all losses, or any particular type of loss, that might be related to the Year 2000 will be covered. Rather, all claims will continue to be evaluated on a case-by-case basis to determine whether coverage is available for a particular loss in accordance with the applicable terms and conditions of the policy in force.

The Company also has investments which have been publicly and privately placed. The Company may be exposed to the risk that the issuers of these investments will be adversely impacted by Year 2000 issues. The Company assesses the impact which Year 2000 issues have on the Company's investments as part of due diligence for proposed new investments and in its ongoing review of all current portfolio holdings. Any recommended actions with respect to individual investments are determined by taking into account the potential impact of Year 2000 on the issuer. Contingency plans are being created for any securities held whose issuer is determined to not be Year 2000 compliant.

The Company presently believes that it will resolve the Year 2000 issue in a timely manner. Year 2000 costs are expensed as incurred, therefore the majority of expenses related to this project have been incurred as of December 31, 1998. The Company estimates that approximately \$125 million in costs will be incurred between the years of 1995 and 2000. These amounts include costs directly related to fixing Year 2000 issues, such as modifying software and hiring Year 2000 solution providers. These amounts also include costs incurred to replace certain non-compliant systems which would not have been otherwise replaced.

CAPITAL REQUIREMENTS

The capacity for Allstate's premium growth, like that of other insurance companies, is in part a function of its operating leverage. Operating leverage for property-liability insurance companies is measured by the ratio of net premiums written to statutory surplus. Ratios in excess of 3 to 1 are considered outside the usual range by insurance regulators and rating agencies. AIC's premium to surplus ratio was 1.4 to 1 at December 31, 1998 and 1997. Maintaining appropriate levels of statutory surplus is considered important by Allstate's management, state insurance regulatory authorities, and the agencies that rate insurers' claims-paying abilities and financial strength.

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

The National Association of Insurance Commissioners ("NAIC") has a standard for assessing the solvency of insurance companies, which is referred to as risk-based capital ("RBC"). The requirement consists of a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. The RBC

formula for life insurance companies establishes capital requirements relating to insurance risk, business risk, asset risk and interest rate risk. The RBC formula for property-liability companies includes asset and credit risks, but places more emphasis on underwriting factors for reserving and pricing. At December 31, 1998, RBC for each of Allstate's domestic insurance companies exceeded the required capital levels. See "Capital Resources" on pages C-19 and C-20 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof.

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

INVESTMENTS

Allstate follows a strategy to manage its exposure to market risk. Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. The Company's primary market risk exposures are to changes in interest rates, although the Company also has certain exposures to changes in equity prices and foreign currency exchange rates. The active management of market risk is integral to the Company's operations. The Company may use the following tools to manage its exposure to market risk within defined tolerance ranges: 1) rebalance its existing asset or liability portfolios, 2) change the character of future investments purchased or 3) use derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. The Company seeks to earn returns that enhance its ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth for the Company. Accordingly, the Company's investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation.

At December 31, 1998, Allstate's entire fixed income securities and equity securities portfolios were designated as "available for sale" and carried in the Company's financial statements at fair value. While the Company generally holds its fixed income securities for the long-term, management classifies these fixed income securities as available for sale to maximize the Company's flexibility in responding to changes in market conditions. Changes in the fair value of these securities, net of deferred income taxes and deferred acquisition costs and benefit reserve adjustments on certain life insurance products, are reflected as a separate component of shareholders' equity. For discussion of the composition of the Company's investment portfolio, see "Investments" on pages C-22 to C-24 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof, and Note 4 of the Notes to the Consolidated Financial Statements on pages C-41 to C-44 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof.

REGULATION

Allstate is subject to extensive regulation and supervision in the jurisdictions in which it does business. This regulation has a substantial effect on the business of Allstate, primarily on Allstate's PP&C segment. This regulatory oversight includes, for example, matters relating to licensing and examination, rate setting, trade practices, policy forms, limitations on the nature and amount of certain investments,

claims practices, mandated participation in shared markets and guaranty funds, reserve adequacy, insurer solvency, transactions with affiliates, the amount of dividends that may be paid, and restrictions on underwriting standards. For discussion of statutory financial information, see note 12 of the Notes to Consolidated Financial Statements on pages C-57 and C-58 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof; and for discussion of regulatory contingencies, see note 9 of the Notes to Consolidated Financial Statements on pages C-52 to C-55 of the Proxy Statement, incorporated herein by reference in response to Item 8 hereof.

LIMITATIONS ON DIVIDENDS BY INSURANCE SUBSIDIARIES - The Company is a legal entity separate and distinct from its subsidiaries. As a holding company with no other business operations, its primary sources of cash to meet its obligations, including principal and interest payments with respect to indebtedness, are dividends and other statutorily permitted payments from AIC. AIC, as a domiciliary of Illinois, is subject to the Illinois insurance laws and regulations. In Illinois, a domestic stock insurer may, without prior regulatory approval, pay ordinary dividends from statutory surplus which at the time of declaration is not less than the minimum required for the kind of insurance business that such company is authorized to conduct. Under the Illinois Insurance Code, AIC's surplus following any transaction with affiliates or dividends, including distributions to its shareholder or other security holders, must be reasonable in relation to AIC's outstanding liabilities and must be adequate to meet its financial needs. The Illinois Insurance Code allows "extraordinary dividends" to be paid after thirty days notice to the Illinois Insurance Department, unless disapproved or sooner approved during such thirty day period. "Extraordinary dividends" for these purposes are defined as any dividend or distribution which together with any other dividend or distribution made within the preceding 12 months exceeds the greater of (i) 10% of the insurance company's statutory surplus as of the preceding December 31, or (ii) its statutory net income for the year ended on the preceding December 31. The maximum amount of dividends that AIC can distribute during 1999 without prior approval of the Illinois Department of Insurance is \$2.96 billion. If insurance regulators determine that payment of a dividend or any other payments to an affiliate (such as payments under a tax sharing agreement, payments for employee or other services, or payments pursuant to a surplus note) would be hazardous to such insurance company's policyholders or creditors, the regulators may block such payments that would otherwise be permitted without prior approval.

HOLDING COMPANY REGULATION - The Company and AIC are currently insurance holding companies subject to regulation throughout jurisdictions in which Allstate's insurance subsidiaries do business. Certain of AIC's and ALIC's subsidiaries are property-liability and life insurance companies organized under the respective insurance codes of Arizona, Florida, Illinois, Nebraska, New York and Texas. The insurance codes in such states contain similar provisions (subject to certain variations) to the effect that the acquisition or change of "control" of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote or possession of proxies with respect to 10% or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. In Florida, regulatory approval must be obtained prior to the acquisition of 5% or more of the voting securities of a domestic stock insurer or of a controlling company. In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company admitted in that state.

While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic admitted insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of 10% or more (5% in Florida) of the Company's common stock would generally require prior approval by the state insurance departments in Arizona, Florida, Illinois, Nebraska, New York and Texas and would require the pre-acquisition notification in those states which have adopted pre-acquisition notification provisions and wherein Allstate's insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of the Company's common stock.

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

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

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

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

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

SHARED MARKETS - As a condition of its license to do business in various states, Allstate is required to participate in mandatory property-liability shared market mechanisms or pooling arrangements, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage voluntarily provided by private insurers. Underwriting results related to these organizations have been immaterial to the results of operations.

GUARANTY FUNDS - Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Allstate's expenses related to these funds have been immaterial. See "Pending Accounting Standards" on page C-27 of the Proxy Statement, incorporated herein by reference in response to Item 7 hereof.

INVESTMENT REGULATION - Allstate is subject to state laws and regulations that require diversification of its investment portfolio and limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. As of December 31, 1998, Allstate's investment portfolio complied with such laws and regulations in all material respects.

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

Environmental pollution clean-up is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to clean-up. The insurance industry is involved in extensive litigation regarding coverage issues. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund")

govern the clean-up and restoration by "Potentially Responsible Parties" ("PRP's"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish a mechanism to pay for clean-up of waste sites if PRP's fail to do so, and to assign liability to PRP's. The extent of liability to be allocated to a PRP is dependent on a variety of factors. Further, the number of waste sites subject to clean-up is unknown. Very few sites have been subject to clean-up to date. The extent of clean-up necessary and the assignment of liability has not been established. The insurance industry, including Allstate, is disputing many such claims. Key coverage issues include whether Superfund response costs are considered damages under the policies, trigger of coverage, applicability of pollution exclusions, the potential for joint and several liability and definition of an occurrence. Similar coverage issues exist for clean-up and waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues. Allstate's exposure to liability with regard to its insureds which have been, or may be, named as PRPs is uncertain. See "Discontinued Lines and Coverages", above.

Superfund reform proposals have been introduced in Congress, but none has been enacted at the date of this filing. Allstate will support federal legislation which provides for the resolution of Superfund related claims against insurers at a cost which is fair and affordable to insurers, and which fosters similar state legislation for hazardous waste cleanup at sites covered by state law only. There can be no assurance that any Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims.

New and proposed federal and state regulation and legislation would allow banks greater participation in securities and insurance businesses. Depending on the form in which these proposals are enacted or promulgated, they could present an increased level of competition for the sale of Life and Savings products. Furthermore, the market for deferred annuities and interest-sensitive life insurance is enhanced by the tax incentives available under current law. Any legislative changes which would lessen these incentives are likely to negatively impact the demand for these products.

Enacted and pending state legislation to permit mutual insurance companies to convert to a hybrid structure known as a mutual holding company could have a number of significant effects on the Company by (1) increasing industry competition through consolidation caused by mergers and acquisitions related to the new corporate form of business, and (2) increasing competition in capital markets.

GEOGRAPHIC DISTRIBUTION OF INSURANCE

Allstate, through a variety of companies, is authorized to sell property-liability and life insurance in 50 states, the District of Columbia, Puerto Rico and Canada. To a limited extent, in 1998 Allstate was also engaged, through subsidiaries and joint ventures, in the insurance business in Germany, Indonesia and the Republic of Korea. In 1999, Allstate expects to sell insurance in Japan, Italy and the Philippines. The following tabulation reflects, in percentages, the principal geographic distribution of statutory premiums earned for the Property-Liability segments and statutory premiums for the Life and Savings segment for the year ended December 31, 1998:

	NY	CA	TX	FL	NJ	PA	IL	MI	MD	Total	
Property-Liability	11.0	9.5	9.0	7.9	5.0	5.0	4.0	3.5	3.1	58.0	
Life	13.0	11.8	11.6	10.6	6.8	5.3	5.0	4.3	3.5	3.3	75.2

No other jurisdiction accounted for more than 3% of the statutory premiums for the Property-Liability or Life and Savings segments.

SEASONALITY

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

EMPLOYEES

At December 31, 1998, Allstate employed approximately 53,000 people.

SERVICE MARKS

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

FORWARD-LOOKING STATEMENTS

The statements contained in this Form 10-K that are not historical information are forward-looking statements that are based on management's estimates, assumptions and projections. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under The Securities Act of 1933 and The Securities Exchange Act of 1934 for forward-looking statements. In order to comply with the terms of the safe harbor, Allstate notes several important factors that could cause its actual results and experience with respect to forward-looking statements to differ materially from the anticipated results or other expectations expressed in Allstate's forward-looking statements:

1. Exposure to Catastrophe Losses - Allstate believes that:
 - o the strategies implemented by it to manage its exposure to catastrophes have reduced the probability of

- o severe losses in the future;
- o the implementation of certain described actions taken in Florida and the Northeast will reduce Allstate's exposure to losses from catastrophes in those areas;
- o Allstate's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA (see "Catastrophe Exposure and Catastrophe Management," above).

Factors that could cause actual catastrophe losses to be materially greater than currently anticipated by Allstate include that fact that its beliefs are based in part on the efficacy of the techniques and the accuracy of the data used by Allstate and the CEA which are designed to predict the probability of catastrophes and the extent of losses to Allstate and the CEA resulting from catastrophes. Catastrophic events may occur in the future which indicate that such techniques and data do not accurately predict Allstate's or the CEA's losses from catastrophes, and the probability and extent of such losses to Allstate and the CEA may differ materially from that which would have been predicted by such techniques and data.

2. ENVIRONMENTAL AND ASBESTOS RISKS - Allstate believes that changes to insurance policies have effectively limited its exposure to losses from environmental and asbestos for most policies written in 1986 and all policies written after 1986 (see "Discontinued Lines and Coverages," above). Factors that could cause Allstate to sustain materially greater losses from these policies include the possibility that future judicial decisions could be adverse to it. That is, interpretation of provisions in insurance policies is a complex process, and courts have reached different and sometimes inconsistent conclusions concerning liability under these policies. Consequently, Allstate's experience to date may not be an accurate predictor of future experience concerning its possible exposure to losses under these policies.

3. BODILY INJURY SEVERITY TRENDS - The references to favorable severity trends, which management believes may be due in part to lower than anticipated medical cost inflation for personal auto injury claims and to improvements in Allstate's claim settlement processes (see "Property-Liability Claims and Claims Expense Reserves," above), reflect statistical data for the periods indicated. Such data for a future period or periods could well indicate that severities have materially increased in such subsequent period or periods. Moreover, the recent favorable trends may be reversed in the future because of the increased costs of settlements and adverse judgments in cases which proceed to litigation. In the meantime, however, the current data of reduced severities may influence state insurance regulators to deny Allstate rate increases which could reduce the growth of its revenues.

4. YEAR 2000 ISSUES - Allstate believes that it will be able to timely resolve the Year 2000 issues affecting its computer operations and that the costs incurred between the years 1995-2000 in resolving these issues will be approximately \$125 million (see "Year 2000," above). However, the extent to which the computer operations of Allstate's external counterparties and suppliers are adversely affected could, in turn, affect Allstate's ability to communicate with such counterparties and suppliers, could increase the cost of resolving the Year 2000 issues and could materially affect Allstate's results of operations in any future period or periods.

Executive Officers

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

NAME	AGE	POSITION AND OFFICES HELD	DATE FIRST ELECTED OFFICER
Edward M. Liddy*.....	53	Chairman, President and Chief Executive Officer of the Company and AIC	1994
Richard I. Cohen.....	54	Senior Vice President of AIC (PP&C Claim Service Unit)	1989
Joan M. Crockett.....	48	Senior Vice President of AIC (Human Resources)	1994
Edward J. Dixon.....	55	Senior Vice President of AIC (PP&C Field Operations)	1988
Robert W. Gary.....	60	Senior Vice President of AIC President, PP&C Unit)	1986
Steven L. Groot.....	49	Senior Vice President of AIC (President, International Unit)	1988
Louis G. Lower, II.....	53	Chairman, ALIC	1982
Michael J. McCabe.....	53	Senior Vice President of AIC (Marketing and Brand Development)	1980
Ronald D. McNeil.....	46	Senior Vice President of AIC (PP&C, Property Operations)	1994
Robert W. Pike.....	57	Vice President, Secretary and General Counsel of the Company; Executive Vice President, Secretary and General Counsel of AIC	1978
Samuel H. Pilch	52	Controller of the Company; Group Vice President and Controller of AIC	1995
Francis W. Pollard.....	56	Senior Vice President and Chief Information Officer of AIC	1984
Casey J. Sylla.....	55	Vice President and Acting Chief Financial Officer of the Company; Senior Vice President, Chief Investment Officer and Acting Chief Financial Officer of AIC	1995
Rita P. Wilson.....	52	Senior Vice President of AIC (President, Allstate Indemnity)	1988
Thomas J. Wilson.....	41	President, ALIC	1995

No family relationships exist among the above-named individuals.

*Also a director of the Company

Each of the Company and AIC officers named above may be removed from office at any time, with or without cause, by the Board of Directors of the Company, in the case of Company positions, and by the Board of Directors of AIC, in the case of AIC positions.

With the exception of Messrs. Liddy, T. Wilson, Sylla and Pilch, the above officers have held the positions set forth in the above tabulation for at least the last five years or have served Allstate in various executive or administrative capacities for at least five years. Prior to his election on January 1, 1999 to the position stated above, Mr. Liddy served as the Company's and AIC's President and Chief Operating Officer since August 1994, and before that as Senior Vice President and Chief Financial Officer of Sears, Roebuck and Co. since February 1992. Prior to his election on January 1, 1999 to the position stated above, T. Wilson served as the Company's and AIC's Chief Financial Officer since January 1, 1995 and prior to that as Sears' Vice President, Strategy and Analysis since 1993. Prior to his election on January 1, 1999 to the position stated above, Mr. Sylla was AIC's Senior Vice President and Chief Investment Officer since July 5, 1995. Before coming to Allstate, Mr. Sylla served as a Senior Vice President for Northwestern Mutual Life Insurance Company from 1992 to 1995. Before his election on January 18, 1999 to the position stated above, Mr. Pilch served as Controller of the Company and AIC since 1995, and prior to that as Vice President of The Travelers Corporation since 1989.

ITEM 2. PROPERTIES

Allstate's home office complex is located in Northbrook, Illinois. The complex consists of 11 building complexes providing approximately 2 million square feet of office space on a 185 acre site. The Northbrook complex serves as the headquarters for AIC and ALIC.

Allstate's field business operations are conducted substantially from 17 major offices located principally in metropolitan areas throughout the United States and Canada. Allstate also has approximately 270 claim service offices, sales facilities at approximately 11,600 locations, and approximately 850 automobile damage inspection locations, most of which are located at claim service offices and sales facilities.

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

ITEM 3. LEGAL PROCEEDINGS

Various legal and regulatory actions are currently pending that involve Allstate and specific aspects of the conduct of its business. In the opinion of management, the ultimate liability, if any, in one or more of these actions, in excess of amounts currently reserved is not expected to have a material effect on Allstate's financial position or results of operations. See note 9 to the Consolidated Financial Statements on pages C-52 to C-55 of the Proxy Statement incorporated herein by reference in response to Item 8 hereof.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There were 184,332 record holders of the Company's common stock as of February 18, 1999. The principal market for the Company's common stock is the New York Stock Exchange. The Company's common stock is also listed on the Chicago Stock Exchange. Set forth below are the high and low prices of, and cash dividends declared for, the Company's common stock during 1998 and 1997. Stock prices and dividends have been adjusted to reflect the 2-for-1 split of the Company's common stock in July 1998:

	High	Low	Close	Dividends declared
1998				
First quarter	49 3/16	40 15/16	45 31/32	.135
Second quarter	50 1/8	44 1/8	45 25/32	.135
Third quarter	52 3/8	36 1/16	41 1/2	.135
Fourth quarter	48 3/8	37	38 1/2	.135

1997				
First quarter	34 1/8	28 1/8	29 11/16	.12
Second quarter	38 1/2	29 5/16	36 1/2	.12
Third quarter	40 9/16	35 15/32	40 3/16	.12
Fourth quarter	47 3/16	38 15/32	45 1/4	.12

Stock price ranges are from the New York Stock Exchange Composite Listing.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference to "11-Year Summary of Selected Financial Data" on pages C-2 and C-3 of the Proxy Statement.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages C-4 to C-29 of the Proxy Statement.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Incorporated by reference to the "Market Risk" discussion on pages C-16 to C-19 of the Proxy Statement.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company, including the notes to such statements on pages C-30 to C-65 of the Proxy Statement and the information under "Quarterly Results" on page C-65 of the Proxy Statement are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON
ACCOUNTING AND FINANCIAL DISCLOSURE

None

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information regarding directors of the Company is incorporated herein by reference to the descriptions under "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

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

ITEM 11. EXECUTIVE COMPENSATION

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

Control Arrangements" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the material under the headings "Security Ownership of Directors and Executive Officers" and "Security Ownership of Certain Beneficial Owners" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Part IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

(a) 3 Exhibits:

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

(b) Reports on Form 8-K:

None.

SIGNATURES

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

THE ALLSTATE CORPORATION
(Registrant)

By: S/SAMUEL H. PILCH
Samuel H. Pilch
Controller
(Principal Accounting Officer)

March 26, 1999

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

SIGNATURE	TITLE	DATE
S/ EDWARD M. LIDDY Edward M. Liddy	Chairman, President and Chief Executive Officer and a Director (Principal Executive Officer))))))	March 26, 1999
S/CASEY J. SYLLA Casey J. Sylla	Vice President and Acting Chief Financial Officer (Principal Financial Officer)))))	

SIGNATURE	TITLE		DATE
S/ JAMES G. ANDRESS James G. Andress	Director)	
S/WARREN L. BATTS Warren L. Batts	Director)	
S/EDWARD A. BRENNAN Edward A. Brennan	Director)	
S/ JAMES M. DENNY James M. Denny	Director)	March 26, 1999
S/RONALD T. LEMAY Ronald T. LeMay	Director)	
S/MICHAEL A. MILES Michael A. Miles	Director)	
S/H. JOHN RILEY, JR. H. John Riley, Jr.	Director)	
S/JOSHUA I. SMITH Joshua I. Smith	Director)	

THE ALLSTATE CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
Year Ended December 31, 1998

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

	PAGE*
Consolidated Statements of Operations **	C-30
Consolidated Statements of Comprehensive Income **	C-31
Consolidated Statements of Financial Position **	C-32
Consolidated Statements of Shareholders' Equity **	C-33
Consolidated Statements of Cash Flows **	C-34
Notes to the Consolidated Financial Statements**	C-35
Quarterly Results **	C-65

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

	Page
The Allstate Corporation	-----
Schedules required to be filed under the provisions of Regulation S-X Article 7:	
Schedule I Summary of Investments - Other than Investments in Related Parties	S-2
Schedule II Condensed Financial Information of The Allstate Corporation (Registrant)	S-3
Schedule III Supplementary Insurance Information	S-7
Schedule IV Reinsurance	S-8
Schedule V Valuation Allowance and Qualifying Accounts	S-9
Schedule VI Supplementary Information Concerning Consolidated Property-Casualty Insurance Operations	S-10
Independent Auditors' Report	S-11
Independent Auditors' Consent	S-12

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

* Refers to page number in the Company's Proxy Statement.
** Incorporated by reference in Item 8 herein.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE I - SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 1998

(\$ in millions)

TYPE OF INVESTMENT	Cost ----	Fair Value -----	Carrying Value -----
Fixed Income Securities, Available for Sale:			
Bonds:			
United States government, government agencies and authorities.....	\$3,171	\$3,960	\$3,960
States, municipalities and political subdivisions.....	17,589	18,771	18,771
Foreign governments.....	625	653	653
Public utilities.....	2,809	3,134	3,134
Convertibles and bonds with warrants attached.....	552	654	654
All other corporate bonds.....	13,147	13,991	13,991
Mortgage-backed securities.....	7,612	7,879	7,879
Asset-backed securities.....	4,197	4,251	4,251
Redeemable preferred stocks.....	244	267	267
	-----	-----	-----
Total fixed income securities.....	49,946	\$53,560	53,560
	-----	=====	-----
Equity Securities:			
Common Stocks:			
Public utilities.....	223	374	374
Banks, trusts and insurance companies.....	325	492	492
Industrial, miscellaneous and all other.....	3,219	5,027	5,027
Nonredeemable preferred stocks.....	464	528	528
	-----	-----	-----
Total equity securities.....	4,231	\$6,421	6,421
	-----	=====	-----
Mortgage loans on real estate.....	3,458		3,458
Policy loans.....	569		569
Other long-term investments.....	40		40
Short-term investments.....	2,477		2,477
	-----		-----
Total Investments.....	\$60,721		\$66,525
	=====		=====

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

(\$ in millions)

	Year Ended December 31,		
	1998	1997	1996
	----	----	----
REVENUES			
Investment income, less investment expense.....	\$ 52	\$ 30	\$ 10
Realized capital gains.....	32	5	-
Other income.....	149	208	29
	----	----	----
	233	243	39
EXPENSES			
Interest expense.....	192	158	100
Other operating expenses.....	10	6	8
	----	----	----
Gain on disposition of operations.....	202	164	108
	49	-	-
	----	----	----
Income (loss) from operations before income tax benefit and equity in net income of subsidiaries.....	80	79	(69)
Income tax benefit.....	(24)	(42)	(31)
Income (loss) before equity in net income of subsidiaries.....	104	121	(38)
	----	----	----
Equity in net income of subsidiaries.....	3,190	2,984	2,113
	----	----	----
Net income.....	3,294	3,105	2,075
	----	----	----
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Changes in:			
Unrealized gains and losses.....	173	818	(633)
Foreign currency translation adjustments.....	(2)	(57)	1
	----	----	----
Other comprehensive income.....	171	761	(632)
	----	----	----
Comprehensive income.....	\$3,465	\$3,866	\$1,443
	=====	=====	=====

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

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

>

(\$ in millions)

	December 31,	
	1998	1997
ASSETS		
Investments in subsidiaries.....	\$ 18,720	\$ 17,041
Investments		
Fixed income securities, at fair value (amortized cost \$484 and \$419)	484	426
Short-term.....	430	85
	-----	-----
Total investments.....	914	511
Receivable from subsidiaries.....	563	441
Dividends receivable from subsidiaries.....	-	110
Other assets.....	81	97
	-----	-----
TOTAL ASSETS.....	\$ 20,278	\$ 18,200
	=====	=====
LIABILITIES		
Short-term debt.....	\$ 393	\$ 199
Long-term debt.....	1,300	1,457
Payable to subsidiaries.....	1,182	773
Dividends payable to shareholders.....	111	103
Other liabilities.....	52	58
	-----	-----
TOTAL LIABILITIES.....	3,038	2,590
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred stock, \$1 par value, 25 million shares authorized, none issued.....		
Common stock, \$.01 par value, 1.0 billion shares authorized and 900 million issued; 818 million and 850 million shares outstanding.....	9	9
Additional capital paid-in.....	3,102	3,116
Retained income.....	14,490	11,646
Deferred ESOP expense.....	(252)	(281)
Treasury stock, at cost (82 million and 50 million shares).....	(3,065)	(1,665)
Accumulated other comprehensive income:		
Unrealized net capital gains.....	2,994	2,821
Unrealized foreign currency translation adjustments.....	(38)	(36)
	-----	-----
Total accumulated other comprehensive income.....	2,956	2,785
	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	17,240	15,610
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 20,278	\$ 18,200
	=====	=====

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

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

(\$ in millions)

	Year Ended December 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income.....	\$3,294	\$3,105	\$2,075
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in net income of subsidiaries.....	(3,190)	(2,984)	(2,113)
Realized capital gains.....	(32)	(5)	-
Gain on disposition of operations.....	(49)	-	-
Dividends received from subsidiaries.....	1,497	623	525
Changes in other operating assets and liabilities.....	197	(233)	(5)
	-----	-----	-----
Net cash provided by operating activities.....	1,717	506	482
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investments.....	1,332	789	-
Investment purchases.....	(1,019)	(363)	-
Capital contribution to subsidiaries.....	(225)	-	(23)
Change in short-term investments, net.....	(335)	427	(543)
Proceeds from disposition of operations.....	49	-	-
Acquisition of subsidiary.....	(275)	-	-
	-----	-----	-----
Net cash provided by (used in) investing activities.....	(473)	853	(566)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in short-term debt, net.....	181	47	152
Transfers to subsidiaries through intercompany loan agreement, net.....	(181)	(47)	(152)
Repayment of long-term debt.....	(300)	-	-
Proceeds from issuance of long-term debt.....	500	250	-
Proceeds from borrowings from subsidiaries.....	405	-	773
Dividends paid to shareholders.....	(443)	(323)	(378)
Treasury stock purchases.....	(1,489)	(1,358)	(336)
Other.....	83	72	25
	-----	-----	-----
Net cash provided by (used in) financing activities.....	(1,244)	(1,359)	84
	-----	-----	-----
CASH AT END OF YEAR.....	\$ -	\$ -	\$ -
	=====	=====	=====

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

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

1. .GENERAL

The financial statements of the Registrant should be read in conjunction with the Consolidated Financial Statements and notes thereto included in The Allstate Corporation 1999 Proxy Statement.

The long-term and short-term debt and credit lines presented in Note 8 "Debt" on page C-52 of the 1999 Proxy Statement, with the exception of the Floating Rate Notes, are direct obligations of the Registrant.

To conform with the 1998 presentation, certain amounts in the prior years' financial statements and notes have been reclassified.

2..RECEIVABLE AND PAYABLE TO SUBSIDIARIES

The majority of the proceeds from the issuance of the commercial paper have been loaned to subsidiaries through an intercompany loan agreement and used for general purposes.

In 1996, the Registrant borrowed \$750 million from its subsidiary trusts at a weighted-average interest rate of 7.92%. These borrowings consist of \$550 million and \$200 million of debentures which mature in 2026 and 2045, respectively, and are redeemable by the Registrant in whole or in part beginning in 2001 and 2006, respectively. The maturity of the \$550 million debenture may be extended to 2045. The Registrant recorded \$59 million of interest expense in 1998 and 1997, respectively, related to these borrowings.

3..OTHER INCOME

Other income primarily represents income from the settlement of certain employee benefits of its subsidiaries, mainly profit sharing obligations. The 1997 amount includes settlements for prior years.

4. GAIN ON DISPOSITION OF OPERATIONS

The gain on disposition of operations in 1998 was in connection with the conversion of 6.76% Automatically Convertible Equity Securities ("ACES") into shares of The PMI Group, Inc. common stock.

5. SUPPLEMENTAL DISCLOSURES OF NON CASH INVESTING ACTIVITY AND CASH FLOW INFORMATION

The Registrant received dividends of \$707 million and \$768 million from a subsidiary in the form of fixed income securities in 1998 and 1997, respectively.

The Registrant paid \$178 million, \$144 million and \$87 million of interest on debt in 1998, 1997 and 1996, respectively.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION
At December 31,

(\$ in millions)

Segment	Deferred Policy Acquisition Costs	Reserves Claims Expense and Contract Benefits	Unearned Premiums
1998			
Property-Liability operations			
PP&C.....	\$ 915	\$ 14,297	\$ 6,376
Discontinued Lines and Coverages.....	-	2,584	1
	-----	-----	-----
Total Property-Liability.....	915	16,881	6,377
Life and Savings operations.....	2,181	28,734	48
Corporate and Other.....	-	-	-
	-----	-----	-----
Total.....	\$ 3,096	\$ 45,615	\$ 6,425
	=====	=====	=====
1997			
Property-Liability operations			
PP&C.....	\$844	\$14,408	\$6,168
Discontinued Lines and Coverages....	-	2,995	1
	-----	-----	-----
Total Property-Liability.....	844	17,403	6,169
Life and Savings operations.....	1,982	27,471	64
Corporate and Other	-	-	-
	-----	-----	-----
Total.....	\$2,826	\$44,874	\$6,233
	=====	=====	=====
1996			
Property-Liability operations			
PP&C.....	\$777	\$13,909	\$6,070
Discontinued Lines and Coverages....	-	3,473	2
	-----	-----	-----
Total Property-Liability.....	777	17,382	6,072
Life and Savings operations.....	1,837	26,407	102
Corporate and Other	-	-	-
	-----	-----	-----
Total.....	\$2,614	\$43,789	\$6,174
	=====	=====	=====

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION

(\$ in millions)

For the Year Ended December 31,

Segment	Premium Revenue and Contract Charges	Net Investment Income (1)	Claims, Claims Expense and Contract Benefits	Amortization of Policy Acquisition Costs	Other Operating Costs and Expenses	Premiums Written (Excluding Life)
1998						
Property-Liability operations						
PP&C.....	\$ 19,307		\$ 13,572	\$ 2,644	\$ 1,735	\$ 19,516
Discontinued Lines and Coverages.....	-		29	-	22	(1)
Total Property-Liability.....	19,307	\$ 1,723	13,601	2,644	1,757	19,515
Life and Savings operations.....	1,519	2,115	2,415	377	315	136
Corporate and Other.....	-	52	-	-	(6)	-
Total.....	\$ 20,826	\$ 3,890	\$ 16,016	\$ 3,021	\$ 2,066	\$ 19,651
1997						
Property-Liability operations						
PP&C.....	\$18,600		\$13,333	\$2,491	\$1,635	\$18,787
Discontinued Lines and Coverages....	4		3	-	19	2
Total Property-Liability.....	18,604	\$1,746	13,336	2,491	1,654	18,789
Life and Savings operations.....	1,502	2,085	2,415	298	302	132
Corporate and Other	-	30	-	-	(19)	-
Total.....	\$20,106	\$3,861	\$15,751	\$2,789	\$1,937	\$18,921
1996						
Property-Liability operations						
PP&C.....	\$17,708		\$13,574	\$2,023	\$1,676	\$17,978
Discontinued Lines and Coverages....	658		913	116	130	608
Total Property-Liability.....	18,366	\$1,758	14,487	2,139	1,806	18,586
Life and Savings operations.....	1,336	2,045	2,312	203	308	173
Corporate and Other	-	10	-	-	(2)	-
Total.....	\$19,702	\$3,813	\$16,799	\$2,342	\$2,112	\$18,759

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

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE IV - REINSURANCE

(\$ in millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
YEAR ENDED DECEMBER 31, 1998	-----	-----	-----	-----	-----
Life insurance in force.....	\$ 276,029	\$ 73,769	\$ 6	\$ 202,267	0.0%
	=====	=====	=====	=====	
Premiums and contract charges:					
Life insurance.....	\$ 1,430	\$ 174	\$ 6	\$ 1,262	0.4%
Accident-health insurance.....	238	4	23	257	8.9%
Property-liability insurance.....	19,666	433	74	19,307	0.4%
	-----	-----	-----	-----	
Total premiums and contract charges.	\$ 21,334	\$ 611	\$ 103	\$ 20,826	0.5%
	=====	=====	=====	=====	
YEAR ENDED DECEMBER 31, 1997					
Life insurance in force.....	\$ 247,048	\$ 52,760	\$ 144	\$ 194,432	0.1%
	=====	=====	=====	=====	
Premiums and contract charges:					
Life insurance.....	\$ 1,401	\$ 165	\$ -	\$ 1,236	0.0%
Accident-health insurance.....	274	29	21	266	7.9%
Property-liability insurance.....	18,872	366	98	18,604	0.5%
	-----	-----	-----	-----	
Total premiums and contract charges	\$ 20,547	\$ 560	\$ 119	\$ 20,106	0.6%
	=====	=====	=====	=====	
YEAR ENDED DECEMBER 31, 1996					
Life insurance in force.....	\$ 219,453	\$ 33,232	\$ 124	\$ 186,345	0.1%
	=====	=====	=====	=====	
Premiums and contract charges:					
Life insurance.....	\$ 1,163	\$ 94	\$ -	\$ 1,069	-%
Accident-health insurance.....	252	2	17	267	6.4%
Property-liability insurance.....	18,487	479	358	18,366	1.9%
	-----	-----	-----	-----	
Total premiums and contract charges	\$ 19,902	\$ 575	\$ 375	\$ 19,702	1.9%
	=====	=====	=====	=====	

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

(\$ in millions)	Description	Additions			Balance at end of Period
		Balance at Beginning of Period	Charged to Costs and Expenses	Other Additions	
YEAR ENDED DECEMBER 31, 1998					
	Allowance for estimated losses on mortgage loans and real estate.....	\$ 39	\$ (16)		\$ 15
	Allowance for reinsurance recoverable....	147	-		141
	Allowance for premium installment receivable	61	86	93	54
	Allowance for deferred tax assets	12	21		33
YEAR ENDED DECEMBER 31, 1997					
	Allowance for estimated losses on mortgage loans and real estate.....	\$ 76	\$ (21)	\$ 16	\$ 39
	Allowance for reinsurance recoverable	163	-	16	147
	Allowance for premium installment receivable.....	57	109	105	61
	Allowance for deferred tax assets	-	12		12
YEAR ENDED DECEMBER 31, 1996					
	Allowance for estimated losses on mortgage loans and real estate.....	\$ 100	\$ 14	\$ 38	\$ 76
	Allowance for reinsurance recoverable	246	18	101	163
	Allowance for premium installment receivable.....	30	112	85	57

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

THE ALLSTATE CORPORATION AND SUBSIDIARIES
SCHEDULE VI - SUPPLEMENTARY INFORMATION CONCERNING
CONSOLIDATED PROPERTY-CASUALTY INSURANCE OPERATIONS

(\$ in millions)

	At December 31,		
	1998	1997	1996
	-----	-----	-----
Deferred policy acquisition costs.....	\$ 915	\$ 844	\$ 777
Reserves for unpaid claims and claim adjustments.....	16,881	17,403	17,382
Unearned premiums.....	6,377	6,169	6,072

(\$ in millions)

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Earned premiums.....	\$19,307	\$18,604	\$18,366
Net investment income.....	1,723	1,746	1,758
Claims and claims adjustment expense incurred			
Current year.....	14,301	14,013	14,823
Prior years.....	(700)	(677)	(336)
Amortization of deferred policy acquisition costs.....	2,644	2,491	2,139
Paid claims and claims adjustment expense.....	14,009	13,161	15,045
Premiums written.....	19,515	18,789	18,586

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of The Allstate Corporation and subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated February 19, 1999; such consolidated financial statements and report are included in The Allstate Corporation 1999 Proxy Statement to Stockholders and are incorporated herein by reference. Our audits also include the financial statement schedules of The Allstate Corporation and subsidiaries, listed in the Index at Item 14 (a) 2. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Chicago, Illinois
February 19, 1999

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-61817 and 333-34583 on Form S-3 and Registration Statement Nos. 33-77928, 33-93758, 33-93760, 33-93762, 33-99132, 33-99136, 33-99138, 333-04919, 333-16129, 333-23309, 333-40283, 333-40285 and 333-40289 on Form S-8 of The Allstate Corporation of our reports dated February 19, 1999, appearing in or incorporated by reference in this Annual Report on Form 10-K of The Allstate Corporation for the year ended December 31, 1998.

Deloitte & Touche LLP

Chicago, Illinois
March 24, 1999

EXHIBIT INDEX

The Allstate Corporation Form 10-K
For the Year Ended December 31, 1998

EXHIBIT NO.	DOCUMENT DESCRIPTION	SEQUENTIAL PAGE NO.
3.(a)	Restated Certificate of Incorporation of The Allstate Corporation as amended effective August 18, 1995. Incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995**	
3.(b)	By-Laws as amended effective June 29, 1995. Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1995.	
4.	Registrant hereby agrees to furnish to the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.	
10.1	Master Agreement for Systems Operations Services, dated as of November 30, 1992, between Allstate Insurance Company and Advantis, a New York general partnership. Incorporated by reference to Exhibit 10.5 to Registration Statement No. 33-59676.	
10.2	Human Resources Allocation Agreement, dated as of May 27, 1993, among Sears, Roebuck and Co., The Allstate Corporation and Allstate Insurance Company. Incorporated by reference to Exhibit 10.14 to Registration Statement No. 33-59676.	

EXHIBIT NO.	DOCUMENT DESCRIPTION	SEQUENTIAL PAGE NO.
10.3	IPO Related Intercompany Agreement, dated as of May 29, 1993, between The Allstate Corporation and Sears, Roebuck and Co. Incorporated by reference to Exhibit 10.15 to Registration Statement No. 33-59676.	
10.4	Tax Sharing Agreement dated May 14, 1993 between Sears, Roebuck and Co. and its subsidiaries. Incorporated by reference to Exhibit 10.6 to Amendment No. 3 to Registration Statement No. 33-59676.	
10.5	Separation Agreement dated February 20, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(a) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.6	Marketing File Separation Agreement dated February 20, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(b) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.7	Research Services Agreement dated February 20, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(c) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.8	Supplemental Tax Sharing Agreement dated January 27, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(d) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.9	Supplemental Human Resources Allocation Agreement dated January 27, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(e) to the Company's Current Report on Form 8-K dated February 22, 1995.**	

EXHIBIT NO.	DOCUMENT DESCRIPTION	SEQUENTIAL PAGE NO.
10.10	Profit Sharing and Employee Stock Ownership Plan Allocation Agreement dated January 27, 1995 between Sears, Roebuck and Co. and the Company. Incorporated by reference to Exhibit 10(f) to the Company's Current Report on Form 8-K dated February 22, 1995.**	
10.11*	Allstate Insurance Company Supplemental Retirement Income Plan, as amended and restated effective January 1, 1996. Incorporated by reference to Exhibit 10.11 to the Company's Form 10-K report for 1995.**	
10.12*	The Allstate Corporation Deferred Compensation Plan, as amended and restated effective November 11, 1997. Incorporated by reference to Exhibit to the Company's Form 10-K report for 1997.**	
10.13*	The Allstate Corporation Amended and Restated Deferred Compensation Plan for Non-Employee Directors, as amended and restated as of February 5, 1997. Incorporated by reference to Exhibit 10.13 to the Company's Form 10-K report for 1997.**	
10.14*	The Allstate Corporation Annual Executive Incentive Compensation Plan, as amended and restated as of March 9, 1999.	
10.15*	The Allstate Corporation Long-Term Executive Incentive Compensation Plan, as amended and restated as of March 9, 1999.	
10.16*	The Allstate Corporation Equity Incentive Plan, as amended and restated on November 10, 1998.	
10.17*	Form of stock option under the Equity Incentive Compensation Plan. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K report for 1995.**	

EXHIBIT NO.	DOCUMENT DESCRIPTION	SEQUENTIAL PAGE NO.
10.18*	Form of restricted stock grant under the Equity Incentive Plan. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K report for 1996.**	
10.19*	The Allstate Corporation Equity Incentive Plan for Non-Employee Directors as amended and restated on November 10, 1998.	
10.20*	The Allstate Corporation Employees Replacement Stock Plan, as amended and restated on November 10, 1998.	
10.21*	Form of stock option under the Replacement Stock Plan. Incorporated by reference to Exhibit 10.21 to the Company's Form 10-K report for 1995.**	
10.22*	Form of restricted stock grant under the Replacement Stock Plan. Incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for 1995.**	
10.23*	The Allstate Corporation Annual Covered Employee Incentive Compensation Plan as amended and restated as of March 9, 1999.	
11	Computation of Earnings per Common Share.	
12	Computation of Earnings to Fixed Charges Ratio.	
21	Subsidiaries of the Registrant.	
23	Independent Auditors' Consent.	

EXHIBIT
NO.

DOCUMENT DESCRIPTION

SEQUENTIAL
PAGE NO.

27	Financial Data schedule, submitted electronically to the Securities and Exchange Commission for information only and not filed.
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* A management contract or compensatory plan or arrangement.
** SEC File No. 1-11840

The Allstate Corporation and Subsidiaries
Computation of Earnings Per Common Share

(In millions, except for per share data)

Twelve Months Ended December 31,

	1998	1997	1996
Net Income	\$3,294	\$3,105	\$2,075
	=====	=====	=====
Basic earnings per common share computation:			
Weighted average number of common shares (1)	832.2	867.9	890.8
	=====	=====	=====
Net income per share - basic	\$3.96	\$3.58	\$ 2.33
	=====	=====	=====
Diluted earnings per common share computation:			
Weighted average number of common shares (1)	832.2	867.9	890.8
Assumed exercise of dilutive stock options	4.4	4.9	5.6
	-----	-----	-----
Adjusted weighted number of common shares outstanding	836.6	872.8	896.4
	=====	=====	=====
Net income per share - diluted	\$3.94	\$3.56	\$2.31
	=====	=====	=====

(1) Common shares held as treasury shares were 82 million, 501 million, and 17 million, at December 31, 1998, 1997 and 1996, respectively.

THE ALLSTATE CORPORATION
COMPUTATION OF EARNINGS TO FIXED CHARGES RATIO

(\$ in millions)

	For the Year ended December 31,				
	1998	1997	1996	1995	1994
1. Income from continuing operations before income taxes, equity in net income of unconsolidated subsidiary, and dividends on preferred securities of subsidiary trusts	\$4,745	\$4,434	\$2,669	\$2,421	\$120
2. Equity in income of 100% owned subsidiary	-	-	-	49	107
3. Dividends from less than 50% owned affiliate	1	2	2	2	-
4. Income from continuing operations before income taxes	\$4,746	\$4,436	\$2,671	\$2,472	\$227
Fixed Charges:					
5. Interest on indebtedness	\$118	\$100	\$95	\$81	\$60
6. Interest factor of annual rental expense	90	80	71	90	95
7. Total fixed charges (5+6)	\$208	\$180	\$166	\$171	\$155
8. Dividends on redeemable preferred securities	59	59	6	-	-
9. Total fixed charges and dividends on redeemable preferred securities (7+8)	\$267	\$239	\$172	\$171	\$155
10. Income from continuing operations before income taxes and fixed charges (4+7)	\$4,954	\$4,616	\$2,837	\$2,643	\$382
11. Ratio of earnings to fixed charges (A)	18.6 X	19.3 X	16.5 X	15.5 X	2.5 X
12. Interest credited to contractholder funds	\$1,247	\$1,209	\$1,196	\$1,191	\$1,079
13. Total fixed charges including dividends on redeemable preferred securities and interest credited to contractholder funds (9+12)	\$1,514	\$1,448	\$1,368	\$1,362	\$1,234
14. Income from continuing operations before income taxes and fixed charges including interest credited to contractholder funds (4+7+12)	\$6,201	\$5,825	\$4,033	\$3,834	\$1,461
15. Ratio of earnings to fixed charges, including interest credited to contractholder funds	4.1 X	4.0 X	2.9 X	2.8 X	1.2 X

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

THE ALLSTATE CORPORATION

ANNUAL EXECUTIVE INCENTIVE COMPENSATION PLAN

AS AMENDED AND RESTATED MARCH 9, 1999

1. PURPOSES.

The purposes of the Annual Executive Incentive Compensation Plan (the "Plan") are:

- a. to attract and retain competent personnel;
- b. to provide Participants with added incentives to promote various short-term performance goals, while taking into account the varying objectives and conditions of the different businesses engaged in by The Allstate Corporation and its Subsidiaries;
- c. to link compensation to performance by tying a portion of annual pay to reaching annual financial goals;
- d. to compensate executives at competitive levels when competitive performance is achieved, and at superior levels when performance exceeds competitors', and
- e. to encourage teamwork among top executives.

2. DEFINITIONS.

The following terms when used in the Plan shall, for the purposes of the Plan, have the following meanings:

- a. "Award" means the cash amount payable to a Participant for a fiscal year pursuant to the terms of the Plan.
 - b. "Board" means the Board of Directors of The Allstate Corporation.
 - c. "Business Unit" means any operating unit of The Allstate Corporation or any of its Subsidiaries, including but not limited to, the property and casualty business, the life business, the investments business, or the international business.
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- d. "Committee" means at least two members of the Board who have been appointed by the Board to administer the Plan.
 - e. "Company" means The Allstate Corporation.
 - f. "Fiscal Year" means the calendar year.
 - g. "Participant" means an executive of the Company, or of any Subsidiary, selected by the Committee to participate in the Plan for the fiscal year.
 - h. "Plan" means the Annual Executive Incentive Compensation Plan.
 - i. "Subsidiary" means any corporation of which the Company owns directly or indirectly a majority of the outstanding shares of voting stock.

3. ADMINISTRATION OF THE PLAN.

- a. The Plan shall be administered by the Committee.
- b. The Committee shall have the authority to make all determinations it deems necessary or advisable for the administration of the Plan, including the selection of Participants, the determination of the timing and amount of Awards made to each Participant, and the establishment of performance standards ("performance goals") for earning Awards.
- c. The Committee shall have the authority to exercise discretion in determining the amounts of the Awards otherwise payable under the terms of the Plan, and may increase or decrease such Awards.

4. AWARDS.

- a. Awards under the Plan shall consist of annual cash bonuses based upon the degree of attainment of performance goals of the Company and/or its Subsidiaries and/or Business Units thereof, where applicable, over the fiscal year. Awards to Participants who are "Covered Employees" as defined in Section 162(m) of the Internal Revenue Code shall be payable solely for attainment of performance priority goals set forth in Section 4.d., below.
- b. The Committee shall establish performance goals for each fiscal year at a time while the outcome of the performance goals is substantially uncertain. Such performance goals may be expressed in terms of annual financial, operating or other criteria, or any combination thereof, using such measures of performance as the Committee selects solely in its own discretion. The Committee may establish performance priority as a performance goal, the attainment of which may result in the increase or decrease of an Award to any Participant.

c. A target Award shall be established for each fiscal year based upon the Participant's position held with the Company or any of its Subsidiaries. The target Award will be determined as a percentage of each Participant's base salary, and shall be payable as an Award based upon attainment of performance goals for such year. A maximum Award opportunity shall also be established for each Participant.

d. Awards under the Plan for Covered Employees shall be granted solely on the basis of their achievement of performance priority goals. Performance priority goals shall be strategic in nature, and designed to further Company goals which are assigned to specific Participants to accomplish. Performance priority goals shall be based on business criteria separate and distinct from any criteria applicable to such Covered Employee under the Annual Covered Employee Incentive Compensation Plan for the fiscal year.

5. PAYMENT OF AWARDS.

a. Awards under the Plan shall be paid to Participants as soon as practicable after the end of the fiscal year to which performance relates, and after the Committee has approved the Awards.

b. Awards shall be paid in cash, less required withholding, or for those eligible, may be deferred at the Participant's election, subject to the terms and conditions of any deferred compensation plan in which the Participant is eligible to participate.

c. Unless the Committee has taken action under subsection 3.c. hereof prior to payment of an Award, each Participant selected by the Committee for a fiscal year who remains actively employed by the Company or a Subsidiary thereof at the end of the fiscal year shall be entitled to receive a payment of an Award earned pursuant to the terms of the Plan with respect to such year.

d. If a Participant's employment is terminated prior to completion of a fiscal year for any reason other than as described in subsection 5.e. below, the Participant will forfeit any Award otherwise payable for such fiscal year.

e. If a Participant dies, retires or is disabled during the fiscal year, and the Committee has not taken action under Section 3.c. hereof, the Participant's Award will be prorated based on the number of Participant's full months as an active employee during the fiscal year. If a Participant dies before receipt of an Award, the Award will be paid to the Participant's beneficiaries.

f. Prorated Awards will be paid at the same time as regular Awards.

6. MISCELLANEOUS.

a. All amounts payable hereunder shall be payable only to the Participant or his or her beneficiaries. The rights and interests of a Participant under the Plan may not be assigned, encumbered, or transferred, voluntarily or involuntarily, other than by will or the laws of descent and distribution.

b. No individual shall have any claim or right to be a Participant in the Plan at any time, and any individual's participation in the Plan may be terminated at any time with or without notice, cause or regard to past practices.

c. Neither the Plan nor any action hereunder shall confer on any person any right to remain in the employ of the Company or any of its Subsidiaries or shall affect an employee's compensation not arising under the Plan. Neither the adoption of the Plan nor its operation shall in any way affect the right and power of the Company or any Subsidiary to dismiss or discharge any employee at any time.

d. The Company and its Subsidiaries shall have the right to deduct from any Award, prior to payment, the amount of any taxes required to be withheld by any federal, state or local government with respect to such payments.

e. The Committee may rely upon any information supplied to it by any officer of the Company or any Subsidiary or by any independent accountant for the Company and may rely upon the advice of counsel in connection with the administration of the Plan and shall be fully protected in relying upon such information or advice.

f. All expenses and costs in connection with the administration of the Plan shall be borne by the Company.

g. The Plan and any agreements entered into thereunder shall be governed by and construed in accordance with the laws of the state of Illinois.

7. AMENDMENT OR TERMINATION OF THE PLAN.

The Board may suspend, terminate, modify or amend the Plan.

8. EFFECTIVE DATE.

The Plan was adopted by the Board on March 8, 1994, and was approved by the Company's stockholders on May 19, 1994. The Plan, as amended and restated herein, was adopted and made effective by the Board on March 9, 1999.

THE ALLSTATE CORPORATION
LONG-TERM EXECUTIVE INCENTIVE COMPENSATION PLAN
AS AMENDED AND RESTATED EFFECTIVE MARCH 9, 1999

1. PURPOSES.

The Allstate Corporation Long-Term Executive Incentive Compensation Plan was adopted and made effective by the Board of Directors on March 9, 1999. The Plan was submitted to the Company's stockholders for approval on May 18, 1999. The purposes of the Plan are:

- a. to attract and retain competent personnel and to ensure the deductibility of compensation paid under the Plan to any Participant who is a Covered Employee as defined in Section 162(m) of the Internal Revenue Code (the "Code");
- b. to provide Participants with added incentives to promote various long-term performance goals, while taking into account the varying objectives and conditions of the different businesses engaged in by The Allstate Corporation and its Subsidiaries;
- c. to link compensation to performance by rewarding three-year corporate performance;
- d. to compensate participants at competitive levels when competitive performance is achieved, and at superior levels when performance exceeds competitors'; and
- e. to encourage teamwork among top executives.

2. DEFINITIONS.

The following terms when used in the Plan shall, for the purposes of the Plan, have the following meanings:

- a. "Award" means the cash amount payable to a Participant for a Performance Cycle pursuant to the terms of the Plan.
- b. "Board" means the Board of Directors of The Allstate Corporation.

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- c. "Business Unit" means any operating unit of The Allstate Corporation or any of its Subsidiaries, including but not limited to, the property and casualty business, the life business, the investments business, or the international business.
- d. "Committee" means two or more members of the Board who are "outside directors" within the meaning of Section 162(m) of the Code and the regulations thereunder.
- e. "Company" means The Allstate Corporation.
- f. "Covered Employee" means a Participant who is a "Covered Employee" as defined in Section 162(m)(3) of the Code.
- g. "Fiscal Year" means the calendar year.
- h. "Participant" means a senior executive of the Company or of any Subsidiary, selected by the Committee to participate in the Plan for a Performance Cycle or for any shorter period within a Performance Cycle in which the Participant is a senior executive of the Company selected by the Committee to participate in the Plan.
- i. "Performance Cycle" means a period of three consecutive fiscal years.
- j. "Plan" means the Long-Term Executive Incentive Compensation Plan.
- k. "Subsidiary" means any corporation of which the Company owns directly or indirectly a majority of the outstanding shares of voting stock.

3. ADMINISTRATION OF THE PLAN.

- a. The Plan shall be administered by the Committee. Members of the Committee shall be appointed by the Board.
- b. The Committee shall have the authority to make all determinations it deems necessary or advisable for the administration of the Plan, including the selection of Participants, and, subject to the limitations set forth herein, the determination of the timing and amount of Awards made to each Participant, and the establishment of objective and measurable performance standards ("performance goals")

for earning Awards.

c. The Committee shall have the authority to exercise discretion in determining the amounts of the Awards otherwise payable under the terms of the Plan; provided, however, that the Committee shall have no authority to increase the amount of Awards otherwise payable to any Covered Employee under the terms of the Plan.

4. AWARDS.

a. Awards under the Plan shall consist of cash bonuses based upon the degree of

attainment of objective and measurable performance goals of the Company and/or its Subsidiaries and/or Business Units thereof, where applicable, over a Performance Cycle or such shorter period within a Performance Cycle during which the Participant is an employee of the Company or of any Subsidiary.

b. The Committee shall establish written performance goals within 90 days after the beginning of a Performance Cycle (or, if the Covered Employee is not an employee at the beginning of a Performance Cycle, within the first 25% of the period within the Performance Cycle in which the Covered Employee is an employee), and while the outcome of the performance goals is substantially uncertain. Such performance goals shall be expressed in terms of objective and measurable financial and/or operating criteria, and may involve comparisons with respect to historical results of the Company and its Subsidiaries and operating groups or Business Units thereof, as well as comparisons with respect to peer group performance. Performance goals shall be expressed using one or more of the following measures of performance: net earnings, operating income, return on equity, earnings per share, return on assets, values of assets, revenues, market share, prices of Company stock, or strategic business criteria consisting of one or more Company, Subsidiary or Business Unit objectives based on meeting specified revenue goals, market penetration goals, international business expansion goals, cost targets, customer retention goals, customer satisfaction goals, or goals relating to acquisitions or divestitures. The calculation is specifically defined at the time the goal is set. Each performance goal must state, in terms of an objective formula or standard, the Award payable to each Participant if the performance goal is attained.

c. No award opportunity for any Participant for any Performance Cycle shall exceed \$3,500,000.

5. PAYMENT OF AWARDS.

a. Awards under the Plan shall be paid to Participants as soon as practicable after the completion of the Performance Cycle, after the completion of the audits for each year in the Performance Cycle and after the Committee certifies that the performance goals and any other material terms were in fact satisfied.

b. Awards will be paid in cash, less required withholding, or for those eligible, may be deferred at the Participant's election, subject to the terms and conditions of any deferred compensation plan in which the Participant is eligible to participate.

c. Unless the Committee has taken action under subsection 3.c. hereof prior to payment of an Award, each Participant selected by the Committee who remains actively employed by the Company or a Subsidiary thereof at the end of a Performance Cycle shall be entitled to receive a payment of an Award earned pursuant to the terms of the Plan with respect to such Performance Cycle.

d. If a Participant's employment is terminated prior to completion of a Performance

Cycle for any reason other than as described in subsection 5.e. below, the Participant will forfeit any Award otherwise payable for such Performance Cycle.

e. If a Participant dies, retires or is disabled during a Performance Cycle, and the Committee has not taken action under Section 3.c. hereof, the Participant's Award shall be prorated based on the number of Participant's full months as an active employee during the Performance Cycle. If a Participant dies before receipt of an Award, the Award will be paid to the Participant's beneficiaries.

f. Prorated Awards will be paid at the same time as regular Awards.

6. MISCELLANEOUS.

a. All amounts payable hereunder shall be payable only to the Participant or his or her beneficiaries. The rights and interests of a Participant under the Plan may not be assigned, encumbered, or transferred, voluntarily or involuntarily, other than by will or the laws of descent and distribution.

b. No individual shall have any claim or right to be a Participant in the Plan at any time, and any individual's participation in the Plan may be terminated at any time with or without notice, cause or regard to past practices.

c. Neither the Plan nor any action hereunder shall confer on any person any right to remain in the employ of the Company or any of its Subsidiaries or shall affect an employee's compensation not arising under the Plan. Neither the adoption of the Plan nor its operation shall in any way affect the right and power of the Company or any Subsidiary to dismiss or discharge any employee at any time.

d. The Company and its Subsidiaries shall have the right to deduct from any Award, prior to payment, the amount of any taxes required to be withheld by any federal, state or local government with respect to such payments.

e. The Committee may rely upon any information supplied to it by any officer of the Company or any Subsidiary or by any independent accountant for the Company and may rely upon the advice of counsel in connection with the administration of the Plan and shall be fully protected in relying upon such information or advice.

f. All expenses and costs in connection with the administration of the Plan shall be borne by the Company.

g. The Plan and any agreements entered into thereunder shall be governed by and construed in accordance with the laws of the state of Illinois.

7. AMENDMENT OR TERMINATION OF THE PLAN.

The Board may suspend, terminate, modify or amend the Plan; provided, however, that any such action which changes employees eligible to participate, the criteria set forth in subsection 4.b., or the maximum amount of an Award set forth in subsection 4.c., shall be disclosed to and approved by the Company's stockholders. Stockholder approval must be given by a majority of the votes cast by the holders of Company shares represented in person or by proxy at the annual meeting next following the date of any such change.

8. EFFECTIVE DATE.

The Plan was adopted by the Board on March 8, 1994, and was approved by the Company's stockholders on May 19, 1994. The Plan, as amended and restated herein, was adopted by the Board of Directors on March 9, 1999, and was submitted to the Company's stockholders for approval on May 18, 1999.

THE ALLSTATE CORPORATION

EQUITY INCENTIVE PLAN

AS AMENDED AND RESTATED EFFECTIVE AS OF NOVEMBER 10, 1998

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THE PLAN. The Company established The Allstate Corporation Equity Incentive Plan (as set forth herein and from time to time amended, the "Plan"), effective June 2, 1993. Amendments to the Plan were approved by the Company's stockholders on May 19, 1994 and on May 23, 1995. The Board of Directors further amended the Plan on May 21, 1996, November 12, 1996 and August 14, 1997. On May 19, 1998, the Plan was amended and restated effective as of July 2, 1998. The Plan was further amended and restated effective as of November 10, 1998.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(p) [deleted]

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

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

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

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

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

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

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

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

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

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

3. SCOPE OF THE PLAN.

(a) NUMBER OF SHARES AVAILABLE FOR DELIVERY UNDER THE PLAN. A maximum of 36,000,000 shares of Stock may be awarded under the Plan. Awards may be made from authorized but unissued shares of Stock or from Treasury Stock. No more than an aggregate of 3,400,000 shares of the aforesaid 36,000,000 shares of Stock may be granted under Article 6(e) and (f). No more than 1,600,000 shares of Stock may be granted as stock options to any employee during the duration of the Plan.

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

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

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

4. ADMINISTRATION.

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

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

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

(i) to grant Awards,

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

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

the administration of the Plan,

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

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

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

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

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

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

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

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

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

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

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

5. ELIGIBILITY. Awards may be granted to any employee of the Company or any of its Subsidiaries. In selecting the individuals to whom Awards may be granted, as well as in determining the number of shares of Stock subject to, and the other terms and conditions

applicable to, each Award, the Committee shall take into consideration such factors as it deems relevant in promoting the purposes of the Plan.

6. CONDITIONS TO GRANTS.

(a) GENERAL CONDITIONS.

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

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

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

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

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

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

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

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

(iii) shall not have an aggregate Fair Market Value (determined for each incentive

stock option at its Grant Date) of Stock with respect to which incentive stock options are exercisable for the first time by such Grantee during any calendar year (under the Plan and any other employee stock option plan of the Grantee's employer or any parent or subsidiary thereof ("Other Plans")), determined in accordance with the provisions of Section 422 of the Internal Revenue Code, which exceeds \$100,000 (the "\$100,000 Limit");

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

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

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

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

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

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

(d) GRANT OF RELOAD OPTIONS. The Committee may provide in an Award Agreement

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

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

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

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

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

(e) GRANT OF SHARES OF RESTRICTED STOCK.

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

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

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

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

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

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

(C) the restrictions applicable to such grant;

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

(A) cash,

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

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

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

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

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

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

determined immediately before such payment.

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

(A) except as otherwise specified in the Award Agreement, upon the Grantee's Termination of Employment within a specified time period after the Grant Date, or

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

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

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

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

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

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

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

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

7. LIMITATIONS ON TRANSFERABILITY. Except as otherwise provided in the terms of a specific grant, each Award (other than unrestricted Stock) granted hereunder shall by its terms not be assignable or transferable other than by will or the laws of descent and distribution and may be exercised, during the Grantee's lifetime, only by the Grantee. Each share of restricted Stock shall be non-transferable until such share becomes nonforfeitable. Notwithstanding the foregoing, the Committee shall have the authority, in its discretion, to grant (or to sanction by way of amendment of an existing grant) nonqualified stock options the vested portions of which may be transferred by the Grantee during his lifetime to (a) any member of his immediate family, (b) to a trust established for the exclusive benefit of himself or one or more members of his immediate family, or (c) to a partnership, the partners of which are limited to the Grantee and members of his immediate family. A transfer of a stock option pursuant to this section 7 may only be effected by the Company at the written request of a Grantee and shall become effective only when recorded in the Company's record of outstanding stock options. In the event a stock option is transferred as contemplated in this section 7 any Reload Options associated with such transferred stock option shall terminate, and such transferred stock option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. Otherwise, a transferred stock option shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant grant, and the transferee shall be entitled to the same rights as the Grantee, as if no transfer had taken place. As used in this section 7, immediate family shall mean, with respect to any person, his/her spouse, any child, stepchild or grandchild, and shall include relationships arising from legal adoption.

8. EXERCISE.

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

- (i) check in such form as may be satisfactory to the Committee,
- (ii) Stock valued at its Fair Market Value on the date of exercise or, if the date of exercise is not a business day, the next succeeding business day,
- (iii) with the approval of the Committee, shares of restricted Stock, each valued

at the Fair Market Value of a share of Stock on the date of exercise or, if the date of exercise is not a business day, the next succeeding business day,

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

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

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

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

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

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

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

(c) PERMISSIBLE SHARES ISSUED. No shares of Stock shall be issued hereunder upon option exercise except shares of Stock available under Article 3(a). Each Grantee, by acceptance of an award, waives all rights to specific performance or injunctive or other equitable relief and acknowledges that he has an adequate remedy at law in the form of damages.

9. LOANS AND GUARANTEES. The Committee may, in its discretion:

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

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

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

a loan pursuant to this Article 9, then the Committee may, in its discretion, require the immediate payment of such deferred amount or the immediate release of such guarantee upon the Grantee's Termination of Employment or if the Grantee sells or otherwise transfers the Grantee's shares of Stock purchased pursuant to such deferral or guarantee.

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

11. MANDATORY WITHHOLDING TAXES.

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

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

12. ELECTIVE SHARE WITHHOLDING

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

(i) the minimum amount necessary to satisfy required federal, state, or local

withholding tax liability attributable to the Taxable Event; or

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

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

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

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

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

13. TERMINATION OF EMPLOYMENT.

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

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

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

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

(iii) if the Grantee's Termination of Employment is caused by the death of the Grantee or if the Grantee's death occurs during the period following Termination of

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

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

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

15. SUBSTITUTED AWARDS. The Committee may grant substitute awards for any cancelled Award granted under this Plan or any plan of any entity acquired by the Company or any of its Subsidiaries in accordance with this Article 15. If the Committee cancels any Award (granted under this Plan, or any plan of any entity acquired by the Company or any of its Subsidiaries), and a new Award is substituted therefor, then the Committee may, in its discretion, determine the terms and conditions of such new Award, and may provide that the Grant Date of the cancelled Award shall be the date used to determine the earliest date or dates for exercising the new substituted Award under Article 8 hereof so that the Grantee may exercise the substituted Award at the same time as if the Grantee had held the substituted Award since the Grant Date of the cancelled Award.

16. SECURITIES LAW MATTERS.

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

(b) If based upon the opinion of counsel for the Company, the Committee determines that the exercise or nonforfeitability of, or delivery of benefits pursuant to, any Award could violate any applicable provision of (i) federal or state securities law or regulations or (ii) the listing requirements of any national securities exchange on which are listed any of the

Company's equity securities, then the Committee may postpone any such exercise, nonforfeatability or delivery, as the case may be, but the Company shall use its best efforts to cause such exercise, nonforfeatability or delivery to comply with all such provisions at the earliest practicable date.

17. NO FUNDING REQUIRED. Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of, benefits under the Plan.

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

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

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

21. NON-UNIFORM DETERMINATIONS. Neither the Committee's nor the Board's determinations under the Plan need be uniform and may be made by the Committee or the Board selectively among persons who receive, or are eligible to receive, Awards (whether or not such

persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, to enter into non-uniform and selective Award Agreements as to (a) the identity of the Grantees, (b) the terms and provisions of Awards, and (c) the treatment, under Article 13, of Terminations of Employment.

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

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

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

(c) the Option Price, or

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

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

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

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

26. CONTROLLING LAW. The law of the State of Delaware except its law with respect to choice of law, shall be controlling in all matters relating to or arising out of the Plan or any Award.

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

THE ALLSTATE CORPORATION

EQUITY INCENTIVE PLAN FOR NON-EMPLOYEE DIRECTORS

As Amended and Restated effective as of November 10, 1998

I. PURPOSE.

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

II. ADMINISTRATION.

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

III. ELIGIBILITY.

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

IV. LIMITATION ON AGGREGATE SHARES.

A. MAXIMUM NUMBER OF SHARES. The aggregate maximum number of Shares that may be granted pursuant to the Plan or issued upon exercise of Options granted pursuant to the Plan shall be 580,000 shares. Such maximum number of Shares is subject to adjustment under the provisions of Section IV.B. The Shares to be granted or issued upon exercise of Options may be authorized but unissued Shares or Shares previously issued which have been reacquired by the

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Company. In the event any Option or Reload Option shall, for any reason, terminate or expire or be surrendered without having been exercised in full, the Shares subject to such Option or Reload Option but not purchased thereunder shall be available for future Options or Reload Options to be granted under the Plan.

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

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

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

V. DEFINITIONS.

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

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

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

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

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

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

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

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

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

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

"NON-EMPLOYEE DIRECTOR" means each member of the Board who is not an officer or employee of the Company or any of its Subsidiaries.

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

"SHARES" means shares of Common Stock.

"SUBSIDIARY" means any partnership, corporation, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more of the other Subsidiaries of the Company or a combination thereof, or (ii) if a

partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity, a majority of the partnership or other similar equity ownership interest thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more Subsidiaries of the Company or a combination thereof. For purposes hereof, the Company or a Subsidiary shall be deemed to have a majority ownership interest in a partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity if the Company or such Subsidiary shall be allocated a majority of partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity gains or losses or shall be or control the managing director, the trustee, the manager or the general partner of such partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity.

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

A. ANNUAL GRANT OF SHARES. Beginning December 1, 1998, on December 1 of each year 1,000 Shares shall automatically be granted to each Non-Employee Director serving on the Board on such date who has served in such capacity since June 1 of such year. If any person serving as a Non-Employee Director on June 1 of any year ceases to serve as a director of the Company prior to December 1 of such year, such director shall be automatically granted on his or her last day of service a number of Shares equal to (i) 1,000 multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director has served on the Board during the period beginning on such June 1 and ending on such director's last date of service and the denominator of which is 6.

B. GRANT FOR NEWLY APPOINTED DIRECTORS. If after June 1, 1998 a Non-Employee Director is initially elected or appointed to the Board effective on any date other than June 1, such Non-Employee Director shall automatically be granted, on the June 1 following the date he or she joins the Board (or such earlier date as he or she ceases to serve as a director), a number of Shares equal to (i) 1,000 multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director has served on the Board during the period beginning on the date such director joined the Board and ending on the following May 31 (or such earlier date as he or she ceases to serve as a director) and the denominator of which is 6; provided that such fraction shall in no event be greater than one.

C. ROUNDING OF SHARE AMOUNTS. To the extent that application of the foregoing formulas would result in fractional Shares being issuable, such Non-Employee Director shall be granted a number of Shares equal to the nearest whole number of Shares.

D. PAYMENT FOR ESTIMATED TAXES. In addition, the Company shall pay to each Non-Employee Director, in cash, as soon as practicable after each issuance of Shares pursuant to this Section VI, an amount equal to the estimated increase in such Non-Employee Director's federal, state and local tax liabilities as a result of such grant of Shares, assuming the maximum statutory

tax rates applicable to such Non-Employee Director.

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

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

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

A. ANNUAL GRANT OF OPTIONS. On June 1 of each year, beginning June 1, 1999, Options to purchase 3,000 Shares shall automatically be granted to each Non-Employee Director serving on the Board on such date. If any such Non-Employee Director will be required to retire (pursuant to the policies of the Board) during the 12 month period beginning on the date of any grant (or if any such Non-Employee Director has notified the Board that he or she intends to resign from the Board for any reason during the 12 month period beginning on the date of any grant), such director shall instead be granted on June 1 of the relevant year Options to purchase a number of Shares equal to (i) 3,000, multiplied by (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director will serve on the Board during the period beginning on such June 1 and ending on such director's last date of service and the denominator of which is 12.

B. GRANT FOR NEWLY APPOINTED DIRECTORS. If after July 2, 1998 a Non-Employee Director is initially elected or appointed to the Board effective on any date other than June 1, such Non-Employee Director shall automatically be granted, on the date he or she joins the Board, Options to purchase a number of Shares equal to (i) 3,000, MULTIPLIED BY (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director will serve on the Board during the period beginning on the date such director joins the Board and ending on the following May 31 and the denominator of which is 12.

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

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

E. CONDITIONS AND LIMITATIONS ON EXERCISE.

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

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

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

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

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

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

In the event a Non-Employee Director elects to pay the exercise price payable with respect to an Option pursuant to clause (b) above, (i) only a whole number of Share(s) (and not fractional Shares) may be tendered in

payment, (ii) such Non-Employee Director must present evidence acceptable to the Company that he or she has owned any such Shares tendered in payment of the exercise price (and that such Shares tendered have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise, and (iii) the certificate(s) for all such Shares tendered in payment of the exercise price must be accompanied by duly executed instruments of transfer in a form acceptable to the Company. When payment of the Option exercise price is made by the tender of Shares, the difference, if any, between the aggregate exercise price payable with respect to the Option being exercised and the Fair Market Value of the Share(s) tendered in payment (plus any applicable taxes) shall be paid by check or wire transfer of funds. No Non-Employee Director may tender Shares having a Fair Market Value exceeding the aggregate exercise price payable with respect to the Option being exercised.

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

F. ADDITIONAL PROVISIONS.

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

(ii) SALE OF THE COMPANY. In the event of a merger of the Company with or into another corporation constituting a change of control of the Company, a sale of all or substantially all of the Company's assets or a sale of a majority of the Company's outstanding voting securities (a "Sale of the Company"), the Options may be assumed by the successor corporation or a parent of such

successor corporation or substantially equivalent options may be substituted by the successor corporation or a parent of such successor corporation, and if the successor corporation does not assume the Options or substitute options, then all outstanding and unvested Options shall become immediately exercisable and all outstanding Options shall terminate if not exercised as of the date of the Sale of the Company (or other prescribed period of time). The Company shall provide at least 30 days prior written notice of the Sale of the Company to the holders of all outstanding Options, which notice shall state whether (a) the Options will be assumed by the successor corporation or substantially equivalent options will be substituted by the successor corporation, or (b) the Options are thereafter vested and exercisable and will terminate if not exercised as of the date of the Sale of the Company (or other prescribed period of time).

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

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

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

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

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

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

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

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

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

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

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

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

D. COMPLIANCE WITH EXCHANGE ACT. The election to receive Election Shares is intended to comply in all respects with Rule 16b-3(d)(1) promulgated under Section 16(b) of the Exchange Act such that the issuance of Election Shares under the Plan on a grant date occurring

at least six months after the election shall be exempt from Section 16(b) of the Exchange Act.

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

IX. MISCELLANEOUS PROVISIONS.

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

B. LIMITATIONS ON TRANSFER AND EXERCISE. All Options granted under the Plan shall not be transferable by the Non-Employee Director, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, as defined by '1 et seq, of the Code, Title I of ERISA or the rules and regulations thereunder, and shall be exercisable during the Non-Employee Director's lifetime only by such Non-Employee Director or by such Non-Employee Director's guardian or other legal representative; provided, however, that the vested portions of Options, (other than Incentive Stock Options as defined in Section 422 of the Code), may be transferred by the Non-Employee Director during his lifetime to (a) any member of his immediate family, (b) to a trust established for the exclusive benefit of himself or one or more members of his immediate family, or (c) to a partnership, the partners of which are limited to the Non-Employee Director and members of his immediate family. A transfer of an Option pursuant to this paragraph may only be effected by the Company at the written request of a Non-Employee Director and shall become effective only when recorded in the Company's record of outstanding Options. In the event an Option is transferred as contemplated in this paragraph, any Reload Options associated with such transferred Option shall terminate, and such transferred Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. Otherwise, a transferred Option shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant grant, and the transferee shall be entitled to the same rights as the Non-Employee Director, as if no transfer had taken place. As used in this paragraph, A immediate family@ shall mean, with respect to any person, his/her spouse, any child, stepchild or grandchild, and shall include relationships arising from legal adoption.

C. COMPLIANCE WITH LAWS. No shares of Common Stock shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign securities, securities exchange and other applicable laws and requirements. Each Share granted pursuant to Section VI or Section VIII and each Option granted pursuant to Section VII shall be subject to the requirement that if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the Shares granted or subject to the Option upon any securities exchange or under any state or federal securities or other law or regulation, or the consent or approval of any governmental

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

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

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

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

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

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

I. ELECTION SHARES. Pending the grant of Election Shares hereunder, all compensation earned by a Non-Employee Director with respect to which an election to receive

the grant of Election Shares pursuant to Section VIII.B has been made shall be the property of such director and shall be paid to him or her in cash in the event that Election Shares are not granted by the Company hereunder.

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

X. THIS SECTION INTENTIONALLY LEFT BLANK.

XI. AMENDMENT.

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

XII. TERMINATION.

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

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

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

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

XIII. STOCKHOLDER APPROVAL AND ADOPTION.

The Plan was originally adopted by the Board on March 12, 1996 and was approved and adopted at a meeting of the stockholders of the Company held on May 21, 1996. The Plan was amended and restated by the Board at a meeting held on November 12, 1996, August 14, 1997 and, in connection with a 2-for-1 stock split in the form of a dividend, effective as of July 2, 1998. The Plan was further amended and restated by the Board at a meeting held on November 10, 1998.

THE ALLSTATE CORPORATION
EMPLOYEES REPLACEMENT STOCK PLAN

As Amended and Restated on November 10, 1998

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THE PLAN. The Allstate Corporation ("Company") Employees Replacement Stock Plan (as set forth herein and from time to time amended, the "Plan"), was adopted by the Company's Board of Directors on January 16, 1995 and was approved by the Company's stockholders on May 23, 1995. The Plan was amended and restated by the Board on November 12, 1996, August 14, 1997 and November 10, 1998.

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

2. DEFINITIONS.

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

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

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

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

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

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

(i) the acquisition by any person or group of beneficial ownership of any of the Stock or the Voting Power of the Company, which acquisition results in such person or group having beneficial ownership of 20% or more of either the then-outstanding Stock or Voting Power of the Company, except that (A) no such person or group shall be deemed to own beneficially (1) any securities acquired directly from the Company pursuant to a written agreement with the Company, (2) any securities held by the Company or a Subsidiary or any employee benefit plan (or any related trust) of the Company or a Subsidiary, or (3) any securities acquired directly from any Grantee, except securities acquired in transactions effected through the facilities of a registered national

securities exchange or any automated quotation system of the National Association of Securities Dealers, Inc., and (B) no Change of Control shall be deemed to have occurred solely by reason of any such acquisition by a corporation with respect to which, after such acquisition, more than 60% of both the then-outstanding common shares of such corporation and the Voting Power of such corporation are then beneficially owned, directly or indirectly, by the persons who were the beneficial owners of the Stock and Voting Power of the Company immediately before such acquisition in substantially the same proportion as their ownership, immediately before such acquisition, of the then-outstanding Stock or the Voting Power of the Company, as the case may be;

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

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

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

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

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

limited stock appreciation right granted under a Sears Plan.

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

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

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

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

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

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

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

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

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

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

Notwithstanding paragraphs (i) through (iv) above, "Fair Market Value" of a Sears common share as of the Distribution Date shall be the sum of the average of the high and low per share prices, regular way, of such share as reported on the New York Stock Exchange Composite Tape on each of the five business days beginning on and including the tenth business day preceding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SCOPE OF THE PLAN.

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

(b) EXPIRED OR TERMINATED AWARDS NOT AVAILABLE. If and to the extent an Award shall

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

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

4. ADMINISTRATION.

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

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

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

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

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

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

(iv) to prescribe, amend, and rescind rules and regulations relating to the Plan, including, without limitation, rules with respect to the exercisability and nonforfeitability

of Awards upon the Termination of Employment of a Grantee,

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

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

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

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

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

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

5. ELIGIBILITY. Awards may be granted to any employee or former employee (or to the estate of a deceased employee) of the Company or any of its Subsidiaries to replace any awards granted to such employee, former employee or deceased employee under a Sears Plan which were terminated, forfeited, cancelled or reduced (with or without the consent of the Grantee) in connection with the Distribution.

6. AWARDS.

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

Stock.

(b) OPTIONS AND RELOAD OPTIONS.

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

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

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

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

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

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

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

(C) In the foregoing formulas,

- "A" is the option exercise price for a Sears Option being replaced,
- "B" is the Fair Market Value of a share of Stock as of the Distribution Date,
- "C" is the Fair Market Value of a Sears common share as of the Distribution Date, and
- "D" is the number of Sears common shares for which the Sears Option being replaced is exercisable.

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

have, under the corresponding Sears Option.

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

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

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

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

(c) STOCK APPRECIATION RIGHTS.

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

(ii) BENEFIT FOR REPLACEMENT LIMITED STOCK APPRECIATION RIGHTS. The benefit for

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

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

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

(d) RESTRICTED STOCK.

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

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

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

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

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

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

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

(C) In the foregoing formulas,

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

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

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

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

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

(ii) ADDITIONAL CONDITIONS FOR RESTRICTED STOCK.

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

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

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

7. LIMITATIONS ON TRANSFERABILITY. Awards are not transferable by a Grantee except by will or the laws of descent and distribution; PROVIDED, HOWEVER, that the Committee shall have

the authority, in its discretion, to grant (or to sanction by way of amendment of an existing grant) Replacement Options (other than Replacement Options which are Incentive Stock Options under Section 422 of the Internal Revenue Code), the vested portions of which may be transferred by the Grantee during his lifetime to (a) any member of his immediate family, (b) to a trust established for the exclusive benefit of himself or one or more members of his immediate family, or (c) to a partnership, the partners of which are limited to the Grantee and members of his immediate family. A transfer of an Award may only be effected by the Company at the written request of a Grantee and shall become effective only when recorded in the Company's record of outstanding Awards. In the event an Award is transferred, any Reload Options associated with such transferred Award shall terminate, and such transferred Award may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. Otherwise, a transferred Award shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant grant, and the transferee shall be entitled to the same rights as the Grantee, as if no transfer had taken place. As used in this paragraph, immediate family shall mean, with respect to any person, his/her spouse, any child, stepchild or grandchild, and shall include relationships arising from legal adoption.

8. EXERCISE.

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

(I) cash, or

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

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

(b) EXERCISE OF REPLACEMENT STOCK APPRECIATION RIGHTS. Subject to Articles 4(c)(vi) and 6, (i) each stock appreciation right shall be exercisable not earlier than the first anniversary of the grant date of the Sears stock appreciation right it replaces, to the extent the option with which it is identified, if any, may be exercised, (ii) replacement LSARs shall become fully exercisable upon the occurrence of a Change of Control and shall be exercisable for a period of sixty days

thereafter, (iii) replacement SARs shall be exercised by delivery to the Company of written notice of intent to exercise a specific number of Replacement SARs, and (iv) unless otherwise provided in the applicable Award Agreement, the exercise of stock appreciation rights which are identified with shares subject to an option shall result in the cancellation or forfeiture of such option to the extent of such exercise.

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

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

10. WITHHOLDING TAXES.

(a) MANDATORY WITHHOLDING.

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

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

(b) ELECTIVE SHARE WITHHOLDING.

(i) To the extent provided under the terms of the Sears Option or Sears Restricted Stock Award which it replaces, and subject to the prior approval of the Committee and to Article 10(b)(ii) below, a Grantee may elect the withholding ("Share Withholding") by

the Company of a portion of the shares of Stock otherwise deliverable to such Grantee upon the exercise or payment of an Award or upon a share of restricted Stock's becoming nonforfeitable (each a "Taxable Event") having a Fair Market Value equal to

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

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

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

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

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

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

11. TERMINATION OF EMPLOYMENT.

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

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

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

whom the option or stock appreciation rights are transferred by will or the applicable laws of descent and distribution; and

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

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

12. SECURITIES LAW MATTERS.

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

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

13. NO FUNDING REQUIRED. Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund or otherwise segregate assets to be used for payment of benefits under the Plan.

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

15. RIGHTS AS A STOCKHOLDER. A Grantee shall not, by reason of any Award (other than restricted Stock) have any right as a stockholder of the Company with respect to the shares of Stock which may be deliverable upon exercise or payment of such Award until such Stock has been delivered to him. Shares of restricted Stock held by a Grantee or held in escrow by the Secretary of the Company shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan or Award Agreement. Subject to Article 6, the Committee may, in its discretion, at the time of grant of restricted Stock, permit or require the payment of cash dividends thereon to be reinvested in additional restricted Stock to the extent

shares are available under Article 3, or otherwise reinvested in Stock. Stock dividends and deferred cash dividends with respect to restricted Stock shall be subject to the same restrictions and other terms as apply to the shares with respect to which such dividends are issued. Subject to Article 6, the Committee may, in its discretion, provide for crediting and payment of interest on deferred cash dividends.

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

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

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

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

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

(c) the Option Price,

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

(e) all other appropriate matters,

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

19. AMENDMENT OF THE PLAN. The Board may from time to time in its discretion amend or

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

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

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

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

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

THE ALLSTATE CORPORATION

ANNUAL COVERED EMPLOYEE INCENTIVE COMPENSATION PLAN

1. PURPOSES.

The Allstate Corporation Annual Covered Employee Incentive Compensation Plan was adopted and made effective by the Board of Directors on March 9, 1999. The Plan was submitted to the Company's stockholders for approval on May 18, 1999. The Plan's purposes are to provide cash incentive compensation to Covered Employees to achieve annual performance goals, and to ensure the deductibility of such compensation under Section 162(m) of the Internal Revenue Code (the "Code").

2. DEFINITIONS.

The following terms when used in the Plan shall, for the purposes of the Plan, have the following meanings:

- a. "Award" means the cash amount payable to a Participant for a fiscal year pursuant to the terms of the Plan.
- b. "Board" means the Board of Directors of The Allstate Corporation.
- c. "Business Unit" means any operating unit of The Allstate Corporation or any of its Subsidiaries, including but not limited to, the property and casualty business, the life business, the investments business, or the international business.
- d. "Committee" means two or more members of the Board who are "outside directors" within the meaning of Section 162(m) of the Code and the regulations thereunder.
- e. "Company" means The Allstate Corporation.
- f. "Covered Employee" means a Participant who is a "Covered Employee" as defined in Section 162(m)(3) of the Code.
- g. "Fiscal Year" means the calendar year.
- h. "Participant" means any senior executive of the Company or a Subsidiary who is a Covered Employee for the fiscal year or for any shorter period within the fiscal year in which the Covered Employee is an employee of the Company or of any Subsidiary.
- i. "Plan" means the Annual Covered Employee Incentive Compensation Plan.

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j. "Subsidiary" means any corporation of which the Company owns directly or indirectly a majority of the outstanding shares of voting stock.

3. ADMINISTRATION OF THE PLAN.

- a. The Plan shall be administered by the Committee. Members of the Committee shall be appointed by the Board.
- b. The Committee shall have the authority to make all determinations it deems necessary or advisable for the administration of the Plan, including the selection of Participants, and, subject to the limitations set forth herein, the determination of the timing and amount of Awards made to each Participant, and the establishment of objective and measurable performance standards ("performance goals") for earning Awards.
- c. The Committee shall have the authority to exercise discretion to decrease the amount of any Award otherwise payable under the Plan, but the Committee shall have no authority to increase the amount of any such Award.

4. AWARDS.

- a. Awards under the Plan shall consist of annual cash bonuses based solely upon the degree of attainment of objective and measurable performance goals of the Company and/or its Subsidiaries and/or Business Units over the fiscal year or, if shorter, over the period within the fiscal year in which a Covered Employee is an employee of the Company or of any Subsidiary.
- b. The Committee shall establish written performance goals within 90 days after the beginning of the fiscal year (or, if the Covered Employee is not an employee at the beginning of the fiscal year, within the first 25% of the period within the fiscal year in which the Covered Employee is an employee), and while the outcome of the performance goals is substantially uncertain. Such performance goals shall be expressed in terms of objective and measurable annual

financial and/or operating criteria, and may involve comparisons with respect to historical results of the Company and its Subsidiaries and operating groups or Business Units thereof, as well as comparisons with respect to peer group performance. Performance goals shall be expressed using one or more of the following measures of performance: net earnings, operating income, return on equity, earnings per share, return on assets, values of assets, revenues, market share, prices of Company stock, or strategic business criteria consisting of one or more Company, Subsidiary or Business Unit objectives based on meeting specified revenue goals, market penetration goals, international business expansion goals, cost targets, customer retention goals, customer satisfaction goals, or goals relating to acquisitions or divestitures. The calculation is specifically defined at the time the goal is set. Each performance goal must state, in terms of an objective formula or standard, the Award payable to each Participant if the performance goal is attained.

c. No Award for any Participant for any fiscal year may exceed \$3,000,000.

5. PAYMENT OF AWARDS.

a. Awards under the Plan shall be paid to Participants as soon as practicable after the completion of the fiscal year audit and after the Committee certifies that the performance goals and any other material terms were in fact satisfied.

b. Awards shall be paid in cash, less required withholding, or for those eligible may be deferred at the Participant's election, subject to the terms and conditions of any deferred compensation plan in which the Participant is eligible to participate.

c. Unless the Committee has taken action under subsection 3.c. hereof prior to payment of an Award, each Participant selected by the Committee for a fiscal year who remains actively employed by the Company or a Subsidiary at the end of the fiscal year shall be entitled to receive a payment of an Award earned pursuant to the terms of the Plan with respect to such year.

d. If a Participant's employment is terminated prior to completion of a fiscal year for any reason other than as described in subsection 5.e. below, the Participant will forfeit any Award otherwise payable for such fiscal year.

e. If a Participant dies, retires or is disabled during the fiscal year, and the Committee has not taken action under Section 3.c. hereof, the Participant's Award will be prorated based on the number of Participant's full months as an active employee during the fiscal year. If a Participant dies before receipt of an Award, the Award will be paid to the Participant's beneficiaries.

f. Prorated Awards will be paid at the same time as regular Awards.

6. MISCELLANEOUS.

a. All amounts payable hereunder shall be payable only to the Participant or his or her beneficiaries. The rights and interests of a Participant under the Plan may not be assigned, encumbered, or transferred, voluntarily or involuntarily, other than by will or the laws of descent and distribution.

b. No individual shall have any claim or right to be a Participant in the Plan at any time, and any individual's participation in the Plan may be terminated at any time with or without notice, cause or regard to past practices.

c. Neither the Plan nor any action hereunder shall confer on any person any right to remain in the employ of the Company or any of its Subsidiaries or shall affect an

employee's compensation not arising under the Plan. Neither the adoption of the Plan nor its operation shall in any way affect the right and power of the Company or any Subsidiary to dismiss or discharge any employee at any time.

d. The Company and its Subsidiaries shall have the right to deduct from any Award, prior to payment, the amount of any taxes required to be withheld by any federal, state or local government with respect to such payments.

e. The Committee may rely upon any information supplied to it by any officer of the Company or any Subsidiary or by any independent accountant for the Company and may rely upon the advice of counsel in connection with the administration of the Plan and shall be fully protected in relying upon such information or advice.

f. All expenses and costs in connection with the administration of the Plan shall be borne by the Company.

g. The Plan and any agreements entered into thereunder shall be governed by and construed in accordance with the laws of the state of Illinois.

7. AMENDMENT OR TERMINATION OF THE PLAN.

The Board may suspend, terminate, modify or amend the Plan; provided, however, that any such action which changes employees eligible to participate, the criteria set forth in subsection 4.b., or the maximum amount of an Award set forth in subsection 4.c., shall be disclosed to and approved by the Company's stockholders. Stockholder approval must be given by a majority of the votes cast by the holders of Company shares represented in person or by proxy at the annual meeting next following the date of any such change.

8. EFFECTIVE DATE.

The Plan was adopted by the Board of Directors of the Company on March 9, 1999, and was submitted to the Company's stockholders for approval on May 18, 1999.

THE ALLSTATE CORPORATION (Delaware)
OPERATING SUBSIDIARIES

THE ALLSTATE CORPORATION

Allstate Insurance Company (Illinois)
Allstate International Insurance Holdings, Inc. (Delaware)
Allstate Non-Insurance Holdings, Inc. (Delaware)
Allstate Federal Savings Bank¹
Kennett Capital, Inc.
Willow Insurance Holdings Inc.

ALLSTATE INSURANCE COMPANY (Subsidiary of The Allstate Corporation)

Allstate Holdings, Inc. (Delaware)
Allstate Indemnity Company (Illinois)
Allstate International Inc. (Delaware)
Allstate Life Insurance Company (Illinois)
Allstate New Jersey Holdings, Inc. (Delaware)
Allstate Property and Casualty Insurance Company (Illinois)
Allstate Texas Lloyd's, Inc. (Texas)
Deerbrook Insurance Company (Illinois)
Forestview Mortgage Insurance Co. (California)
General Underwriters Agency, Inc. (Illinois)
Pinebrook Mortgage Insurance Company (Illinois)
The Northbrook Corporation (Nebraska)

ALLSTATE INTERNATIONAL INSURANCE HOLDINGS, INC. (Subsidiary of The Allstate Corporation)

Allstate International Holding GmbH (Germany)
Allstate Life Insurance Company of the Philippines, Inc. (Philippines)²
Allstate Property and Casualty Insurance Japan Company, Limited (Japan)³
Allstate Reinsurance Ltd. (Bermuda)
Allstate Services, Inc. (Japan)⁴
Pafco Underwriting Managers Inc. (Ontario)
Pembridge America Inc. (Florida)

ALLSTATE NON-INSURANCE HOLDINGS, INC. (Subsidiary of The Allstate Corporation)

AEI Group, Inc. (Delaware)
Allstate Investment Management Company (Delaware)
Tech-Cor, Inc. (Delaware)

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- 1 A "stock savings association" organized under federal law.
 - 2 Wholly-owned except for five shares owned by incorporator(s).
 - 3 Wholly-owned except for one share owned by incorporator.
 - 4 Wholly-owned except for one share owned by incorporator.

ALLSTATE HOLDINGS, INC. (Subsidiary of Allstate Insurance Company)

Allstate Floridian Insurance Company (Illinois)
Allstate Floridian Indemnity Company (Illinois)

ALLSTATE NEW JERSEY HOLDINGS, INC. (Subsidiary of Allstate Insurance Company)

Allstate New Jersey Insurance Company (Illinois)

ALLSTATE LIFE INSURANCE COMPANY (Subsidiary of Allstate Insurance Company)

Allstate Insurance Company of Canada (Canada)
Allstate Life Financial Services, Inc. (Delaware)⁵
Allstate Life Insurance Company of New York (New York)
Allstate Settlement Corporation (Nebraska)
CNL, Inc. (Missouri)
Glenbrook Life and Annuity Company (Arizona)
Laughlin Group Holdings, Inc. (Delaware)
Lincoln Benefit Life Company (Nebraska)
Northbrook Life Insurance Company (Arizona)
PT Asuransi Jiwa Allstate (Indonesia)⁶
Surety Life Insurance Company (Nebraska)

AEI GROUP, INC. (Subsidiary of Allstate Non-Insurance Holdings, Inc.)

Allstate Motor Club, Inc. (Delaware)
Roadway Protection Auto Club, Inc. (Delaware)
Allstate Motor Club of Canada Inc. (Canada)

ALLSTATE INTERNATIONAL INC. (Subsidiary of Allstate Insurance Company)

Samshin Allstate Life Insurance Company, Ltd. (Republic of Korea)⁷

TECH-COR, INC. (Subsidiary of Allstate Non-Insurance Holdings, Inc.)

Northbrook Services, Inc. (Delaware)

ALLSTATE INSURANCE COMPANY OF CANADA (Subsidiary of Allstate Life Insurance Company)

Allstate Life Insurance Company of Canada (Canada)

LAUGHLIN GROUP HOLDINGS, INC. (Subsidiary of Allstate Life Insurance Company)

Investor Financial Services, Inc. (Nevada)
LSA Securities, Inc. (Oregon)⁸
Lifemark Financial and Insurance Agency, LLC (New York)

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⁵ Broker/dealer.

6 Joint venture of which Allstate Life Insurance Company controls 80%.
7 Allstate International Inc. owns only 50%.
8 Broker/dealer.

Lifemark Financial & Insurance Services, Inc. (California)
Lifemark Insurance Services of California, Inc. (California)
ProVest Insurance Services, Inc. (Indiana)
ProVest Insurance Services, Inc. (Kentucky)
ProVest Insurance Services, Inc. (Pennsylvania)
Security Financial Network, Inc. (Georgia)
The Laughlin Direct Advantage Agency, Inc. (Delaware)
The Laughlin Group, Inc. (Oregon)

LINCOLN BENEFIT LIFE COMPANY (Subsidiary of Allstate Life Insurance Company)
Lincoln Benefit Financial Services, Inc.(Delaware)⁹

ALLSTATE INTERNATIONAL HOLDING GMBH (Subsidiary of Allstate International Insurance Holdings, Inc.)
Allstate Direct Versicherungs-Aktiengesellschaft (Germany)
Allstate Diretto Assicurazioni Danni S.p.A (Italy)¹⁰
Allstate Werbung und Marketing GmbH (Germany)

PAFCO UNDERWRITING MANAGERS INC. (Subsidiary of Allstate International Insurance Holdings, Inc.)
Pafco Insurance Company (Ontario)¹¹
Pembridge Reinsurance Company Limited (Ireland)
Precision Claims Management Inc. (Canada)

PEMBRIDGE AMERICA INC. (Subsidiary of Allstate International Insurance Holdings, Inc.)
American Surety and Casualty Company (Florida)

ALLSTATE MOTOR CLUB, INC. (Subsidiary of AEI Group, Inc.)
Direct Marketing Center, Inc. (Delaware)
Enterprises Services Corporation (Delaware)
Rescue Express, Inc. (Delaware)

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⁹ Broker/dealer.

¹⁰ Allstate International Holding GmbH owns 90% of this company and Allstate International Insurance Holdings, Inc. owns 10%.

¹¹ Pafco Underwriting Managers Inc. owns all of the common stock except for directors' qualifying shares.

OTHER POSSIBLY SIGNIFICANT COMPANIES

Allstate County Mutual Insurance Company (Texas)

A mutual company owned by policy holders. Officers and employees of Allstate Insurance Company serve as directors and officers of Allstate County Mutual Insurance Company

Allstate Texas Lloyd's (Texas)

An insurance syndicate organized under the laws of Texas. Allstate Texas Lloyd's, Inc. (a direct wholly-owned subsidiary of Allstate Insurance Company) is the attorney-in-fact for this syndicate.

LSI Financial Services, Inc. (Ohio)

S corporation owned by Marco Mazzone. Sole member of Board of Directors is Bud Taylor, indirectly appointed by Allstate.

ProVest Insurance Services, Inc. (Ohio)

S corporation owned by Marco Mazzone. Sole member of Board of Directors is Bud Taylor, indirectly appointed by Allstate.

Saison Automobile and Fire Insurance Company, Ltd. (Japan)

5% owned by Allstate International Inc.

