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THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions except per share data)	Year Ended December 31, 2004	2003	2002
Revenues			
Property-liability insurance premiums (net of reinsurance ceded of $399, $298, and $337)	$25,989	$24,677	$23,361
Life and annuity premiums and contract charges (net of reinsurance ceded of $608, $485, and $481)	2,072	2,304	2,293
Net investment income	5,284	4,972	4,849
Realized capital gains and losses	591	196	(924)
	33,936	32,149	29,579
Costs and expenses			
Property-liability insurance claims and claims expense (net of reinsurance recoveries of $1,599, $455, and $345)	17,843	17,432	17,657
Life and annuity contract benefits (net of reinsurance recoveries of $483, $366, and $428)	1,618	1,851	1,770
Interest credited to contractholder funds	2,001	1,846	1,764
Amortization of deferred policy acquisition costs	4,465	4,058	3,694
Operating costs and expenses	3,040	3,001	2,761
Restructuring and related charges	51	74	119
Interest expense	308	275	278
	29,326	28,537	28,043
(Loss) gain on disposition of operations	(24)	(41)	4
Income from operations before income tax expense, dividends on preferred securities, and cumulative effect of change in accounting principle, after-tax	4,586	3,571	1,540
Income tax expense	1,230	846	65
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	3,356	2,725	1,475
Dividends on preferred securities of subsidiary trusts	—	(5)	(10)
Cumulative effect of change in accounting principle, after-tax	(175)	(15)	(331)
Net income	$ 3,181	$ 2,705	$ 1,134
Earnings per share:			
Net income per share—basic	$ 4.57	$ 3.85	$ 1.60
Net income per share—diluted	$ 4.54	$ 3.83	$ 1.60
Weighted average shares—basic	695.6	703.5	707.1
Weighted average shares—diluted	700.3	706.2	709.9

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	Year Ended December 31, 2004	2003	2002
Net income	$3,181	$2,705	$1,134
Other comprehensive (loss) income, after-tax			
Changes in:			
Unrealized net capital gains and losses	(137)	523	813
Unrealized foreign currency translation adjustments	26	39	(6)
Minimum pension liability adjustment	(30)	461	(737)
Other comprehensive (loss) income, after-tax	(141)	1,023	70
Comprehensive income	$3,040	$3,728	$1,204

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions except par value data)	December 31, 2004	December 31, 2003
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $90,657 and $82,607)	$ 95,715	$ 87,741
Equity securities, at fair value (cost $4,566 and $4,028)	5,895	5,288
Mortgage loans	7,856	6,539
Short-term	4,133	1,815
Other	1,931	1,698
Total investments	115,530	103,081
Cash	414	366
Premium installment receivables, net	4,721	4,386
Deferred policy acquisition costs	4,968	4,842
Reinsurance recoverables, net	4,323	3,121
Accrued investment income	1,014	1,068
Property and equipment, net	1,018	1,046
Goodwill	825	929
Other assets	2,535	1,878
Separate Accounts	14,377	13,425
Total assets	$149,725	$134,142
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 19,338	$ 17,714
Reserve for life-contingent contract benefits	11,754	11,020
Contractholder funds	55,709	47,071
Unearned premiums	9,932	9,187
Claim payments outstanding	787	698
Other liabilities and accrued expenses	9,842	8,283
Deferred income taxes	829	1,103
Short-term debt	43	3
Long-term debt	5,291	5,073
Separate Accounts	14,377	13,425
Total liabilities	127,902	113,577
Commitments and Contingent Liabilities (Notes 6 and 13)		
Shareholders' Equity		
Preferred stock, $1 par value, 25 million shares authorized, none issued	—	—
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 683 million and 704 million shares outstanding	9	9
Additional capital paid-in	2,685	2,614
Retained income	24,043	21,641
Deferred compensation expense	(157)	(194)
Treasury stock, at cost (217 million and 196 million shares)	(7,372)	(6,261)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses	2,988	3,125
Unrealized foreign currency translation adjustments	16	(10)
Minimum pension liability adjustment	(389)	(359)
Total accumulated other comprehensive income	2,615	2,756
Total shareholders' equity	21,823	20,565
Total liabilities and shareholders' equity	$149,725	$134,142

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions except per share data)	December 31, 2004	2003	2002
Common stock	$ 9	$ 9	$ 9
Additional capital paid-in			
Balance, beginning of year	2,614	2,599	2,599
Redemption of shareholder rights	–	(7)	–
Equity incentive plans activity	71	22	–
Balance, end of year	2,685	2,614	2,599
Retained income			
Balance, beginning of year	21,641	19,584	19,044
Net income	3,181	2,705	1,134
Dividends ($1.12, $.92 and $.84 per share, respectively)	(779)	(648)	(594)
Balance, end of year	24,043	21,641	19,584
Deferred compensation expense			
Balance, beginning of year	(194)	(178)	(193)
Restricted stock activity, net	(22)	(104)	(27)
Amortization and reductions	59	88	42
Balance, end of year	(157)	(194)	(178)
Treasury stock			
Balance, beginning of year	(6,261)	(6,309)	(5,926)
Shares acquired	(1,373)	(153)	(446)
Shares reissued under equity incentive plans, net	262	201	63
Balance, end of year	(7,372)	(6,261)	(6,309)
Accumulated other comprehensive income			
Balance, beginning of year	2,756	1,733	1,663
Change in unrealized net capital gains and losses	(137)	523	813
Change in unrealized foreign currency translation adjustments	26	39	(6)
Change in minimum pension liability adjustment	(30)	461	(737)
Balance, end of year	2,615	2,756	1,733
Total shareholders' equity	$21,823	$20,565	$17,438

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31, 2004	2003	2002
Cash flows from operating activities			
Net income	$ 3,181	$ 2,705	$ 1,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other non-cash items	(4)	(3)	(62)
Realized capital gains and losses	(591)	(196)	924
Loss (gain) on disposition of operations	24	41	(4)
Cumulative effect of change in accounting principle	175	15	331
Interest credited to contractholder funds	2,001	1,846	1,764
Changes in:			
Policy benefit and other insurance reserves	1,680	1,127	331
Unearned premiums	614	546	617
Deferred policy acquisition costs	(443)	(414)	(309)
Premium installment receivables	(345)	(284)	(99)
Reinsurance recoverables	(1,052)	(227)	(190)
Income taxes payable	11	582	66
Other operating assets and liabilities	217	(47)	(85)
Net cash provided by operating activities	5,468	5,691	4,418
Cash flows from investing activities			
Proceeds from sales			
Fixed income securities	19,839	20,298	17,700
Equity securities	4,580	2,700	3,892
Investment collections			
Fixed income securities	5,904	6,652	5,447
Mortgage loans	772	733	603
Investment purchases			
Fixed income securities	(33,720)	(35,627)	(31,553)
Equity securities	(4,659)	(3,351)	(3,138)
Mortgage loans	(2,106)	(1,175)	(927)
Change in short-term investments, net	(1,098)	419	(440)
Change in other investments, net	(35)	56	(348)
Purchases of property and equipment, net	(200)	(169)	(239)
Net cash used in investing activities	(10,723)	(9,464)	(9,003)
Cash flows from financing activities			
Change in short-term debt, net	40	(276)	52
Proceeds from issuance of long-term debt	647	410	599
Repayment of long-term debt	(19)	(332)	(338)
Contractholder fund deposits	13,616	10,373	9,484
Contractholder fund withdrawals	(7,088)	(5,794)	(4,036)
Dividends paid	(756)	(633)	(582)
Treasury stock purchases	(1,373)	(153)	(446)
Other	236	82	51
Net cash provided by financing activities	5,303	3,677	4,784
Net increase (decrease) in cash	48	(96)	199
Cash at beginning of year	366	462	263
Cash at end of year	$ 414	$ 366	$ 462

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Basis of presentation

The accompanying consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company (''AIC''), a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company (''ALIC'') (collectively referred to as the ''Company'' or ''Allstate''). These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (''GAAP''). All significant intercompany accounts and transactions have been eliminated.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Nature of operations

Allstate is engaged, principally in the United States, in the property-liability insurance, life insurance, retirement and investment product business. Allstate's primary business is the sale of private passenger auto and homeowner's insurance. The Company also sells several other personal property and casualty insurance products, life insurance, annuities, funding agreements, and select commercial property and casualty coverages. Allstate primarily distributes its products through exclusive agencies and financial specialists and independent agencies.

The Allstate Protection segment principally sells private passenger auto and homeowner's insurance, with earned premiums accounting for approximately 77% of Allstate's 2004 consolidated revenues. Allstate was the country's second largest insurer for both private passenger auto and homeowners insurance in 2004. Allstate Protection, through several companies, is authorized to sell certain property-liability products in all 50 states, the District of Columbia and Puerto Rico. The Company is also authorized to sell certain insurance products in Canada. For 2004, the top geographic locations for premiums earned by the Allstate Protection segment were Texas, California, New York and Florida. No other jurisdiction accounted for more than 5% of premiums earned for Allstate Protection.

Allstate has exposure to catastrophes, an inherent risk of the property-liability insurance business, which have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position (see Note 7). The Company also has exposure to environmental and asbestos claims and other discontinued lines exposures (see Note 13).

The Allstate Financial segment sells life insurance, retirement and investment products to individual and institutional customers through several distribution channels. The principal individual products are deferred and immediate fixed annuities, variable annuities, interest-sensitive and traditional life insurance, and supplemental accident and health insurance. The principal institutional product is funding agreements backing medium-term notes.

Allstate Financial, through several companies, is authorized to sell life insurance and retirement products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For 2004, the top geographic locations for statutory premiums and annuity considerations for the Allstate Financial segment were Delaware, New York, California and Florida. No other jurisdiction accounted for more than 5% of statutory premiums and annuity considerations for Allstate Financial. Allstate Financial distributes its products to individuals through multiple intermediary distribution channels, including

Allstate Exclusive Agencies, independent agents, banks, broker-dealers, and specialized structured settlement brokers. Allstate Financial has distribution relationships with over half of the 75 largest banks, most of the national broker-dealers, a number of regional brokerage firms and many independent broker-dealers. Allstate Financial sells products through independent agents affiliated with master brokerage agencies. Independent workplace enrolling agents and Allstate Exclusive Agencies also sell Allstate Financial's supplemental accident and health insurance products to employees of small and medium size firms. Allstate Financial sells funding agreements to unaffiliated trusts used to back medium-term notes issued to institutional and individual investors. Banking products and services are sold through the Allstate Bank. Although the Company currently benefits from agreements with financial services entities that market and distribute its products, change in control of these non-affiliated entities could negatively impact Allstate Financial's sales.

The Company monitors economic and regulatory developments that have the potential to impact its business. The ability of banks to affiliate with insurers may have a material adverse effect on all of the Company's product lines by substantially increasing the number, size and financial strength of potential competitors. Furthermore, federal and state laws and regulations affect the taxation of insurance companies and life insurance and annuity products. Congress and various state legislatures have considered proposals that, if enacted, could impose a greater tax burden on the Company or could have an adverse impact on the tax treatment of some insurance products offered by the Company, including favorable policyholder tax treatment currently applicable to life insurance and annuities. Legislation that reduced the federal income tax rates applicable to certain dividends and capital gains realized by individuals, or other proposals, if adopted, that reduce the taxation, or permit the establishment, of certain products or investments that may compete with life insurance or annuities could have an adverse effect on the Company's financial position or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws have negatively affected the demand for the types of life insurance used in estate planning.

2. Summary of Significant Accounting Policies

Investments

Fixed income securities include bonds, mortgage-backed and asset-backed securities, and redeemable preferred stocks. Fixed income securities are carried at fair value and may be sold prior to their contractual maturity (''available for sale''). The fair value of publicly traded fixed income securities is based upon independent market quotations. The fair value of non-publicly traded securities is based on either widely accepted pricing valuation models which use internally developed ratings and independent third party data (e.g., term structures and current publicly traded bond prices) as inputs or independent third party pricing sources. The valuation models use indicative information such as ratings, industry, coupon, and maturity along with related third party data and publicly traded bond prices to determine security specific spreads. These spreads are then adjusted for illiquidity based on historical analysis and broker surveys. Periodic changes in fair values, net of deferred income taxes, certain life and annuity deferred policy acquisition costs, certain deferred sales inducement costs, and certain reserves for life-contingent contract benefits, are reflected as a component of other comprehensive income. Cash received from calls, principal payments and make-whole payments is reflected as a component of proceeds from sales. Cash received from maturities and pay-downs is reflected as a component of investment collections.

Equity securities include common and non-redeemable preferred stocks, real estate investment trust equity investments, and limited partnership interests. Common and non-redeemable preferred stocks and real estate investment trust equity investments are classified as available for sale and are carried at fair

value. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of accumulated other comprehensive income. Investments in limited partnership interests are accounted for in accordance with the equity method of accounting except for instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, in which case, the Company applies the cost method of accounting.

Mortgage loans are carried at outstanding principal balances, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Valuation allowances for impaired loans reduce the carrying value to the fair value of the collateral or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate.

Short-term investments are carried at cost or amortized cost that approximates fair value, and include the reinvestment of collateral received in connection with certain securities included in repurchase, resale and lending activities and collateral posted by counterparties in derivative transactions. For these transactions, the Company records an offsetting liability in other liabilities and accrued expenses for the Company's obligation to repay the collateral. Other investments, which consist primarily of policy loans, are carried at the unpaid principal balances.

Investment income consists primarily of interest and dividends, net investment income from partnership interests and income from certain derivative transactions. Interest is recognized on an accrual basis and dividends are recorded at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined using the effective yield method, based on estimated principal repayments. Interest income on certain beneficial interests in securitized financial assets is determined using the prospective yield method, based upon projections of expected future cash flows. Income from investments in partnership interests, accounted for on the cost basis, is recognized upon receipt of amounts distributed by the partnerships as income. Accrual of income is suspended for fixed income securities and mortgage loans that are in default or when the receipt of interest payments is in doubt.

Realized capital gains and losses include gains and losses on investment dispositions, write-downs in value due to other than temporary declines in fair value and changes in the fair value of certain derivatives including related periodic and final settlements. Realized capital gains and losses on investment dispositions are determined on a specific identification basis.

The Company writes down, to fair value, fixed income and equity securities that are classified as other than temporarily impaired in the period the security is deemed to be other than temporarily impaired (see Note 5).

Derivative and embedded derivative financial instruments

Derivative financial instruments include swaps, futures, options, interest rate caps and floors, warrants, certain forward contracts for purchases of to-be-announced ("TBA") mortgage securities, certain investment risk transfer reinsurance agreements, forward sale commitments and certain bond forward purchase commitments, mortgage funding commitments and mortgage forward sale commitments. Derivatives that are required to be separated from the host instrument and accounted for as derivative financial instruments ("subject to bifurcation") are embedded in convertible and other fixed income securities, equity-indexed life and annuity contracts, certain variable life and annuity contracts and trust preferred securities issued (see Note 6).

All derivatives are accounted for on a fair value basis and reported as other investments, other assets, other liabilities and accrued expenses or contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The change in the fair value of derivatives embedded in assets and subject to bifurcation is

reported in realized capital gains and losses. The change in the fair value of derivatives embedded in liabilities and subject to bifurcation is reported in life and annuity contract benefits or realized capital gains and losses.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset, liability or an unrecognized firm commitment attributable to a particular risk. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the methodology used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk, or in the case of a cash flow hedge, the exposure to changes in the hedged item's or transaction's variability in cash flows attributable to the hedged risk. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges is reported in realized capital gains and losses. For the years ended December 31, 2004, 2003 and 2002, the hedge ineffectiveness reported as realized capital gains and losses amounted to losses of $1 million, gains of $9 million and losses of $15 million, respectively.

Fair value hedges The Company designates certain of its interest rate and foreign currency swap contracts and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item.

For hedging instruments used in fair value hedges, when the hedged items are investment assets or a portion thereof, the change in the fair value of the derivatives is reported in net investment income, together with the change in the fair value of the hedged items. The change in the fair value of hedging instruments used in fair value hedges of contractholder funds liabilities or a portion thereof are reported in life and annuity contract benefits, together with the change in the fair value of the hedged item. Accrued periodic settlements on swaps are reported together with the changes in fair value of the swaps in net investment income, life and annuity contract benefits or interest expense. The book value of the hedged asset or liability is adjusted for the change in the fair value of the hedged risk.

Cash flow hedges The Company designates certain of its foreign currency swap contracts and bond forward commitments as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. The Company's cash flow exposure may be associated with an existing asset, liability, or a forecasted transaction. Anticipated transactions must be probable of occurrence and their significant terms and specific characteristics must be identified.

For hedging instruments used in cash flow hedges, the changes in fair value of the derivatives are reported in accumulated other comprehensive income as unrealized net capital gains and losses. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged transaction affects net income or when the forecasted transaction affects net income. Accrued periodic settlements on derivatives used in cash flow hedges are reported in net investment income. The amount reported in accumulated other comprehensive income for a hedged transaction is limited to the lesser of the cumulative gain or loss on the derivative less the amount reclassified to net income; or the cumulative gain or loss on the derivative needed to offset the cumulative change in the expected future cash flows on the hedged transaction from inception of the hedge less the derivative gain or loss previously

reclassified from accumulated other comprehensive income to net income. If the Company expects at any time that the loss reported in accumulated other comprehensive income would lead to a net loss on the combination of the hedging instrument and the hedged transaction which may not be recoverable, a loss is recognized immediately in realized capital gains and losses. If an impairment loss is recognized on an asset or an additional obligation is incurred on a liability involved in a hedge transaction, any offsetting gain in accumulated other comprehensive income is reclassified and reported together with the impairment loss or recognition of the obligation.

Termination of hedge accounting If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished, the occurrence of a hedged forecasted transaction is no longer probable, or the hedged asset becomes impaired), the Company may terminate the derivative position. The Company may also terminate derivative instruments or redesignate them as non-hedge as a result of other events or circumstances. If the derivative financial instrument is not terminated when a fair value hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a fair value hedge is no longer effective, is redesignated as a non-hedge, or when the derivative has been terminated, the gain or loss recognized on the item being hedged and used to adjust the book value of the asset, liability or portion thereof is amortized over the remaining life of the hedged item to net investment income or life and annuity contract benefits, beginning in the period that hedge accounting is no longer applied. If the hedged item of a fair value hedge is an asset, which has become impaired, the adjustment made to the book value of the asset is subject to the accounting policies applied to impaired assets. When a derivative financial instrument used in a cash flow hedge of an existing asset or liability is no longer effective or is terminated, the gain or loss recognized on the derivative is reclassified from accumulated other comprehensive income to net income as the hedged risk impacts net income, beginning in the period hedge accounting is no longer applied or the derivative instrument is terminated. If the derivative financial instrument is not terminated when a cash flow hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a derivative financial instrument used in a cash flow hedge of a forecasted transaction is terminated because the forecasted transaction is no longer probable the gain or loss recognized on the derivative is immediately reclassified from accumulated other comprehensive income to realized capital gains and losses in the period that hedge accounting is no longer applied. If the cash flow hedge is no longer effective, the gain or loss recognized on the derivative is reclassified from accumulated other comprehensive income to net income as the remaining hedged item affects net income.

Non-hedge derivative financial instruments The Company also has certain derivatives that are used in interest rate, equity price and credit risk management strategies for which hedge accounting is not applied. These derivatives primarily consist of indexed instruments, certain interest rate swap agreements and financial futures contracts, interest rate cap and floor agreements, certain forward contracts for TBA mortgage securities and credit default swaps. Based upon the type of derivative instrument and strategy, the income statement effects of these derivatives are reported in a single line item, with the results of the associated risk. Therefore, the derivatives' fair value gains and losses and accrued periodic settlements are recognized together in one of the following during the reporting period: net investment income, realized capital gains and losses, operating costs and expenses or life and annuity contract benefits.

The Company also uses derivatives to replicate returns of fixed income securities that are either unavailable or more expensive in the cash market. These replicated securities are comprised of a credit default swap and a highly rated fixed income security that when combined replicate a third security. Premiums on credit default swaps over the life of the contract and changes in fair value are recorded in realized capital gains and losses.

Security repurchase and resale and securities loaned

Securities purchased under agreements to resell and securities sold under agreements to repurchase, including a mortgage dollar roll program, are treated as financing arrangements and the related obligations to return the collateral are carried at the amounts at which the securities will be subsequently resold or reacquired, including accrued interest, as specified in the respective agreements. The Company's policy is to take possession or control of securities purchased under agreements to resell. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through the right of substitution, maintains the right and ability to redeem the collateral on short notice. The market value of securities to be repurchased or resold is monitored, and additional collateral is obtained, where appropriate, to protect against credit exposure.

Securities loaned are treated as financing arrangements and the collateral received is recorded in short-term investments, fixed income securities and other liabilities and accrued expenses. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of domestic and foreign securities, respectively. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary. Substantially all of the Company's securities loaned are placed with large brokerage firms.

Security repurchase and resale agreements and securities lending transactions are used to generate net investment income. The cash received from repurchase and resale agreements also provides a source of liquidity. These instruments are short-term in nature (usually 30 days or less) and are collateralized principally by Corporate, U.S. Government and mortgage-backed securities. The carrying values of these instruments approximate fair value because of their relatively short-term nature.

Recognition of premium revenues and contract charges, and related benefits and interest credited

Property-liability premiums are deferred and earned on a pro-rata basis over the terms of the policies. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums. Premium installment receivables, net, include premiums written and not yet collected. The Company regularly evaluates premium installment receivables and establishes valuation allowances as appropriate. The valuation allowance for uncollectible premium installment receivables was $48 million and $44 million at December 31, 2004 and 2003, respectively.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Premiums from these products are recognized as revenue when due. Benefits are recognized in relation to such revenue so as to result in the recognition of profits over the life of the policy and are reflected in life and annuity contract benefits.

Immediate annuities with life contingencies, including certain structured settlement annuities, provide insurance protection over a period that extends beyond the period during which premiums are collected. Premiums from these products are recognized as revenue when due, at the inception of the contract. Benefits and expenses are recognized in relation to such revenue such that profits are recognized over the lives of the contracts.

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and any amounts assessed against the contractholder account balance. Premiums from these contracts are reported as contractholder fund deposits. Contract charges consist of fees assessed against the contractholder account balance for cost of insurance (mortality risk), contract administration and early surrender. These revenues are recognized when assessed against the contractholder account balance. Life and annuity contract benefits include life-contingent benefit payments in excess of the contractholder account balance.

Contracts that do not subject the Company to significant risk arising from mortality or morbidity are referred to as investment contracts. Fixed annuities, including market value adjusted annuities, equity-indexed annuities and immediate annuities without life contingencies, funding agreements (primarily backing medium-term notes) and certain guaranteed investment contracts ("GICs") are considered investment contracts. Deposits received for such contracts are reported as contractholder fund deposits. Contract charges for investment contracts consist of fees assessed against the contractholder account balance for maintenance, administration, and surrender of the contract prior to contractually specified dates, and are recognized when assessed against the contractholder account balance.

Interest credited to contractholder funds represents interest accrued or paid on interest-sensitive life contracts and investment contracts. Crediting rates for certain fixed annuities and interest-sensitive life contracts are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates. Crediting rates for indexed annuities and indexed funding agreements are based on a specified index, such as LIBOR, or an equity index, such as the S&P 500. Pursuant to the adoption of Statement of Position No. 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1") in 2004, interest credited also includes amortization of deferred sales inducement ("DSI") expenses. DSI is amortized into interest credited using the same method used for deferred policy acquisition costs.

Separate account products include variable annuities and variable life insurance contracts. The assets supporting these products are legally segregated and available only to settle separate account contract obligations. Deposits received are reported as separate accounts liabilities. Contract charges for these products consist of fees assessed against the contractholder account values for contract maintenance, administration, mortality, expense and early surrender. Contract benefits incurred include guaranteed minimum death, income and accumulation benefits incurred on variable annuity and life insurance contracts.

Deferred policy acquisition and sales inducement costs

Costs that vary with and are primarily related to acquiring property-liability insurance, life insurance and investment contracts are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally agents' and brokers' remuneration, premium taxes, inspection costs, certain underwriting costs and direct mail solicitation expenses. DSI costs related to sales inducements offered on sales to new customers, principally on investment contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other acquisition costs are expensed as incurred and included in operating costs and expenses on the Consolidated Statements of Operations. DAC associated with property-liability insurance is amortized to income as premiums are earned, and is included in amortization of deferred policy acquisition costs on the Consolidated Statements of Operations. Future investment income is considered in determining the recoverability of DAC. DAC associated with life insurance and investment contracts is amortized to income and included in amortization of deferred policy acquisition costs on the Consolidated Statements of Operations. DSI is amortized to income using the same methodology and assumptions as DAC and is included in interest credited to contractholder funds on the Consolidated Statements of Operations. DAC and DSI associated with life insurance and investment contracts is periodically reviewed for recoverability and written down when necessary.

For traditional life insurance and other premium paying contracts, DAC is amortized in proportion to the estimated revenues on such business. Assumptions used in amortization of DAC and reserve calculations are determined based upon conditions as of the date of policy issue and are generally not revised during the life of the policy. Any deviations from projected business in force, resulting from actual

policy terminations differing from expected levels, and any estimated premium deficiencies change the rate of amortization in the period such events occur. Generally, the amortization period for these contracts approximates the estimated lives of the policies.

For internal exchanges of traditional life insurance, the unamortized balance of costs previously deferred under the original contracts are charged to income. The new costs associated with the exchange are deferred and amortized to income.

For interest-sensitive life, variable annuities and investment contracts, DAC and DSI are amortized in proportion to the incidence of the present value of estimated gross profits (“EGP”) on such business over the estimated lives of the contracts. Generally, the amortization period ranges from 15-30 years; however, estimates of customer surrender rates result in the majority of deferred costs being amortized over the surrender charge period. The rate of amortization during this term is matched to the pattern of EGP. EGP consists of estimates of the following components: benefit margins, primarily from mortality, including guaranteed minimum death, income, and accumulation benefits; investment margin including realized capital gains and losses; and contract administration, surrender and other contract charges, less maintenance expenses.

DAC and DSI amortization for variable annuity and life contracts is estimated using stochastic modeling and is significantly impacted by the return on the underlying funds. The Company’s long-term expectation of separate accounts fund performance net of fees was approximately 8%. Whenever actual separate accounts fund performance based on the two most recent years varies from the 8% expectation, the Company projects performance levels over the next five years such that the mean return over that seven year period equals the long-term 8% expectation. This approach is commonly referred to as “reversion to the mean” and is commonly used by the life insurance industry as an appropriate method for amortizing variable annuity and life DAC and DSI. In applying the reversion to the mean process, the Company does not allow the future mean rates of return after fees projected over the five-year period to exceed 12.75% or fall below 0%. The Company periodically evaluates the results of utilization of this process to confirm that it is reasonably possible that variable annuity and life fund performance will revert to the expected long-term mean within this time horizon.

Changes in the amount or timing of EGP result in adjustments to the cumulative amortization of DAC and DSI. All such adjustments are reflected in the current results of operations.

The Company performs quarterly reviews of DAC and DSI recoverability for interest-sensitive life, variable annuities and investment contracts in the aggregate using current assumptions. If a change in the amount of EGP is significant, it could result in the unamortized DAC and DSI not being recoverable, resulting in a charge which is included as a component of amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively, on the Consolidated Statements of Operations.

The cost assigned to the right to receive future cash flows from certain business purchased from other insurers is also classified as deferred policy acquisition costs in the Consolidated Statements of Financial Position. The costs capitalized represent the present value of future profits expected to be earned over the life of the contracts acquired. These costs are amortized as profits emerge over the life of the acquired business and are periodically evaluated for recoverability. Present value of future profits was $175 million and $182 million at December 31, 2004 and 2003, respectively. Amortization expense on present value of future profits was $19 million, $55 million and $49 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Reinsurance recoverables

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance from reinsurers (see Note 9). The amounts reported in the Consolidated Statements of Financial Position include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on incurred losses that have not yet been paid. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contract. Insurance liabilities are reported gross of reinsurance recoverables. Prepaid reinsurance premiums are deferred and reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company's primary liability under the policies written. Therefore, the Company regularly evaluates the financial condition of the reinsurers including their activities with respect to claim settlement practices and commutations, and establishes allowances for uncollectible reinsurance recoverables as appropriate.

Goodwill

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The Company adopted the provisions of Statement of Financial Accounting Standard (''SFAS'') No. 142, ''Goodwill and other Intangible Assets'', effective January 1, 2002. The statement eliminates the requirement to amortize goodwill and requires that goodwill and separately identified intangible assets with indefinite lives be evaluated for impairment on an annual basis (or more frequently if impairment indicators arise) on a fair value basis.

During the second quarter of 2002, the Company completed its initial goodwill impairment test and recorded a $331 million after-tax impairment charge, which is reflected as a cumulative effect of a change in accounting principle on the Consolidated Statements of Operations. The impairment relates to goodwill arising from the Company's purchase of American Heritage Life Investment Corporation (''AHL'') in 1999 and Pembridge, Inc. in 1998 and is the result of the Company adopting the fair value-based approach to goodwill impairment testing required by SFAS No. 142.

The Company annually tests goodwill for impairment using a trading multiple analysis, which is a widely accepted valuation technique, to estimate the fair value of its SFAS No. 142 reporting units. Based on the Company's decision to sell two life insurance companies for their licenses, the Company recognized an aggregate goodwill and other intangible assets impairment loss of $4 million ($2 million after-tax) in 2004. In 2004, the Company also determined that approximately $100 million of certain Encompass related liabilities originally established through purchase accounting were no longer necessary and, as a result, were eliminated through a reduction of the related goodwill.

Goodwill impairment testing indicated no impairment at December 31, 2003.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Included in property and equipment are capitalized costs related to computer software licenses and software developed for internal use. These costs generally consist of certain external payroll and payroll related costs. Property and equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for equipment and 40 years for real property. Certain facilities and equipment held under capital and synthetic leases are classified as property and equipment and amortized using the straight-line method over the lease terms with the related obligations recorded as liabilities. Depreciation expense, including lease amortization, is reported in operating costs and expenses. Accumulated depreciation on property and equipment was $1.52 billion and $1.37 billion at December 31,

2004 and 2003, respectively. Depreciation expense on property and equipment was $219 million, $225 million and $205 million for the years ended December 31, 2004, 2003 and 2002, respectively. The Company reviews its property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Income taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are unrealized capital gains and losses on certain investments, insurance reserves, unearned premiums, deferred policy acquisition costs and employee benefits. A deferred tax asset valuation allowance is established when there is uncertainty that such assets would be realized.

Reserves for property liability insurance claims and claims expense and life-contingent contract benefits

The reserve for property-liability claims and claims expense is the estimated amount necessary to settle both reported and unreported claims of insured property-liability losses, based upon the facts in each case and the Company's experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserve for claims and claims expense. The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting reestimates are reflected in current operations (see Note 7).

The reserve for life-contingent contract benefits, which relates to traditional life and supplemental accident and health insurance and immediate annuities with life contingencies, is computed on the basis of long-term actuarial assumptions as to future investment yields, mortality, morbidity, terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. Detailed reserve assumptions and reserve interest rates are outlined in Note 8. To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, the related increase in reserves for certain immediate annuities with life contingencies is recorded net of tax as a reduction of the unrealized net capital gains included in accumulated other comprehensive income.

Contractholder funds

Contractholder funds represent interest-bearing liabilities arising from the sale of products, such as interest-sensitive life, fixed annuities, bank deposits and funding agreements. Contractholder funds are comprised primarily of deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, mortality charges and administrative expenses. Contractholder funds also include reserves for secondary guarantees on interest-sensitive life insurance and certain fixed annuity contracts. Detailed information on crediting rates and surrender and withdrawal provisions on contractholder funds are outlined in Note 8.

Separate accounts

The Company issues variable annuities and variable life insurance contracts, the assets and liabilities of which are legally segregated and recorded as assets and liabilities of the separate accounts. The assets of the separate accounts are carried at fair value. Separate accounts liabilities represent the

contractholders' claims to the related assets and are carried at the fair value of the assets. Investment income and realized capital gains and losses of the separate accounts accrue directly to the contractholders and therefore, are not included in the Company's Consolidated Statements of Operations. Revenues to the Company from the separate accounts consist of contract charges for maintenance, administration, cost of insurance and surrender of the contract prior to the contractually specified dates and are reflected in life and annuity premiums and contract charges. Deposits to the separate accounts are not included in consolidated cash flows.

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death, a specified contract anniversary date, or annuitization, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. The account balances of variable contracts' separate accounts with guarantees included $13.41 billion of equity, fixed income and balanced mutual funds and $656 million of money market mutual funds at December 31, 2004.

Liabilities for variable contract guarantees

The Company offers various guarantees to variable annuity contractholders including a return of no less than (a) total deposits made on the contract less any customer withdrawals, (b) total deposits made on the contract less any customer withdrawals plus a minimum return or (c) the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (death benefits), upon annuitization (income benefits), or at specified dates during the accumulation period (accumulation benefits). Liabilities for variable contract guarantees related to death benefits are included in reserve for life-contingent contract benefits and the liabilities related to the income and accumulation benefits are included in contractholder funds in the Consolidated Statements of Financial Position. Detailed information regarding the Company's variable contracts with guarantees is outlined in Note 8.

Pursuant to the adoption of SOP 03-1 in 2004, the liability for death and income benefit guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. The establishment of reserves for these guarantees requires the projection of future separate account fund performance, mortality, persistency and customer benefit utilization rates. These assumptions are periodically reviewed and updated. For guarantees related to death benefits, benefits represent the current guaranteed minimum death benefit payments in excess of the current account balance. For guarantees related to income benefits, benefits represent the present value of the minimum guaranteed annuitization benefits in excess of the current account balance.

Projected benefits and contract charges used in determining the liability for certain guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based on factors such as the extent of benefit to the potential annuitant, eligibility conditions and the annuitant's attained age. The liability for guarantees is re-evaluated periodically, and adjustments are made to the liability balance through a charge or credit to life and annuity contract benefits.

Guarantees related to accumulation benefits are considered to be derivative financial instruments; therefore, the liability for accumulation benefits is established based on its fair value.

Deferred compensation expense

Deferred compensation expense represents the remaining unrecognized cost of shares acquired by the Allstate Employee Stock Ownership Plan (''ESOP'') to pre-fund a portion of the Company's contribution to The Savings and Profit Sharing Plan of Allstate Employees and the unrecognized cost associated with the restricted shares granted under equity incentive plans for Allstate employees (see Note 17). A detailed description of the ESOP and the impacts on the consolidated financial statements is included in Note 16.

Equity Incentive Plans

The Company has three equity incentive plans which permit the Company to grant nonqualified stock options, incentive stock options, restricted or unrestricted shares of the Company's stock and restricted stock units to certain employees and directors of the Company. In 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, ''Accounting for Stock-Based Compensation'', and selected the prospective method of adoption in accordance with SFAS No. 148, ''Accounting for Stock-Based Compensation''. Therefore, the Company began prospectively expensing the fair value of all stock options granted on or after January 1, 2003. In 2002, the Company applied APB 25, ''Accounting for Stock Issued to Employees'' (''APB 25''), and related Interpretations in accounting for its employee equity incentive plans. Accordingly, no compensation cost was recognized in 2002 for its employee plan as the exercise price of the options equaled the market price at the grant date. See Note 17 for pro forma net income and earnings per share, as well as additional information related to equity incentive plans.

Off-balance-sheet financial instruments

Commitments to invest, commitments to purchase private placement securities, commitments to extend mortgage loans, financial guarantees and credit guarantees have off-balance-sheet risk because their contractual amounts are not recorded in the Company's Consolidated Statements of Financial Position. The contractual amounts and fair values of these instruments are outlined in Note 6.

Consolidation of Variable Interest Entities (''VIEs'')

The Company consolidates VIEs when it is the primary beneficiary of a VIE and if it has a variable interest that will absorb a majority of the expected losses if they occur, receive a majority of the entity's expected returns, or both (see Note 11).

Foreign currency translation

The local currency of the Company's foreign subsidiaries is deemed to be the functional currency in which these subsidiaries operate. The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of a reporting period for assets and liabilities and at average exchange rates during the period for results of operations. The unrealized gains and losses from the translation of the net assets are recorded as unrealized foreign currency translation adjustments and included in accumulated other comprehensive income in the Consolidated Statements of Financial Position. Changes in unrealized foreign currency translation adjustments are included in other comprehensive income. Gains and losses from foreign currency transactions are reported in operating costs and expenses and have not been significant.

Earnings per share

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

The computation of basic and diluted earnings per share for the years ended December 31, are presented in the following table.

(in millions, except per share data)	2004	2003	2002
Numerator (applicable to common shareholders):			
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	$3,356	$2,725	$1,475
Dividends on preferred securities of subsidiary trusts	—	(5)	(10)
Cumulative effect of change in accounting principle, after-tax	(175)	(15)	(331)
Net income applicable to common shareholders	$3,181	$2,705	$1,134
Denominator:			
Weighted average common shares outstanding	695.6	703.5	707.1
Effect of potential dilutive securities:			
Stock options	4.7	2.7	2.8
	4.7	2.7	2.8
Weighted average common and dilutive potential common shares outstanding	700.3	706.2	709.9
Earnings per share—Basic:			
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	$ 4.82	$ 3.87	$ 2.08
Dividends on preferred securities of subsidiary trusts	—	—	(0.01)
Cumulative effect of change in accounting principle, after-tax	(0.25)	(0.02)	(0.47)
Net income applicable to common shareholders	$ 4.57	$ 3.85	$ 1.60
Earnings per share—Diluted:			
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	$ 4.79	$ 3.85	$ 2.07
Dividends on preferred securities of subsidiary trusts	—	—	(0.01)
Cumulative effect of change in accounting principle, after-tax	(0.25)	(0.02)	(0.46)
Net income applicable to common shareholders	$ 4.54	$ 3.83	$ 1.60

Options to purchase 3.1 million, 8.7 million and 9.0 million Allstate common shares, with exercise prices ranging from $46.99 to $50.79, $36.99 to $50.72 and $37.06 to $50.72, were outstanding at December 31, 2004, 2003, and 2002, respectively, but were not included in the computation of diluted earnings per share since inclusion of those options would have an anti-dilutive effect as the options' exercise prices exceeded the average market price of Allstate common shares in those years.

Adopted accounting standards

Emerging Issues Task Force Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1") and FSP EITF 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP EITF 03-1-1")

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF 03-1, which was to be effective for fiscal periods beginning after June 15, 2004. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value an impairment exists for which a determination must be made as to whether the impairment is temporary or other-than-temporary. In September 2004, the Financial Accounting Standards Board ("FASB") issued, and the Company adopted, FSP EITF Issue 03-1-1, which deferred the effective date of the impairment measurement and recognition provisions contained in paragraphs 10-20 of EITF 03-1 until proposed FSP EITF 03-1-a is issued as final guidance (See Pending and Recently Issued Accounting Standards). The disclosure requirements of EITF 03-1 were previously adopted by the Company as of December 31, 2003 for investments accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". For all other investments within the scope of EITF 03-1, the disclosures are effective and have been adopted by the Company as of December 31, 2004.

FASB Staff Position Nos. FAS 106-1 and FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP FAS 106-1" and "FSP FAS 106-2")

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

In May 2004, the FASB issued FSP FAS 106-2, which supercedes FSP FAS 106-1, to provide guidance on accounting for the effects of the Act. FSP FAS 106-2, which the Company adopted in the third quarter of 2004, requires reporting entities that elected deferral under FSP FAS 106-1 and are able to determine if their plans are actuarially equivalent to recognize the impact of the Act no later than the first interim or annual reporting period beginning after June 15, 2004. In July 2004, the Center for Medicare and Medicaid Services ("CMS") issued proposed regulations for the Act, including three different proposals for the determination of actuarial equivalence. Depending on which proposal is adopted, the Company's plans may not meet the actuarial equivalence criteria. As a result, the Company was unable to determine if its plans are actuarially equivalent, accordingly, the measurement of its APBO and net periodic postretirement benefit cost do not reflect any amount associated with the subsidy at December 31, 2004. In January 2005, the CMS issued the final regulations for the Act including the determination of actuarial

equivalence. The Company is currently evaluating the final regulations and the potential impact of the Act on its APBO and net periodic postretirement benefit cost which is not expected to be material to the Company's Consolidated Statements of Operations or Financial Position.

SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1")

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

- Establishment of reserves primarily related to death benefit and income benefit guarantees provided under variable annuity contracts;
- Deferral of sales inducements that meet certain criteria, and amortization using the same method used for DAC; and
- Reporting and measuring assets and liabilities of certain separate accounts products as investments and contractholder funds rather than as separate accounts assets and liabilities when specified criteria are present.

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

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

In 2004, DSI and related amortization is classified within the Consolidated Statements of Financial Position and Operations as other assets and interest credited to contractholder funds, respectively. The amounts are provided in Note 10. Pursuant to adopting this guidance, the Company also reclassified $204 million of separate accounts assets and liabilities to investments and contractholder funds, respectively.

American Institute of Certified Public Accountants ("AICPA") Technical Practice Aid ("TPA") re. SOP 03-1

In September 2004, the staff of the AICPA, aided by industry experts, issued a set of technical questions and answers on financial accounting and reporting issues related to SOP 03-1 that will be included in the AICPA's TPAs. The TPA addresses a number of issues related to SOP 03-1 including when it is necessary to establish a liability in addition to the account balance for certain contracts such as single premium and universal life that meet the definition of an insurance contract and have amounts assessed against the contractholder in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function. The impact of adopting the provisions of the TPA was not material to the Company's Consolidated Statements of Operations or Financial Position.

FASB Interpretation No. 46 and 46R, "Consolidation of Variable Interest Entities" ("FIN 46" and "FIN 46R")

In December 2003, the FASB revised FIN 46, which was originally issued in January 2003. FIN 46R addressed whether certain types of entities, referred to as variable interest entities ("VIEs"), should be

consolidated in a company's financial statements. A company must consolidate a VIE if it has a variable interest that will absorb a majority of the expected losses if they occur, receive a majority of the entity's expected returns, or both. The Company elected to adopt FIN 46 as of July 1, 2003 for its existing VIEs with the exception of two VIEs used to manage assets on behalf of unrelated third party investors. FIN 46 was adopted as of December 31, 2003 for those remaining VIEs subsequent to the issuance of FIN 46R. See Note 11 for the impact of adoption.

SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149")

In April 2003, the FASB issued SFAS No. 149, which amends, clarifies and codifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and used for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". While this statement applies primarily to certain derivative contracts and embedded derivatives entered into or modified after June 30, 2003, it also codifies conclusions previously reached by the FASB at various dates on certain implementation issues. The impact of adopting the provisions of the statement was not material to the Company's Consolidated Statements of Operations or Financial Position.

Derivatives Implementation Group Statement 133 Implementation Issue No. B36, "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments"("Implementation Issue B36")

In April 2003, the FASB issued Implementation Issue B36, which became effective October 1, 2003. Implementation Issue B36 was applied to one of the Company's modified coinsurance agreements, and as a result, the embedded derivative was bifurcated from the agreement and marked to market value at October 1, 2003. The effect of adopting Implementation Issue B36 was the recognition of a loss of $17 million, after-tax, which is reflected as a cumulative effect of a change in accounting principle on the Consolidated Statements of Operations.

SFAS No. 148, "Accounting for Stock-Based Compensation" ("SFAS No. 148")

In December 2002, the FASB issued SFAS No. 148 which amends SFAS No. 123, "Accounting for Stock-Based Compensation". The amendment enabled companies that choose to adopt the fair value based method to report the full effect of employee stock options in their financial statements immediately upon adoption. The statement sets forth clearer and more prominent disclosures about the cost of employee stock options and increased the frequency of those disclosures to include publication in quarterly financial statements. Beginning January 1, 2003, the Company began expensing the fair value of all stock options granted on or after January 1, 2003. The Company recognized $9 million, after-tax, expense associated with stock options granted during the twelve months ended December 31, 2003.

Pending Accounting Standards

SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R")

In December 2004, the FASB issued SFAS No. 123R, which revises SFAS No. 123 and supersedes APB 25. SFAS No. 123R eliminates an entity's ability to account for share-based payments using APB 25 and requires all such transactions be accounted for using a fair value based method. In addition, although it does not require use of a binomial lattice model, SFAS No. 123R indicates that a binomial lattice model may be more effective in valuing employee stock options than the Black-Scholes model,

which was primarily developed to value publicly traded options. SFAS No. 123R is effective for all awards granted, modified, repurchased, or cancelled in the interim period beginning after June 15, 2005 and requires the recognition of compensation cost over the remaining vesting period for the portion of outstanding awards that are not vested as of the effective date. Beginning January 1, 2003, the Company adopted the fair value based method of accounting for all stock options granted or modified on or after January 1, 2003. Beginning in 2005, the Company will begin using a binomial lattice model instead of the Black-Scholes model to determine the fair value of employee stock options. SFAS No. 123R is not expected to have a material impact on the Company's Consolidated Statements of Operations or Financial Position.

FSP EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP EITF Issue 03-1-a").

In September 2004, the FASB issued proposed FSP EITF 03-1-a to address the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of increases in interest rates, and/or sector spreads. Thereafter, in connection with its decision to defer the effective date of paragraphs 10-20 of EITF 03-1 through the issuance of FSP EITF Issue 03-1-1, the FASB requested from its constituents comments on the issues set forth in FSP EITF 03-1-a and the issues that arose during the comment letter process for FSP EITF 03-1-b, "Effective Date of Paragraph 16 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments".

Due to the uncertainty as to how the outstanding issues will be resolved, the Company is unable to determine the impact of adopting paragraphs 10-20 of EITF 03-1 until final implementation guidance is issued. Adoption of paragraphs 10-20 of EITF 03-1 may have a material impact on the Company's Consolidated Statements of Operations but is not expected to have a material impact on the Company's Consolidated Statements of Financial Position as fluctuations in fair value are already recorded in accumulated other comprehensive income.

3. Dispositions

In 2004, the Company disposed of Columbia Universal Life Insurance Company ("CUL"), a wholly owned life insurance subsidiary, pursuant to a stock purchase agreement with Verde Financial Corporation. As a result, the Company recognized a nominal gain on the disposition and a net tax benefit of approximately $11 million. The tax benefit was reported as a reduction of the Company's income tax expense on the Consolidated Statements of Operations. All contracts in force, primarily fixed annuity and interest-sensitive life policies written by CUL, had been ceded to ALIC or third party reinsurers prior to the disposition.

In 2004, the Company disposed of a portion of its equity investment in a consolidated investment management VIE. This action triggered a reconsideration of whether the Company remained the primary beneficiary of the investment management VIE under FIN 46R. After such reconsideration, the Company determined it was no longer the primary beneficiary of the investment management VIE. Therefore, the investment management VIE was deconsolidated as of the disposition date in the first quarter of 2004. The deconsolidation of the investment management VIE resulted in a decrease in assets of $428 million and a decrease in long-term debt of $412 million at the time of deconsolidation. The carrying value of the Company's portion of its investment in this investment management VIE reported in the Consolidated Statements of Financial Position as fixed income securities was $.3 million at December 31, 2004.

In 2003, the Company announced its intention to exit the Allstate Financial direct response distribution business and, based on its decision to sell the business, reached a measurement date that resulted in the recognition of an estimated loss on the disposition of $44 million ($29 million, after-tax). In

2004, the Company disposed of substantially all of Allstate Financial's direct response distribution business pursuant to reinsurance transactions with subsidiaries of Citigroup and Scottish Re (U.S.) Inc. In connection with those disposal activities, the Company recorded an additional loss on disposition of $21 million pretax ($14 million after-tax) in 2004 (see Notes 9 and 10).

4. Supplemental Cash Flow Information

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled $149 million, $56 million and $137 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Secured borrowing reinvestment transactions excluded from cash flows from investing activities in the Consolidated Statements of Cash Flows for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Purchases	$ 4,531	$ 4,722	$ 3,306
Sales	(4,638)	(3,961)	(2,966)
Collections	—	—	(25)
Net change in short-term investments	1,170	(11)	(166)
Net purchases	$ 1,063	$ 750	$ 149

5. Investments

Fair values

The amortized cost, gross unrealized gains and losses, and fair value for fixed income securities are as follows:

(in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
At December 31, 2004				
U.S. government and agencies	$ 3,120	$ 849	$ (2)	$ 3,967
Municipal	24,955	1,417	(45)	26,327
Corporate	38,210	2,281	(109)	40,382
Foreign government	2,334	367	(1)	2,700
Mortgage-backed securities	9,122	118	(21)	9,219
Commercial mortgage-backed securities	6,762	167	(14)	6,915
Asset-backed securities	5,958	72	(35)	5,995
Redeemable preferred stock	196	15	(1)	210
Total fixed income securities	$90,657	$5,286	$(228)	$95,715

(in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
At December 31, 2003				
U.S. government and agencies	$ 3,317	$ 745	$ (4)	$ 4,058
Municipal	23,354	1,514	(60)	24,808
Corporate	34,224	2,471	(202)	36,493
Foreign government	2,155	319	(2)	2,472
Mortgage-backed securities	8,523	152	(20)	8,655
Commercial mortgage-backed securities	5,828	190	(35)	5,983
Asset-backed securities	5,036	102	(42)	5,096
Redeemable preferred stock	170	11	(5)	176
Total fixed income securities	$82,607	$5,504	$(370)	$87,741

Scheduled maturities

The scheduled maturities for fixed income securities are as follows at December 31, 2004:

(in millions)	Amortized cost	Fair value
Due in one year or less	$ 2,379	$ 2,417
Due after one year through five years	14,124	14,721
Due after five years through ten years	23,512	24,802
Due after ten years	35,562	38,561
	75,577	80,501
Mortgage- and asset-backed securities	15,080	15,214
Total	$90,657	$95,715

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on mortgage- and asset-backed securities, they are not categorized by contractual maturity. The commercial mortgage-backed securities are categorized by contractual maturity because they generally are not subject to prepayment risk.

Net investment income

Net investment income for the years ended December 31 is as follows:

(in millions)	2004	2003	2002
Fixed income securities	$4,907	$4,621	$4,477
Equity securities	213	162	156
Mortgage loans	456	429	420
Other	(77)	(59)	1
Investment income, before expense	5,499	5,153	5,054
Investment expense	215	181	205
Net investment income	$5,284	$4,972	$4,849

Net investment income from equity securities includes income from partnership interests of $97 million, $71 million and $75 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Realized capital gains and losses, after-tax

Realized capital gains and losses by security type for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Fixed income securities	$ 167	$ (18)	$ (91)
Equity securities	416	108	(360)
Other investments	8	106	(473)
Realized capital gains and losses, pre-tax	591	196	(924)
Income tax (expense) benefit	(199)	(62)	326
Realized capital gains and losses, after-tax	$ 392	$134	$(598)

Realized capital gains and losses by transaction type for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Investment write-downs	$(129)	$(294)	$(467)
Dispositions[1]	828	453	(221)
Valuation of derivative instruments	(46)	16	(60)
Settlement of derivative instruments	(62)	21	(176)
Realized capital gains and losses, pre-tax	591	196	(924)
Income tax (expense) benefit	(199)	(62)	326
Realized capital gains and losses, after-tax	$ 392	$ 134	$(598)

(1) Dispositions include sales and other transactions such as calls and prepayments.

Excluding the effects of calls and prepayments, gross gains of $454 million, $394 million and $404 million and gross losses of $224 million, $264 million and $488 million were realized on sales of fixed income securities during 2004, 2003 and 2002, respectively.

Unrealized net capital gains and losses

Unrealized net capital gains and losses on fixed income, equity securities and derivative instruments included in accumulated other comprehensive income at December 31, 2004 are as follows:

(in millions)	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$95,715	$5,286	$(228)	$ 5,058
Equity securities	5,895	1,343	(14)	1,329
Derivative instruments	(10)	6	(23)	(17)
Total				6,370
Deferred income taxes, deferred policy acquisition costs, premium deficiency reserve and deferred sales inducements				(3,382)
Unrealized net capital gains and losses				$ 2,988

At December 31, 2003, equity securities had gross unrealized gains of $1.28 billion and gross unrealized losses of $18 million.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the years ended December 31 is as follows:

(in millions)	2004	2003	2002
Fixed income securities	$ (76)	$ 105	$ 2,604
Equity securities	69	800	(400)
Derivative instruments	(22)	(5)	(6)
Total	(29)	900	2,198
Deferred income taxes, deferred policy acquisition costs, premium deficiency reserve and deferred sales inducements	(108)	(377)	(1,385)
(Decrease) increase in unrealized net capital gains and losses	$(137)	$ 523	$ 813

Portfolio monitoring

Inherent in the Company's evaluation of a particular security are assumptions and estimates about the operations of the issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the recoverability of principal and interest; 3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed income securities; 4) the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect access to liquidity.

The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position.

($ in millions)	Less than 12 months			12 months or more			Total unrealized losses
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	
At December 31, 2004							
Fixed income securities							
U.S. government and agencies	20	$ 79	$ (1)	2	$ 28	$ (1)	$ (2)
Municipal	416	1,730	(22)	90	437	(23)	(45)
Corporate	408	4,624	(60)	102	1,298	(49)	(109)
Foreign government	12	101	(1)	–	–	–	(1)
Commercial mortgage-backed securities	96	1,132	(10)	16	239	(4)	(14)
Mortgage-backed securities	673	2,695	(19)	49	125	(2)	(21)
Asset-backed securities	134	1,523	(16)	26	282	(19)	(35)
Redeemable preferred stock	5	6	(1)	–	–	–	(1)
Total fixed income securities	1,764	11,890	(130)	285	2,409	(98)	(228)
Equity securities	128	161	(9)	21	23	(5)	(14)
Total fixed income & equity securities	1,892	$12,051	$(139)	306	$2,432	$(103)	$(242)
Investment grade fixed income securities	1,653	11,402	(110)	240	2,020	(61)	(171)
Below investment grade fixed income securities	111	488	(20)	45	389	(37)	(57)
Total fixed income securities	1,764	$11,890	$(130)	285	$2,409	$ (98)	$(228)
At December 31, 2003							
Fixed income securities							
U.S. government and agencies	16	$ 164	$ (4)	–	$ –	$ –	$ (4)
Municipal	256	1,281	(38)	41	227	(22)	(60)
Corporate	374	4,068	(152)	79	675	(50)	(202)
Foreign government	13	106	(2)	–	–	–	(2)
Commercial mortgage-backed securities	99	1,472	(34)	10	61	(1)	(35)
Mortgage-backed securities	237	2,129	(20)	36	30	–	(20)
Asset-backed securities	78	843	(16)	38	278	(26)	(42)
Redeemable preferred stock	4	24	(1)	1	21	(4)	(5)
Total fixed income securities	1,077	10,087	(267)	205	1,292	(103)	(370)
Equity securities	120	161	(16)	59	25	(2)	(18)
Total fixed income & equity securities	1,197	$10,248	$(283)	264	$1,317	$(105)	$(388)
Investment grade fixed income securities	952	9,571	(222)	136	756	(38)	(260)
Below investment grade fixed income securities	125	516	(45)	69	536	(65)	(110)
Total fixed income securities	1,077	$10,087	$(267)	205	$1,292	$(103)	$(370)

As of December 31, 2004 and 2003, $221 million and $290 million, respectively, of unrealized losses related to securities with an unrealized loss position less than 20% of cost or amortized cost, the degree of which suggests that these securities do not pose a high risk of being other than temporarily impaired.

Of the $221 million and $290 million, $169 million and $234 million, respectively, related to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating from the National Association of Insurance Commissioners (''NAIC'') of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's (''S&P''), Fitch or Dominion; or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to changes in interest rates or changes in issuer and sector related credit spreads since the securities were acquired.

As of December 31, 2004, the remaining $21 million of unrealized losses related to securities in unrealized loss positions greater than or equal to 20% of cost or amortized cost. Of the $21 million, $2 million related to investment grade fixed income securities, $16 million related to below investment grade fixed income securities and $3 million related to equity securities. Of these amounts, $9 million of the below investment grade fixed income securities and $0 million of equity securities had been in an unrealized loss position for a period of twelve months or more as of December 31, 2004. Additionally, $11 million of the unrealized losses from below investment grade securities were airline industry issues.

As of December 31, 2003, the remaining $98 million of unrealized losses related to securities in unrealized loss positions greater than or equal to 20% of cost or amortized cost. Of the $98 million, $28 million related to investment grade fixed income securities, $61 million related to below investment grade fixed income securities and $9 million related to equity securities. Of these amounts, $10 million, $31 million and $1 million, respectively, had been in an unrealized loss position for a period of twelve months or more as of December 31, 2003. Additionally, $13 million of the unrealized losses from below investment grade securities were airline industry issues.

As of December 31, 2004 and 2003, the securities comprising the $21 million and $98 million, respectively, of unrealized losses were evaluated based on factors such as the financial condition and near-term and long-term prospects of the issuer and were determined to have adequate resources to fulfill contractual obligations, such as recent financings or bank loans, cash flows from operations, collateral or the position of a subsidiary with respect to its parent's bankruptcy.

As of December 31, 2004 and 2003, the Company had the intent and ability to hold these investments for a period of time sufficient for them to recover in value.

As of December 31, 2004, the carrying value for cost method investments was $467 million, which primarily included limited partnership interests in fund investments. Each cost method investment was evaluated utilizing certain criteria such as a measurement of the Company's percentage share of the investee's equity relative to the carrying value and certain financial trends to determine if an event or change in circumstance occurred that could indicate an other-than-temporary impairment existed. Investments meeting any one of these criteria were further evaluated and, if it was determined that an other-than-temporary impairment existed, the investment was written down to the estimated fair value. The estimated fair value was generally based on the fair value of the underlying investments in the limited partnership funds. It is not practicable to estimate the fair value of each cost method investment in accordance with paragraphs 14 and 15 of SFAS 107, ''Disclosures about Fair Value of Financial Instruments'' because the investments are private in nature and do not trade frequently. In addition, the information that would be utilized to estimate fair value is not readily available. The Company had write-downs of $14 million related to cost method investments that were other-than-temporarily impaired in 2004.

Mortgage loan impairment

A mortgage loan is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The net carrying value of impaired loans at December 31, 2004 and 2003 was $22 million and $4 million, respectively. No valuation allowances were held at December 31, 2004 and 2003 because the fair value of the collateral was greater than the recorded investment in the loans.

Interest income for impaired loans is recognized on an accrual basis if payments are expected to continue to be received; otherwise cash basis is used. The Company recognized interest income on impaired loans of $2 million, $2 million, and $1 million during 2004, 2003 and 2002, respectively. The average balance of impaired loans was $29 million, $23 million and $16 million during 2004, 2003 and 2002, respectively.

Valuation allowances charged to operations during 2004, 2003 and 2002 were $1 million, $3 million and $0 million, respectively. Direct write-downs charged against the allowances were $0 million, $3 million and $5 million for the years ended December 31, 2004, 2003 and 2002, respectively, and in 2004, $1 million of a balance previously written off was recovered.

Investment concentration for municipal bond and commercial mortgage portfolios and other investment information

The Company maintains a diversified portfolio of municipal bonds. The following table shows the principal geographic distribution of municipal bond issuers represented in the Company's portfolio. No other state represents more than 5.0% of the portfolio at December 31, 2004.

(% of municipal bond portfolio carrying value)	2004	2003
California	13.3%	12.3%
Texas	11.1	11.2
Illinois	7.7	9.3
New York	5.4	5.8

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The following table shows the principal geographic distribution of commercial real estate represented in the Company's mortgage portfolio. No other state represented more than 5.0% of the portfolio at December 31, 2004 and 2003.

(% of commercial mortgage portfolio carrying value)	2004	2003
California	14.3%	14.2%
Illinois	8.6	9.5
Texas	8.2	7.9
Pennsylvania	6.5	5.4
New Jersey	5.6	6.0
Georgia	5.1	5.5
New York	5.0	5.1
Florida	4.5	6.1

The types of properties collateralizing the commercial mortgage loans at December 31 are as follows:

(% of commercial mortgage portfolio carrying value)	2004	2003
Office buildings	30.7%	32.1%
Retail	25.6	22.2
Warehouse	25.0	24.2
Apartment complex	15.2	17.2
Industrial	1.3	1.6
Other	2.2	2.7
	100.0%	100.0%

The contractual maturities of the commercial mortgage loan portfolio as of December 31, 2004 for loans that were not in foreclosure are as follows:

($ in millions)	Number of loans	Carrying value	Percent
2005	46	$ 331	4.2
2006	86	661	8.4
2007	101	832	10.6
2008	101	766	9.8
2009	130	1,279	16.3
Thereafter	511	3,985	50.7
Total	975	$7,854	100.0%

In 2004, $263 million of commercial mortgage loans were contractually due. Of these, 63% were paid as due, 26% were refinanced at prevailing market terms and 11% were extended for one year or less. None were foreclosed or in the process of foreclosure, and none were in the process of refinancing or restructuring discussions.

At December 31, 2004, the carrying value of residential mortgage loans outstanding was $2 million.

Included in fixed income securities are below investment grade assets totaling $5.64 billion and $6.01 billion at December 31, 2004 and 2003, respectively.

At December 31, 2004, the carrying value of investments that were non-income producing, excluding equity securities, was $20 million. At December 31, 2004, fixed income securities with a carrying value of $315 million were on deposit with regulatory authorities as required by law.

Security repurchase and resale and securities loaned

The Company participates in securities lending programs with third parties, mostly large brokerage firms. At December 31, 2004 and 2003, fixed income securities with a carrying value of $2.89 billion and $2.16 billion, respectively, were on loan under these agreements. In return, the Company receives cash that it invests and includes in short-term investments and fixed income securities, with an offsetting liability recorded in other liabilities and accrued expenses to account for the Company's obligation to return the collateral. Interest income on collateral, net of fees, was $6 million, $6 million and $9 million, for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company participates in programs to purchase securities under agreements to resell and programs to sell securities under agreements to repurchase, primarily including a mortgage dollar roll program. At the end of December 31, 2004 and 2003, the Company had $1.16 billion and $1.13 billion of

securities that were subject to these agreements. In return, the Company receives cash collateral that it invests and includes in short-term and fixed income securities, with an offsetting liability recorded in other liabilities and accrued expenses to account for the Company's obligation to return the collateral. Interest income recorded as a result of the program was $47 million, $39 million, and $40 million for the years ended December 31, 2004, 2003 and 2002, respectively.

6. Financial Instruments

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving derivative financial instruments and other off-balance-sheet financial instruments. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value. The disclosures that follow do not reflect the fair value of the Company as a whole since a number of the Company's significant assets (including DAC, property and equipment, net and reinsurance recoverables, net) and liabilities (including reserve for property-liability insurance claims and claims expense, reserve for life-contingent contract benefits and deferred income taxes) are not considered financial instruments and are not carried at fair value. Other assets and liabilities considered financial instruments such as premium installment receivables, accrued investment income, cash and claim payments outstanding are generally of a short-term nature. Their carrying values are deemed to approximate fair value.

Financial assets

	December 31, 2004		December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
Fixed income securities	$95,715	$95,715	$87,741	$87,741
Equity securities	5,895	5,895	5,288	5,288
Mortgage loans	7,856	8,187	6,539	6,937
Short-term investments	4,133	4,133	1,815	1,815
Policy loans	1,217	1,217	1,250	1,250
Separate Accounts	14,377	14,377	13,425	13,425

Fair values of publicly traded fixed income securities are based upon quoted market prices or dealer quotes. The fair value of non-publicly traded securities, primarily privately placed corporate obligations, is based on either widely accepted pricing valuation models, which use internally developed ratings and independent third party data (e.g., term structures and current publicly traded bond prices) as inputs, or independent third party pricing sources. Equity securities are valued based principally on quoted market prices. Mortgage loans are valued based on discounted contractual cash flows. Discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar properties as collateral. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral. Short-term investments are highly liquid investments with maturities of one year or less whose carrying values are deemed to approximate fair value. The carrying value of policy loans is deemed to approximate fair value. Separate accounts assets are carried in the Consolidated Statements of Financial Position at fair value based on quoted market prices.

Financial liabilities

	December 31, 2004		December 31, 2003	
(in millions)	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$47,173	$45,387	$39,438	$38,022
Short-term debt	43	43	3	3
Long-term debt	5,291	5,601	5,073	5,431
Security repurchase agreements	4,854	4,854	3,749	3,749
Separate Accounts	14,377	14,377	13,425	13,425

Contractholder funds include interest-sensitive life insurance contracts and investment contracts. Interest-sensitive life insurance contracts are not considered financial instruments subject to fair value disclosure requirements. The fair value of investment contracts is based on the terms of the underlying contracts. Fixed annuities are valued at the account balance less surrender charges. Immediate annuities without life contingencies, funding agreements and GICs are valued at the present value of future benefits using current interest rates. Market value adjusted annuities' fair value is estimated to be the market adjusted surrender value. Equity-indexed annuity contracts' fair value approximates carrying value since the embedded equity options are carried at fair value in the consolidated financial statements.

Short-term debt is valued at carrying value due to its short-term nature. The fair value of long-term debt is based on quoted market prices or, in certain cases, is determined using discounted cash flow calculations based on interest rates of comparable instruments. Security repurchase agreements are valued at carrying value due to their short-term nature. Separate accounts liabilities are carried at the fair value of the underlying assets.

Derivative financial instruments

The Company primarily uses derivative financial instruments to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk), to replicate fixed income securities, and in conjunction with asset/liability management in its Allstate Financial segment. The following table summarizes the notional amount, fair value and carrying value of the Company's derivative financial instruments at December 31, 2004.

(in millions)	Notional amount	Fair value(1)	Carrying value assets(1)	Carrying value (liabilities)(1)
Interest rate contracts				
Interest rate swap agreements	$17,592	$(134)	$ (48)	$ (86)
Financial futures contracts	6,882	(3)	1	(4)
Interest rate cap and floor agreements	4,851	43	31	12
Total interest rate contracts	29,325	(94)	(16)	(78)
Equity and index contracts				
Options, financial futures and warrants	2,083	58	92	(34)
Foreign currency contracts				
Foreign currency swap agreements	1,704	535	547	(12)
Foreign currency futures contracts	21	—	—	—
Total foreign currency contacts	1,725	535	547	(12)
Embedded derivative financial instruments				
Guaranteed accumulation benefit	623	1	—	1
Conversion options in fixed income securities	1,258	455	455	—
Equity-indexed options in life and annuity product contracts	1,774	(30)	—	(30)
Forward starting options in annuity product contracts	1,928	(2)	—	(2)
Put options in variable product contracts	14	—	—	—
Term-extending options in trust preferred securities	200	—	—	—
Credit default swaps	28	(1)	(1)	—
Total embedded derivative financial instruments	5,825	423	454	(31)
Other derivative financial instruments				
Replication credit default swaps	295	—	—	—
Reinsurance of guaranteed minimum income annuitization options in variable product contracts	25	14	14	—
Forward contracts for TBA mortgage securities	100	1	1	—
Commitments to fund mortgage loans	12	—	—	—
Forward sale commitments	12	—	—	—
Total other derivative financial instruments	444	15	15	—
Total derivative financial instruments	$39,402	$ 937	$1,092	$(155)

(1) Carrying value includes the effects of legally enforceable master netting agreements. Fair value and carrying value of the assets and liabilities exclude accrued periodic settlements, which are reported in accrued investment income or other invested assets.

Notes

The following table summarizes the notional amount, fair value and carrying value of the Company's derivative financial instruments at December 31, 2003.

(in millions)	Notional amount	Fair value(1)	Carrying value assets(1)	Carrying value (liabilities)(1)
Interest rate contracts				
Interest rate swap agreements	$11,529	$(229)	$ (88)	$(141)
Financial futures contracts	968	(1)	—	(1)
Interest rate cap and floor agreements	4,705	84	54	30
Total interest rate contracts	17,202	(146)	(34)	(112)
Equity and index contracts				
Options, financial futures and warrants	920	1	4	(3)
Foreign currency contracts				
Foreign currency swap agreements	1,690	454	436	18
Foreign currency futures contracts	5	—	—	—
Total foreign currency contacts	1,695	454	436	18
Embedded derivative financial instruments				
Conversion options in fixed income securities	670	240	240	—
Equity-indexed options in life and annuity product contracts	1,297	9	—	9
Forward starting options in annuity product contracts	1,464	(2)	—	(2)
Put options in variable product contracts	19	—	—	—
Term-extending options in trust preferred securities	200	—	—	—
Credit default swap agreements	48	(1)	(1)	—
Total embedded derivative financial instruments	3,698	246	239	7
Other derivative financial instruments				
Synthetic guaranteed investment product contracts	1	—	—	—
Reinsurance of guaranteed minimum income annuitization options in variable product contracts	34	28	28	—
Forward contracts for TBA mortgage securities	270	(1)	—	(1)
Commitments to fund mortgage loans	14	—	—	—
Forward sale commitments	14	—	—	—
Total other derivative financial instruments	333	27	28	(1)
Total derivative financial instruments	$23,848	$ 582	$673	$ (91)

(1) Carrying value includes the effects of legally enforceable master netting agreements. Fair value and carrying value of the assets and liabilities exclude accrued periodic settlements, which are reported in accrued investment income or other invested assets.

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements, and are not representative of the potential for gain or loss on these agreements.

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive (pay) to terminate the derivative contracts at the reporting date. For exchange traded derivative contracts, the fair value is based on dealer or exchange quotes. The fair value of non-exchange traded derivative contracts, including embedded derivative financial instruments subject to bifurcation, is based on either independent third party pricing sources, including broker quotes, or widely accepted pricing and valuation models which use independent third party data as inputs.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. The Company uses master netting agreements for over-the-counter derivative transactions, including interest rate swap, foreign currency swap, interest rate cap, interest rate floor and credit default swap agreements. These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of December 31, 2004, counterparties pledged $490 million in cash to the Company under these agreements. To date, the Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives including futures and certain option contracts are traded on organized exchanges, which require margin deposits and guarantee the execution of trades, thereby mitigating any associated potential credit risk.

Credit exposure represents the Company's potential loss if all of the counterparties failed to perform under the contractual terms of the contracts and all collateral, if any, became worthless. This exposure is measured by the fair value of freestanding derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of master netting agreements.

The following table summarizes the counterparty credit exposure by counterparty credit rating at December 31, as it relates to interest rate swap, currency swap, interest rate cap, interest rate floor and replication credit default swap agreements.

($ in millions)	2004				2003			
Rating[1]	Number of counter-parties	Notional amount	Credit exposure[2]	Exposure, net of collateral[2]	Number of counter-parties	Notional amount	Credit exposure[2]	Exposure, net of collateral[2]
AAA	2	$ 1,984	$ —	$ —	2	$ 1,819	$ —	$ —
AA	2	2,228	183	13	3	1,630	146	22
AA−	4	5,825	8	8	4	4,539	19	19
A+	6	10,599	323	17	6	7,889	235	27
A	2	3,806	12	2	2	2,067	1	1
Total	16	$24,442	$526	$40	17	$17,944	$401	$69

(1) Rating is the lower of S&P's or Moody's ratings.

(2) For each counterparty, only over-the-counter derivatives with a net positive market value are included.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company's senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

The Company reclassified pretax net gains of $3 million and $3 million related to cash flow hedges to net income from accumulated other comprehensive income during 2004 and 2003, respectively. At December 31, 2004, there is no remaining accumulated other comprehensive income to amortize to net income during 2005.

The following table presents information about the nature and accounting treatment of Allstate's primary derivative instruments. Included in the table is a description of the individual derivative instruments, the risk management strategies to which they relate, and the financial statement reporting for the derivative instruments in the Company's consolidated financial statements. Amounts reported are in millions on a pre-tax basis.

Instrument	Description, Risk Management Strategy and Financial Statement Reporting	Asset / (Liability) 2004	Asset / (Liability) 2003	Income / (Expense) 2004	Income / (Expense) 2003	Income / (Expense) 2002
Interest Rate Contracts:						
Interest rate swap agreements	**Description**					
	Swap agreements are contracts that periodically exchange the difference between two designated sets of cash flows, (fixed to variable rate, variable to fixed rate, or variable to variable rate) based upon designated market rates or rate indices and a notional amount.					
	Master netting agreements are used to minimize credit risk. In addition, when applicable, parties are required to post collateral. As of December 31, 2004, the Company pledged to counterparties $1.0 million of securities as collateral for over-the-counter instruments.					
	Risk Management Strategy					
	Primarily used to change the interest rate characteristics of existing assets or liabilities to facilitate asset-liability management.					
	Statement of Financial Position					
	• Fair values are reported as follows:					
	• Other investments.	$ (48)	$ (88)			
	• Other liabilities and accrued expenses.	(86)	(141)			
	• When hedge accounting is applied, the carrying values of the hedged items are adjusted for changes in the fair value of the hedged risks. The fair value of hedged risks are reported as follows:					
	• Fixed income securities.	161	295			
	• Mortgage loans.	33	56			
	• Contractholder funds.	(55)	(103)			
	Statement of Operations					
	• For hedge accounting, changes in fair value of the instruments are matched together with changes in fair value of the hedged risks and are reported as follows:					
	• Net investment income.			$ 117	$ 100	$(390)
	• Life and annuity contract benefits.			(64)	(38)	94
	• Hedge ineffectiveness is reported as Realized capital gains and losses.			(3)	9	(15)
	• When hedge accounting is not applied, changes in fair value of the instruments and the periodic accrual and settlements are reported in realized capital gains and losses.			12	2	55
Financial futures contracts	**Description**					
	Financial futures contracts are commitments to purchase or sell designated financial instruments at a future date for a specified price or yield. These contracts are traded on organized exchanges and cash settle on a daily basis. The exchange requires margin deposits as well as daily cash settlements of margin. As of December 31, 2004, the Company pledged margin deposits in the form of marketable securities totaling $11 million.					
	Risk Management Strategies					
	Generally used to manage interest rate risk related to fixed income securities and certain annuity contracts. Financial futures are also used to reduce interest rate risk related to forecasted purchases and sales of marketable investment securities.					
	Statement of Financial Position					
	Fair values are reported as follows:					
	• Other investments.	$ 1	$ —			
	• Other liabilities and accrued expenses.	(4)	(1)			
	Statement of Operations					
	Under non-hedge accounting, changes in fair value of the instruments, some of which are recognized through daily cash settlements, are classified consistent with the risks being economically hedged and are reported as follows:					
	• Realized capital gains and losses.			$(103)	$ 12	$(193)
	• Life and annuity contract benefits.			—	—	(1)

Instrument	Description, Risk Management Strategy and Financial Statement Reporting	Asset / (Liability) 2004	Asset / (Liability) 2003	Income / (Expense) 2004	Income / (Expense) 2003	Income / (Expense) 2002
Interest rate cap and floor agreements	**Description** In exchange for a premium, these derivative contracts provide the holder with the right to receive at a future date, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount.					
	Risk Management Strategies Used to reduce exposure to rising or falling interest rates relative to certain existing assets and liabilities in conjunction with asset-liability management.					
	Statement of Financial Position Fair values are reported as follows:					
	• Other investments.	$ 31	$ 54			
	• Other liabilities and accrued expenses.	12	30			
	Statement of Operations Under non-hedge accounting, changes in fair value of the instruments and the periodic accruals and settlements are reported in realized capital gains and losses.			$ (36)	$ (20)	$ (5)
Equity and Index Contracts:						
Options, financial futures, and warrants	**Description** These indexed derivative instruments provide returns at specified or optional dates based upon a specified index applied to the instrument's notional amount. Index futures are traded on organized exchanges and cash settle on a daily basis. The exchange requires margin deposits as well as daily cash settlements of margin. The Company pledged $15 million of securities in the form of margin deposits as of December 31, 2004.					
	Risk Management Strategies Indexed instruments are primarily used to reduce the market risk associated with certain annuity and deferred compensation liability contracts.					
	Statement of Financial Position Fair values are reported as follows:					
	• Equity securities	$ —	$ 3			
	• Other investments.	92	1			
	• Other liabilities and accrued expenses.	(34)	(3)			
	Statement of Operations Under non-hedge accounting, changes in fair values of the instruments, some of which are recognized through daily cash settlements, are classified on one line consistent with the risk being economically hedged and reported as follows:					
	• Life and annuity contract benefits.			$ 47	$ 80	$ (66)
	• Operating costs and expenses.			12	20	(17)
	• Realized capital gains and losses.			1	2	1

Notes

Instrument	Description, Risk Management Strategy and Financial Statement Reporting	Asset / (Liability) 2004	Asset / (Liability) 2003	Income / (Expense) 2004	Income / (Expense) 2003	Income / (Expense) 2002
Foreign Currency Contracts:						
Foreign currency swap agreements	**Description** These derivative contracts involve the periodic exchange of consideration based on relative changes in two designated currencies and, if applicable, differences between fixed rate and variable cash flows or two different variable cash flows, all based on a pre-determined notional amount.					
	Risk Management Strategies These agreements are entered into primarily to manage the foreign currency risk associated with issuing foreign currency denominated funding agreements. In addition to hedging foreign currency risk, they may also change the interest rate characteristics of the funding agreements for asset-liability management purposes.					
	Statement of Financial Position • Fair values are reported as follows:					
	• Other investments.	$ 547	$ 436			
	• Other liabilities and accrued expenses.	(12)	18			
	• Since hedge accounting is applied for fair value hedges, the carrying value of the hedged item, contractholder funds, is adjusted for changes in the fair value of the hedged risk. For cash flow hedges, the market value of the derivative reduced other comprehensive income by $23 million and $0 million as of December 31, 2004 and 2003, respectively.	(556)	(454)			
	Statement of Operations • Under hedge accounting, changes in fair value of the instruments are matched together with the changes in fair values of the hedged risks and are reported in life and annuity contract benefits.			$ 110	$ 171	$ 263
	• Hedge ineffectiveness is reported in realized capital gains and losses.			2	—	—
Conversion options in fixed income securities	**Description** These securities have embedded options, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock or provides a return based on a notional amount applied to an index such as the S&P 500. Securities owned and subject to bifurcation include convertible bonds and convertible redeemable preferred stocks.					
	Statement of Financial Position Fair value is reported together with the host contracts in fixed income securities.	$ 455	$ 240			
	Statement of Operations Changes in fair value are reported in realized capital gains and losses.			$ 18	$ 39	$ (88)
Other derivatives	**Statement of Financial Position** • Fair values are reported as follows:					
	• Fixed income securities.	$ —	$ (1)			
	• Other assets.	14	28			
	• Contractholder funds.	(45)	(21)			
	Statement of Operations • Changes in fair value are reported as follows:					
	• Realized capital gains and losses.			$ (3)	$ (9)	$ 10
	• Life and annuity contract benefits.			(40)	(26)	86

Off-balance-sheet financial instruments

The contractual amounts and fair values of off-balance-sheet financial instruments at December 31 are as follows:

(in millions)	2004 Contractual amount	2004 Fair value	2003 Contractual amount	2003 Fair value
Commitments to invest	$836	$—	$500	$—
Private placement commitments	45	—	49	—
Commitments to extend mortgage loans	103	1	86	1
Credit guarantees	151	—	87	—

Except for credit guarantees, the contractual amounts represent the amount at risk if the contract is fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Commitments to invest generally represent commitments to acquire financial interests or instruments. The Company enters into these agreements to allow for additional participation in certain limited partnership investments. Because the equity investments in the limited partnerships are not actively traded, it is not practical to estimate the fair value of these commitments.

Private placement commitments represent conditional commitments to purchase private placement debt and equity securities at a specified future date. The Company regularly enters into these agreements in the normal course of business. The fair value of these commitments generally cannot be estimated on the date the commitment is made as the terms and conditions of the underlying private placement securities are not yet final.

Commitments to extend mortgage loans are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend mortgage loans, which are secured by the underlying properties, are valued based on estimates of fees charged by other institutions to make similar commitments to similar borrowers.

Credit guarantees represent conditional commitments included in certain fixed income securities owned by the Company, and exclude those credit guarantees reported as derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". These commitments provide for obligations to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of credit events for the referenced entities. The Company enters into these transactions in order to achieve higher yields than direct investment in referenced entities. The fees for assuming the conditional commitments are reflected in the interest receipts reported in net investment income over the lives of the contracts. The fair value of credit guarantees are estimates of the conditional commitments only and are calculated using quoted market prices or valuation models, which incorporate external market data.

In the event of bankruptcy or other default of the referenced entities, the Company's maximum amount at risk, assuming the value of the referenced credits becomes worthless, is the fair value of the subject fixed income securities, which totaled $151 million at December 31, 2004. The Company includes the impact of credit guarantees in its analysis of credit risk, and the referenced credits were current to their contractual terms at December 31, 2004.

7. Reserve for Property-Liability Insurance Claims and Claims Expense

As described in Note 2, the Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretations of circumstances and internal factors including the Company's experience with similar cases, historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, loss management programs and product mix. In addition, the reserve estimates are influenced by external factors including law changes, court decisions, changes to regulatory requirements, economic conditions, and public attitudes. The Company, in the normal course of business, may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

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

Activity in the reserve for property-liability insurance claims and claims expense is summarized as follows:

(in millions)	2004	2003	2002
Balance at January 1	$17,714	$16,690	$16,500
Less reinsurance recoverables	1,734	1,672	1,667
Net balance at January 1	15,980	15,018	14,833
Incurred claims and claims expense related to:			
Current year	18,073	17,031	16,972
Prior years	(230)	401	685
Total incurred	17,843	17,432	17,657
Claims and claims expense paid related to:			
Current year	10,989	10,195	10,598
Prior years	6,073	6,275	6,874
Total paid	17,062	16,470	17,472
Net balance at December 31	16,761	15,980	15,018
Plus reinsurance recoverables	2,577	1,734	1,672
Balance at December 31	$19,338	$17,714	$16,690

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the calendar year. This expense includes losses from catastrophes of $2.47 billion, $1.49 billion and $731 million in 2004, 2003 and 2002, respectively. In 2004, losses from catastrophes includes $2.0 billion, net of recoveries from the Florida Hurricane Catastrophe Fund ("FHCF"), related to Hurricanes Charley, Frances, Ivan, and Jeanne (see Note 9). This estimate includes net losses in personal lines auto and property policies and net losses on commercial policies. Catastrophes are an inherent risk of the property-liability insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position. The level of catastrophic loss and weather-related losses (wind, hail, lightning, freeze and water losses) experienced in any year cannot be predicted and could be material to results of operations and financial position.

During 2004, incurred claims and claims expense related to prior years was primarily composed of increases to asbestos reserves of $463 million, decreases in auto reserves of $657 million due to auto injury severity development that was better than expected and late reported loss development that was better than expected due to lower frequency trends in recent years, and decreases in homeowners reserves of $169 million due to late reported loss development that was better than expected.

During 2003, incurred claims and claims expense related to prior years was primarily composed of increases to asbestos reserves of $520 million and decreases in auto reserves of $221 million due to improved auto injury severity development that was better than expected and late reported loss development that was better than expected.

During 2002, incurred claims and claims expense related to prior years was primarily composed of increases to asbestos reserves of $121 million and increases in homeowners reserves of $367 million primarily as a result of claim severity development and late reported losses greater than the level anticipated in previous reserve estimates.

For further discussion of asbestos and environmental reserves, see Note 13.

8. Reserves for Life-Contingent Contract Benefits and Contractholder Funds

At December 31, the reserve for life-contingent contract benefits consists of the following:

(in millions)	2004	2003
Immediate annuities:		
Structured settlement annuities	$ 6,392	$ 5,989
Other immediate annuities	2,414	2,376
Traditional life[1]	2,144	2,340
Other[1]	804	315
Total reserve for life-contingent contract benefits	$11,754	$11,020

(1) In 2004, the Company changed its classification of certain products. As a result, $362 million of reserves are classified as Other at December 31, 2004 that were previously classified as Traditional life. Prior periods have not been restated.

The following table highlights the key assumptions generally used in calculating the reserve for life-contingent contract benefits:

Product	Mortality	Interest rate	Estimation method
Structured settlement annuities	U.S. population with projected calendar year improvements; age setforwards for impaired lives grading to standard	Interest rate assumptions range from 4.1% to 11.7%	Present value of contractually specified future benefits
Other immediate annuities	1983 group annuity mortality table	Interest rate assumptions range from 1.9% to 11.5%	Present value of expected future benefits based on historical experience
Traditional life	Actual company experience plus loading	Interest rate assumptions range from 4.0% to 11.3%	Net level premium reserve method using the Company's withdrawal experience rates
Other:			
Variable annuity guaranteed minimum death benefits	90% of 1994 group annuity reserving table	7%	Projected benefit ratio applied to cumulative assessments
Accident & health	Actual company experience plus loading		Unearned premium; additional contract reserves for traditional life

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve has been recorded for certain immediate annuities with life contingencies. A liability of $1.09 billion and $932 million is included in the reserve for life-contingent contract benefits with respect to this deficiency as of December 31, 2004 and 2003, respectively. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in accumulated other comprehensive income.

At December 31, contractholder funds consists of the following:

(in millions)	2004	2003
Interest-sensitive life	$ 8,280	$ 7,536
Investment contracts:		
Fixed annuities	34,637	28,783
Guaranteed investment contracts	485	1,066
Funding agreements backing medium-term notes	10,135	7,256
Other investment contracts	1,332	1,624
Allstate Bank deposits	840	806
Total contractholder funds	$55,709	$47,071

The following table highlights the key contract provisions relating to contractholder funds:

Product	Interest rate	Withdrawal/Surrender charges
Interest-sensitive life	Interest rates credited range from 2.0% to 7.25%	Either a percentage of account balance or dollar amount grading off generally over 20 years
Fixed annuities	Interest rates credited range from 1.3% to 11.5% for immediate annuities and 0% to 16% for fixed annuities (which include equity-indexed annuities whose returns are indexed to the S&P 500)	Either a declining or a level percentage charge generally over nine years or less. Additionally, approximately 30.5% of fixed annuities are subject to market value adjustment for discretionary withdrawals.
Guaranteed investment contracts	Interest rates credited range from 2.95% to 8.14%	Generally not subject to discretionary withdrawal
Funding agreements backing medium-term notes	Interest rates credited range from 2.1% to 7.4% (excluding currency-swapped medium-term notes)	Not applicable
Other investment contracts:		
Variable guaranteed minimum income benefit and secondary guarantees on interest-sensitive life and fixed annuities	Interest rates used in establishing reserves range from 1.75% to 10.3%	Withdrawal and surrender charges are based on the terms of the related interest-sensitive life or fixed annuity contract.
Other investment contracts	Interest rates credited range from 2.2% to 2.5%	Not applicable
Allstate Bank	Interest rates credited range from 0% to 5.5%	A percentage of principal balance for time deposits withdrawn prior to maturity

Contractholder funds include funding agreements held by VIEs issuing medium-term notes. The VIEs are Allstate Life Funding, LLC, Allstate Financial Global Funding, LLC, Allstate Life Global Funding and Allstate Life Global Funding II, and their primary assets are funding agreements used exclusively to back medium-term note programs.

Contractholder funds activity for the years ended December 31 is as follows:

(in millions)	2004	2003
Balance, beginning of year	$47,071	$40,751
Impact of adoption of SOP 03-1[1]	421	—
Deposits	13,880	10,627
Interest credited to contractholder funds	1,991	1,846
Benefits and withdrawals	(4,167)	(3,233)
Maturities of institutional products	(2,518)	(2,163)
Transfers to Separate Accounts	(412)	(416)
Contract charges	(655)	(622)
Fair value adjustments for institutional products	38	131
Other adjustments	60	150
Balance, end of year	$55,709	$47,071

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

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

($ in millions)	December 31, 2004
In the event of death	
Account value	$ 14,071
Net amount at risk[1]	$ 1,900
Average attained age of contractholders	66 years
At annuitization	
Account value	$ 3,893
Net amount at risk[2]	$ 72
Weighted average waiting period until annuitization options available	7 years
Accumulation at specified dates	
Account value	$ 582
Net amount at risk[3]	$ —
Weighted average waiting period until guarantee date	11 years

(1) Defined as the estimated current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date.

(2) Defined as the estimated present value of the guaranteed minimum annuity payments in excess of the current account balance.

(3) Defined as the estimated present value of the guaranteed minimum accumulation balance in excess of the current account balance.

The following table summarizes the liabilities for guarantees:

(in millions)	Liability for guarantees related to death benefits and interest-sensitive life products	Liability for guarantees related to income benefits	Liability for guarantees related to accumulation benefits	Total
Balance at January 1, 2004	$118	$41	$ —	$159
Less reinsurance recoverables	(12)	(2)	—	(14)
Net balance at January 1, 2004	106	39	—	145
Incurred guaranteed benefits	41	7	(1)	47
Paid guarantee benefits	(62)	—	—	(62)
Net change	(21)	7	(1)	(15)
Net balance at December 31, 2004	85	46	(1)	130
Plus reinsurance recoverables	10	—	—	10
Balance, December 31, 2004[1]	$ 95	$46	$ (1)	$140

(1) Included in the total liability balance are reserves for variable annuity death benefits of $79 million, variable annuity income benefits of $18 million, variable annuity accumulation benefits of $(1) million and other guarantees of $44 million.

9. Reinsurance

The effects of reinsurance on property-liability premiums written and earned and life and annuity premiums and contract charges for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Property-liability insurance premiums written			
Direct	$25,262	$23,649	$22,438
Assumed	1,711	1,856	1,822
Ceded	(442)	(318)	(343)
Property-liability insurance premiums written, net of reinsurance	$26,531	$25,187	$23,917
Property-liability insurance premiums earned			
Direct	$24,574	$23,132	$21,894
Assumed	1,814	1,843	1,804
Ceded	(399)	(298)	(337)
Property-liability insurance premiums earned, net of reinsurance	$25,989	$24,677	$23,361
Life and annuity premiums and contract charges			
Direct	$ 2,628	$ 2,655	$ 2,645
Assumed	52	134	129
Ceded	(608)	(485)	(481)
Life and annuity premiums and contract charges, net of reinsurance	$ 2,072	$ 2,304	$ 2,293

Property-liability

Total amounts recoverable from reinsurers at December 31, 2004 and 2003 were $2.73 billion and $1.90 billion, respectively. The amounts recoverable from reinsurers at December 31, 2004 and 2003 include $150 million and $170 million, respectively, related to property-liability losses paid by the Company

and billed to reinsurers, and $2.58 billion and $1.73 billion, respectively, estimated by the Company with respect to ceded unpaid losses (including IBNR), which are not billable until the losses are paid.

Reinsurance recoverable from industry pools and facilities on paid and unpaid claims including IBNR at December 31, 2004 and 2003 include $831 million and $560 million, respectively, recoverable from the Michigan Catastrophic Claim Association (''MCCA''). The MCCA established in 1978, is a mandatory reinsurance mechanism for personal injury protection losses over a retention level that increases each MCCA fiscal year. The retention levels are $325 thousand per claim and $350 thousand per claim for the fiscal years ending June 30, 2004 and 2005, respectively. The MCCA is funded by assessments from member companies who, in turn, can recover the assessment from policyholders.

The Company purchases reinsurance after evaluating the financial condition of the reinsurer, as well as the terms and price of coverage. Developments in the insurance industry have fostered a movement to segregate environmental, asbestos and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. The Company is unable to determine the impact, if any, that these developments will have on the collectibility of reinsurance recoverables in the future. Reinsurance recoverables from asbestos and environmental and other reinsurers include $236 million and $112 million of recoverables from Lloyd's of London at December 31, 2004 and 2003, respectively. Lloyd's of London implemented a restructuring plan in 1996 to solidify its capital base and to segregate claims for years prior to 1993. In addition, efforts have been recently made by Lloyd's of London to impose increased documentation standards on reinsurance claims. The impact, if any, of the restructuring and related actions on the collectibility of the recoverable from Lloyd's of London is uncertain at this time. The recoverable from Lloyd's of London syndicates is spread among thousands of investors who have unlimited liability.

Estimates of gross qualifying personal property losses for Charley, Frances and Ivan exceed the $312 million per occurrence FHCF retention, thus permitting 90% reimbursement of qualifying losses up to an estimated maximum total for this season of $991 million. Reinsurance recoverables at December 31, 2004 include $486 million recoverable from the FHCF for qualifying property losses related to these hurricanes. There was no reinsurance recoverable outstanding from the FHCF at December 31, 2003. In the event of a qualifying catastrophe in the 2005 hurricane season, the Company also has access to reimbursement provided by the FHCF for 90% of hurricane losses in excess of approximately the first $342 million for each storm, up to an aggregate of $985 million (90% of approximately $1,094 million) in a single hurricane season, and $1.97 billion total reimbursement over two hurricane seasons.

In 2004, Allstate Floridian Insurance Company (''Floridian'') entered into two reinsurance contracts to cover losses from future catastrophic events in the state of Florida through May 2005. Allstate Protection also entered into several three-year cancellable excess of loss reinsurance contracts in 2004 through broker transactions to reinsure personal property losses for business written in certain states. There were no reinsurance recoverables outstanding from these reinsurers at December 31, 2004.

In connection with the Company's acquisition of the personal lines auto and homeowners business (''Encompass'') of CNA Financial Corporation (''CNA'') in 1999, Allstate and Continental Casualty Company (''Continental''), a subsidiary of CNA, entered into a four-year aggregate stop loss reinsurance agreement. In connection with this reinsurance agreement, the Company had reinsurance recoverables from Continental on paid and unpaid losses of $190 million as of December 31, 2003. There was no amount outstanding in connection with this agreement at December 31, 2004. Additionally, in connection with the sale of the Company's reinsurance business to SCOR U.S. Corporation in 1996, the Company entered into a reinsurance agreement for the associated post-1984 reinsurance liabilities.

With the exception of industry pools and facilities and the recoverable balances from Lloyd's of London, FHCF and Continental discussed above, the largest reinsurance recoverable balance the

Company had outstanding was $87 million from Employers' Reinsurance Company at both December 31, 2004 and 2003. No other amount due or estimated to be due from any single property-liability reinsurer was in excess of $52 million and $57 million at December 31, 2004 and 2003, respectively.

The allowance for uncollectible reinsurance was $230 million and $101 million at December 31, 2004 and 2003, respectively, and is primarily related to the Company's discontinued lines and coverages segment. There were $9 million and $1 million of deductions related to previous year provisions in 2004 and 2003, respectively.

Allstate Financial

The Company's Allstate Financial segment reinsures certain of its risks to other insurers primarily under yearly renewable term, coinsurance, and coinsurance with funds withheld agreements. These agreements result in a passing of the agreed-upon percentage of risk to the reinsurer in exchange for negotiated reinsurance premium payments. Coinsurance with funds withheld is similar to coinsurance except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company and settlements are made on a net basis between the companies. Allstate Financial cedes 100% of the morbidity risk on its long-term care contracts. Allstate Financial ceded specified percentages of the mortality risk on certain life policies, depending upon the issue date and product, to a pool of thirteen unaffiliated reinsurers. Since November 1998, Allstate Financial ceded mortality risk on new life contracts that exceeded $2 million per life for individual coverage. For business sold prior to October 1998, Allstate Financial ceded mortality risk in excess of specific amounts up to $1 million per life for individual coverage. Also, on certain in-force variable annuity contracts Allstate Financial cedes 100% of the mortality and certain other risks related to product features.

In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. As of December 31, 2004, Allstate Financial ceded $169 million to subsidiaries of Citigroup and Scottish Re (U.S.) Inc. in connection with the disposition of substantially all of the direct response distribution business (see Note 3).

As of December 31, 2004, the gross life insurance in force was $431.60 billion of which $210.01 billion was ceded to the unaffiliated reinsurers.

Reinsurance recoverables at December 31 are summarized in the following table.

(in millions)	Reinsurance recoverable on paid and unpaid claims 2004	2003
Life insurance	$1,010	$ 836
Long-term care	315	180
Other	271	201
Total Allstate Financial	$1,596	$1,217

At December 31, 2004 and 2003, approximately 81% and 97%, respectively, of reinsurance recoverables are due from companies rated A− or better by S&P.

10. Deferred Policy Acquisition and Sales Inducement Costs

Deferred policy acquisition costs for the years ended December 31 are as follows:

	2004		
(in millions)	Allstate Financial	Property-Liability	Total
Balance, beginning of year	$3,517	$ 1,325	$ 4,842
Impact of adoption of SOP 03-1[1]	(134)	—	(134)
Disposition of operation[2]	(238)	—	(238)
Acquisition costs deferred	918	4,009	4,927
Amortization charged to income	(591)	(3,874)	(4,465)
Effect of unrealized gains and losses	36	—	36
Balance, end of year	$3,508	$ 1,460	$ 4,968

	2003		
(in millions)	Allstate Financial	Property-Liability	Total
Balance, beginning of year	$3,205	$ 1,180	$ 4,385
Acquisition costs deferred	816	3,665	4,481
Amortization charged to income	(538)	(3,520)	(4,058)
Effect of unrealized gains and losses	34	—	34
Balance, end of year	$3,517	$ 1,325	$ 4,842

	2002		
(in millions)	Allstate Financial	Property-Liability	Total
Balance, beginning of year	$3,286	$ 1,135	$ 4,421
Acquisition costs deferred	742	3,261	4,003
Amortization charged to income	(478)	(3,216)	(3,694)
Effect of unrealized gains and losses	(345)	—	(345)
Balance, end of year	$3,205	$ 1,180	$ 4,385

(1) The impact of adoption of SOP 03-1 includes a write-down in variable annuity DAC of $108 million, the reclassification of DSI from DAC to other assets resulting in a decrease to DAC of $44 million, an increase to DAC of $8 million for an adjustment to the effect of unrealized capital gains and losses and the reclassification of unearned revenue from DAC to contractholder funds resulting in an increase to DAC of $10 million (see Note 2).

(2) In 2004, DAC was reduced by $238 million related to the disposition of substantially all of Allstate Financial's direct response distribution business (see Note 3).

Amortization charged to income includes $120 million, $46 million and $2 million in 2004, 2003 and 2002, respectively, due to realized capital gains and losses.

In 2004, DSI and related amortization is classified within the Consolidated Statements of Financial Position and Operations as other assets and interest credited to contractholder funds, respectively. Deferred sales inducement activity for Allstate Financial for the twelve months ended December 31, 2004 was as follows:

(in millions)	
Balance, January 1, 2004[1]	$ 99
Sales inducements deferred	55
Amortization charged to income	(45)
Effects of unrealized gains and losses	25
Balance, December 31, 2004	$134

(1) The January 1, 2004 balance includes a $16 million write-down of DSI due to the adoption of SOP 03-1 (see Note 2).

11. Capital Structure

Debt outstanding

Total debt outstanding at December 31 consisted of the following:

(in millions)	**2004**	**2003**
7.875% Senior Notes, due 2005[1]	$ 900	$ 902
5.375% Senior Notes, due 2006[1]	540	545
7.20% Senior Notes, due 2009[1]	750	750
6.125% Senior Notes, due 2012[1]	350	350
5.00% Senior Notes, due 2014[1]	650	—
6.125% Senior Notes, due 2032[1]	250	250
5.350% Senior Notes, due 2033[1]	400	400
7.83% Junior Subordinated Debentures, due 2045, callable	200	200
7.50% Debentures, due 2013	250	250
6.75% Senior Debentures, due 2018	250	250
6.90% Senior Debentures, due 2038	250	250
Synthetic lease VIE obligations, floating rates, due 2006	117	112
Investment management VIE obligations, floating rates, due 2013	279	691
Structured investment security VIE obligations, due 2007	47	45
Floating rate notes, due 2012 to 2017, callable	57	77
Other various notes, due 2008	1	1
Total long-term debt	5,291	5,073
Short-term debt[2]	43	3
Total debt	$5,334	$5,076

(1) Senior Notes are subject to redemption at the Company's option in whole or in part at any time at the greater of either 100% of the principal amount plus accrued and unpaid interest to the redemption date or the discounted sum of the present values of the remaining scheduled payments of principal and interest and accrued and unpaid interest to the redemption date.

(2) The Company classifies any borrowings which have a maturity of twelve months or less at inception as short-term debt.

Total debt outstanding by maturity at December 31 consisted of the following:

(in millions)	2004	2003
Due within one year or less	$ 943	$ 3
Due after one year through 5 years	1,455	1,605
Due after 5 years through 10 years	1,541	2,064
Due after 10 years through 20 years	295	304
Due after 20 years	1,100	1,100
Total debt	$5,334	$5,076

In 2004, the Company issued $650 million of 5.00% senior notes due 2014, the net proceeds of which will be used for general corporate purposes, including to facilitate the repayment of a portion of the $900 million of 7.875% senior notes due 2005 at their scheduled maturity on May 1, 2005.

In 2003, the Company issued $400 million of 5.350% senior notes due 2033, the net proceeds of which were used to redeem the $300 million of 6.75% notes due in 2003 and for general corporate purposes.

In 1996, the Company issued junior subordinated debentures to Allstate Financing II (''AF II''), a VIE, which used the junior subordinated debentures as collateral to issue $200 million of 7.83% mandatorily redeemable preferred securities of subsidiary trust (''trust preferred securities'') to unrelated third party investors. Pursuant to the adoption of FIN 46 on July 1, 2003, the Company is not required to consolidate the VIE because the Company owns none of the variable interests issued by the VIE. AF II issued 200,000 shares of trust preferred securities at $1,000 per share. The sole assets of AF II are junior subordinated debentures issued by the Company. The junior subordinated debentures held by AF II will mature on December 1, 2045 and are redeemable by the Company at a liquidation value of $1,039 per share in whole or in part beginning on December 1, 2006, at which time the trust preferred securities are callable. The liquidation value per share gradually declines each year and remains at a liquidation value of $1,000 per share on December 1, 2016. Dividends on the trust preferred securities are cumulative, payable semi-annually in arrears, and are deferrable at the Company's option for up to 5 years. The obligations of the Company with respect to the junior subordinated debentures and related instruments constitute full and unconditional guarantees by the Company of AF II's obligations under the trust preferred securities, including the payment of the liquidation or redemption price and any accumulated and unpaid interest and yield enhancements, but only to the extent of funds held by the trust.

Allstate will be prohibited from paying dividends on its common stock and any preferred stock that it may issue, or repurchasing capital stock if the Company elects to defer dividend payments on these preferred securities. Dividends on the preferred securities have been reported as interest expense in the Consolidated Statements of Operations for the twelve months of 2004 and the last six months of 2003, and were classified as minority interest and reported as dividends on preferred securities of subsidiary trust in the Consolidated Statements of Operations during 2002 and the first six months of 2003.

Pursuant to the adoption of FIN 46 in 2003, the Company is the primary beneficiary of a consolidated VIE used to acquire a headquarters office building and up to 38 automotive collision repair stores (''synthetic lease VIE''). The Company's Consolidated Statements of Financial Position include $117 million and $112 million of property and equipment, net, and long-term debt as of December 31, 2004 and 2003, respectively. Beginning July 1, 2003, payments previously reported as operating costs and expenses are classified as interest expense.

As of December 31, 2003, the Company was also the primary beneficiary of two previously unconsolidated investment management VIEs and, as a result of consolidation pursuant to FIN 46R, the

Company recognized a cumulative effect adjustment gain of approximately $3 million, after-tax, in 2003. In February 2004, the Company disposed of a portion of its equity investment in one of the consolidated investment management VIEs, which resulted in deconsolidation of that VIE in the first quarter of 2004 (see Note 3). The Company's Consolidated Statements of Financial Position include $304 million and $725 million of assets ($296 million and $663 million of which are classified as investments) and long-term debt of $279 million and $691 million as of December 31, 2004 and 2003, respectively. Despite the consolidation of the debt issued by the investment management VIEs, those investors have no recourse to the equity of the Company as the sole source of payment of the liabilities is the assets of the investment management VIEs. Allstate's maximum loss exposure related to its investment in the investment management VIEs is the current carrying value of its equity investment, which totaled $11 million and $12 million at December 31, 2004 and 2003, respectively.

The Company is also the primary beneficiary of a consolidated structured investment security VIE. The Company's Consolidated Statements of Financial Position include $54 million and $53 million of investments and long term debt of $47 million and $45 million as of December 31, 2004 and 2003, respectively. The holders of the consolidated long-term debt have no recourse to the equity of the Company as the sole source of payment is the assets of the VIE.

To manage short-term liquidity, Allstate can issue commercial paper, draw on its credit facilities, and engage in securities repurchase and resale agreements (see Note 2). The Company currently maintains two credit facilities as a potential source of funds for The Allstate Corporation, AIC and ALIC. These include a $1 billion five-year revolving line of credit expiring in 2009 and a $50 million one-year revolving line of credit expiring in 2005. The five-year facility contains an increase provision that would make up to an additional $500 million available for borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. The right to borrow from the five-year facility is subject to a requirement to maintain a 37.5% debt to capital resources ratio as defined in the agreements. Although the right to borrow under the five-year facility is not subject to a minimum rating requirement, the costs of maintaining the five-year facility and borrowing under it are based on the ratings of our senior, unsecured, nonguaranteed long-term debt. No amounts were outstanding under any of these lines of credit during 2004 and 2003. The Company had $43 million of commercial paper outstanding at December 31, 2004 with a weighted average interest rate of 2.22% and no outstanding balance as of December 31, 2003. The Company paid $301 million, $269 million and $269 million of interest on debt in 2004, 2003 and 2002, respectively.

At December 31, 2004, the Company may issue up to an additional $2.15 billion of debt securities, equity securities, warrants for debt and equity securities, trust preferred securities, stock purchase contracts and stock purchase units under the $2.80 billion shelf registration filed with the Securities and Exchange Commission in 2003.

Capital stock

The Company had 900 million shares of issued common stock of which 683 million were outstanding and 217 million were held in treasury as of December 31, 2004. In 2004, the Company repurchased 29.4 million shares at an average cost of $46.78.

Shareholder rights agreement

In 2003, the Company terminated its Shareholder Rights Agreement and redeemed the "Rights" at a price of $0.01 per Right (approximately $7 million), which was paid on January 2, 2004. The Rights Agreement, under which all shareholders received a dividend distribution of one Right on each outstanding share of the Company's common stock, would have expired on February 12, 2009.

12. Company Restructuring

Restructuring and related charges include employee termination and relocation benefits, post-exit rent expenses, and a non-cash charge resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program.

In 2003, the Company completed the restructuring program initiated in 2001 to improve the efficiency of its claims handling and certain other back-office processes primarily through a consolidation and reconfiguration of field claim offices, customer information centers and satellite offices (''2001 program''). The 2001 program resulted in a reduction of the total number of field claim offices and an increase in the average size of individual claim offices. In addition, two customer information centers and two satellite offices were closed. As part of the 2001 program, employees working in facilities selected for closure were given the option to either relocate or collect severance benefits. The Company realized approximately $175 million of annual pre-tax expense savings as a result of implementing the 2001 program.

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

The following table illustrates the inception to date change in the restructuring liability at December 31, 2004:

(in millions)	Employee costs	Exit costs	Total liability
2001 program:			
2001 program liability at inception	$ 17	$ 79	$ 96
Net adjustments to liability	5	(8)	(3)
Payments applied against the liability	(22)	(69)	(91)
2001 program liability at December 31, 2004	—	2	2
Other programs:			
Other programs liability at inception	35	17	52
Payments applied against the liability	(21)	(10)	(31)
Other programs liability at December 31, 2004	14	7	21
Balance at December 31, 2004	$ 14	$ 9	$ 23

In 2004, the Company eliminated the remaining $10 million of an accrual established in prior years for post-exit rent expenses as a result of the Company's ability to occupy the previously vacant leased space for the remainder of the lease term.

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

13. Commitments, Guarantees and Contingent Liabilities

Leases

The Company leases certain office facilities and computer equipment. Total rent expense for all leases was $367 million, $367 million and $425 million in 2004, 2003 and 2002, respectively.

Minimum rental commitments under noncancelable capital and operating leases with an initial or remaining term of more than one year as of December 31, 2004 are as follows:

(in millions)	Capital leases	Operating leases
2005	$ 2	$220
2006	2	163
2007	2	116
2008	2	85
2009	2	70
Thereafter	24	162
	$34	$816
Present value of minimum lease payments	$18	

California Earthquake Authority

Exposure to certain potential losses from earthquakes in California is limited by the Company's participation in the California Earthquake Authority ("CEA"), which provides insurance for California earthquake losses. The CEA is a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Insurers selling homeowners insurance in California are required to offer earthquake insurance to their customers either through their company or by participation in the CEA. The Company's homeowners policies continue to include coverages for losses caused by explosions, theft, glass breakage and fires following an earthquake, which are not underwritten by the CEA.

Should losses arising from an earthquake cause a deficit in the CEA, additional funding would be obtained through assessments on participating insurance companies and reinsurance proceeds. Participating insurers are required to pay an assessment, currently estimated not to exceed $2.18 billion, if the capital of the CEA falls below $350 million. Participating insurers are required to pay a second assessment, currently estimated not to exceed $1.46 billion, if aggregate CEA earthquake losses exceed $5.14 billion and the capital of the CEA falls below $350 million. At December 31, 2004, the CEA's capital balance was approximately $1.81 billion. 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 only assessment made by the CEA has been its initial assessment paid by participating insurers beginning in 1996. The authority of the CEA to assess participating insurers for the first assessment expires when it has completed twelve years of operation, at year-end 2008. All future assessments on participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. As of December 31, 2003, the Company's share of the CEA was 23%. Allstate does not expect its CEA market share to materially change. At this level, the Company's maximum possible CEA assessment would be $830 million. However, Allstate does not expect its portion of these additional contingent assessments, if any, to exceed $498 million, its share of the first assessment. This is based on the low likelihood of an event exceeding the CEA claims paying capacity of $5.14 billion, and therefore the need for a second assessment is remote. Management believes Allstate's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

Florida hurricane assessments

Floridian and Allstate Floridian Indemnity Company ("AFI") sell and service Allstate's Florida residential property policies and have access to reimbursements on certain qualifying Florida hurricane

losses (see Note 9), as well as exposure to assessments from the FHCF. The FHCF has the authority to issue bonds to pay its obligations to participating insurers in excess of its capital balances, which are funded by assessments on all property and casualty premiums in the state, except workers' compensation, medical malpractice and accident and health insurance. By law, these assessments are the obligation of insurance policyholders, which insurance companies must collect. The FHCF assessments are limited to 6% of premiums per year beginning the first year in which reimbursements require bonding, and up to a total of 10% of premiums per year for assessments in the second and subsequent years, if required to fund additional bonding. Upon the order of the Florida Office of Insurance Regulation (''FL OIR''), companies are required to collect the FHCF assessments directly from residential property policyholders and remit them to the FHCF as they are collected.

In addition, Floridian and AFI are subject to assessments from Citizens Property Insurance Corporation (''Citizens''), which was created by the state of Florida to provide insurance to property owners unable to obtain coverage in the private insurance market. Citizens, at the discretion and direction of its Board of Directors, can levy a Regular Assessment on participating companies for a deficit in any calendar year equal to the greater of 10% of the deficit or 10% of Florida property premiums industry-wide for the prior 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. A rate filing or any portion of a rate change attributable entirely to an assessment is subject to the FL OIR's statutory authority to review the ''adequacy'' of any rate at any time. If a deficit remains after the Regular Assessment, Citizens can also fund the remaining deficit by issuing bonds. The costs of these bonds are then funded through Emergency Assessments in subsequent years. Companies are required to collect the Emergency Assessments directly from residential property policyholders and remit them to Citizens as they are collected. Participating companies are obligated to purchase any unsold bonds issued by Citizens. In order to recoup its Citizens assessment, an insurer must file for a policy surcharge with the FL OIR at least 15 days prior to imposing the surcharge on policies.

While facilities such as the FHCF and Citizens are designed so that the ultimate cost is borne by policyholders, the exposure to assessments and the availability of recoveries from these facilities may not offset each other. Moreover, even if they do offset each other, they may not offset each other in the same fiscal period's financial statements. This would be due to the ultimate timing of the assessments and recoupments, as well as the possibility of policies not being renewed in subsequent years. Citizens is expected to report higher losses from the hurricanes that struck Florida in the third quarter of 2004. Its Board of Directors is meeting in March 2005 to review its financial condition and determine if it will assess the industry.

Other hurricane exposure

The Company has also mitigated its ultimate exposure to hurricanes by placing insurance coverage with a third party; examples include insurance coverage in areas of Florida where Floridian and AFI do not write homeowners insurance and in Hawaii for hurricane insurance coverage to a non-affiliated company.

Shared markets

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

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. The Company's policy is to accrue assessments as the related written premium upon which the assessment is based is written. The Company's expenses related to these funds have totaled $58 million, $61 million and $38 million in 2004, 2003 and 2002, respectively.

PMI runoff support agreement

The Company has certain limited rights and obligations under a capital support agreement (''Runoff Support Agreement'') with PMI Mortgage Insurance Company (''PMI''), the primary operating subsidiary of PMI Group. Under the Runoff Support Agreement, the Company would be required to pay claims on PMI policies written prior to October 28, 1994 if PMI fails certain financial covenants and fails to pay such claims. In the event any amounts are so paid, the Company would receive a commensurate amount of preferred stock or subordinated debt of PMI Group or PMI. The Runoff Support Agreement also restricts PMI's ability to write new business and pay dividends under certain circumstances. Management does not believe this agreement will have a material adverse effect on results of operations, liquidity or financial position of the Company.

Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective December 31, 2004, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $19 million at December 31, 2004. The remaining term of each residual value guarantee is equal to the term of the underlying lease that range from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities, as measured by their par value was $151 million at December 31, 2004. The obligations associated with these fixed income securities expire at various times during the next seven years.

Lincoln Benefit Life Company (''LBL''), a wholly owned subsidiary of ALIC, has issued universal life insurance contracts to third parties who finance the premium payments on the universal life insurance contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance that is fully collateralized by the cash surrender value of the universal life insurance contracts. At December 31, 2004, the amount due under the commercial paper program is $301 million and the cash surrender value of the policies is $305 million. The repayment guarantee expires April 30, 2006.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering

the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of December 31, 2004.

Regulation

The Company is subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to influence and restrict premium rates in a manner adverse to insurers, restrict the ability of insurers to cancel policies, limit insurers' ability to impose underwriting standards, impose additional regulations regarding agent and broker compensation and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company's business, if any, are uncertain.

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

Legal proceedings

Background

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

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the timing of their resolutions relative to other similar cases brought against other companies, the fact that many of these matters are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined, the fact that many of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies.
- In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought include punitive or treble damages or are not specified. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In those cases where plaintiffs have made a specific demand for monetary damages, they often specify damages just below a jurisdictional limit regardless of the facts of the case. This represents the maximum

they can seek without risking removal from state court to federal court. In our experience, monetary demands in plaintiffs' court pleadings bear little relation to the ultimate loss, if any, to the Company.

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

Proceedings

There are two active nationwide class action lawsuits against Allstate regarding its specification of after-market (non-original equipment manufacturer) replacement parts in the repair of insured vehicles. One of these suits alleges that the specification of such parts constitutes breach of contract and fraud, and this suit mirrors to a large degree lawsuits filed against other carriers in the industry. These plaintiffs allege that after-market parts are not ''of like kind and quality'' as required by the insurance policy, and they are seeking actual and punitive damages. The Company has been vigorously defending this lawsuit, but its outcome is uncertain. In the second lawsuit, plaintiffs allege that Allstate and three co-defendants have violated federal antitrust laws by conspiring to manipulate the price of auto physical damage coverages in such a way that not all savings realized by the use of aftermarket parts are passed on to the policyholders. These plaintiffs seek actual and treble damages. In November 2002, a nationwide class was certified in this case. The defendants filed a petition to appeal the class certification. The Eleventh Circuit Court of Appeals did not reach the question of class certification, but ruled in favor of the defendants and ordered the lower court to dismiss the case on the grounds that under the McCarran-Ferguson Act, the defendants' alleged actions are not covered by the federal antitrust laws. The plaintiffs filed a motion for reconsideration, which was denied by the court on January 25, 2005. The Company is awaiting further actions, if any, by the plaintiffs.

There are several statewide and nationwide class action lawsuits pending against Allstate alleging that its failure to pay ''inherent diminished value'' to insureds under the collision, comprehensive, uninsured motorist property damage, or auto property damage liability provisions of auto policies constitutes breach of contract and fraud. Plaintiffs define ''inherent diminished value'' as the difference between the market value of the insured automobile before an accident and the market value after repair. Plaintiffs allege that they are entitled to the payment of inherent diminished value under the terms of the policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. These lawsuits are pending in various state and federal courts, and they are in various stages of development. Classes have been certified in only two cases. Both are multi-state class actions. A trial in one of these multi-state class action cases involving collision and comprehensive coverage concluded on April 29, 2004, with a jury verdict in favor of the Company. The plaintiffs made a motion for a new trial, which was denied, and have now filed an appeal from the judgment. In the other certified class action lawsuit, which involves uninsured motorist property damage coverage, the appellate court has granted the Company's petition for review of the order of certification. The Company has been vigorously defending all of these lawsuits and, since 1998, has been implementing policy language in more than 40 states

reaffirming that its collision and comprehensive coverages do not include diminished value claims. The outcome of these disputes remains uncertain.

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

A number of nationwide and statewide putative class actions are pending against Allstate, which challenge Allstate's use of certain automated database vendors in valuing total loss automobiles. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Plaintiffs allege that flaws in these databases result in valuations to the detriment of insureds. The plaintiffs are seeking actual and punitive damages. The lawsuits are in various stages of development and Allstate has been vigorously defending them, but the outcome of these disputes is currently uncertain.

The Company is defending a putative nationwide class action that alleges that the Company discriminates against non-Caucasian policyholders, through underwriting and rate-making practices including the use of credit by charging them higher premiums. The plaintiffs seek both monetary relief, in the form of actual and punitive damages, and equitable relief, in the form of injunctive and other remedies. The Company is also defending a putative statewide class action challenging its use of credit under certain state insurance statutes. These plaintiffs seek monetary and equitable relief. The Company removed the case to Federal Court. Plaintiff's motion to remand to state court was denied and is now being appealed. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a number of putative class actions and one certified class action challenging the overtime exemption claimed by the Company under the Fair Labor Standards Act or state wage and hour laws. In the one certified class action, the trial court has found Allstate liable and the case will proceed to trial on damages. In these cases, Plaintiffs seek monetary relief, such as penalties and liquidated damages, and non-monetary relief, such as injunctive relief and an accounting. These class actions mirror similar lawsuits filed recently against other carriers in the industry and other employers. A putative nationwide class action filed by former employee agents also includes a worker classification issue; these agents are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. This matter was dismissed with prejudice in late March 2004 by the trial court but is the subject of further proceedings on appeal. Allstate has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is defending certain matters relating to the Company's agency program reorganization announced in 1999. These matters include a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") alleging retaliation under federal civil rights laws, a class action filed in August 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act, breach of contract and ERISA violations, and a lawsuit filed in October 2004 by the EEOC alleging age discrimination with respect to a policy limiting the rehire of agents affected by the agency program reorganization. The Company is also defending another action, in which a class was certified in June 2004, filed by former employee agents who terminated their employment prior to the agency program reorganization. These plaintiffs have asserted claims under

ERISA and for constructive discharge, and are seeking the benefits provided in connection with the reorganization. In late March 2004, in the first EEOC lawsuit and class action lawsuit, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court's declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to Allstate "any and all benefits received by the [agent] in exchange for signing the release." The court also "concluded that, on the undisputed facts of record, there is no basis for claims of age discrimination." The EEOC and plaintiffs have asked the court to clarify and/or reconsider its memorandum and order. The case otherwise remains pending. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA. This matter was dismissed with prejudice in late March 2004 by the trial court but is the subject of further proceedings on appeal. In these matters, plaintiffs seek compensatory and punitive damages, and equitable relief. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, Allstate is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the EEOC with respect to allegations of age discrimination and retaliation. Allstate is cooperating with the agency investigation and will continue to vigorously defend these and other claims related to the life agency program reorganization. The outcome of these disputes is currently uncertain.

The Company is defending a number of lawsuits brought by plaintiffs challenging trading restrictions the Company adopted in an effort to limit market-timing activity in its variable annuity sub-accounts. In one case, plaintiffs' motion for summary judgment on their breach of contract claims was granted and the matter will proceed to trial on damages. In these various lawsuits, plaintiffs seek a variety of remedies including monetary and equitable relief. The Company has been vigorously defending these matters, but their outcome is currently uncertain.

Other Matters

The Company and some of its agents and subsidiaries have received interrogatories and demands to produce information from several regulatory and enforcement authorities. These authorities are seeking information relevant to on-going investigations into the possible violation of antitrust or insurance laws by unnamed parties and, in particular, are seeking information as to whether any person engaged in activities for the purpose of price fixing, market allocation, or bid rigging. Published press reports have indicated that numerous demands of this nature have been sent to insurance companies as part of industry-wide investigations. The Company has cooperated and intends to continue to cooperate with these and any similar requests for information.

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

Asbestos and environmental

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

Allstate's reserves for asbestos claims were $1.46 billion and $1.08 billion, net of reinsurance recoverables of $963 million and $504 million at December 31, 2004 and 2003, respectively. Reserves for environmental claims were $232 million and $257 million, net of reinsurance recoverables of $49 million and $58 million at December 31, 2004 and 2003, respectively. Approximately 62% and 60% of the total net asbestos and environmental reserves at December 31, 2004 and 2003, respectively, were for incurred but not reported estimated losses.

Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, unresolved legal issues regarding policy coverage, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, plaintiffs' evolving and expanded theories of liability, the risks inherent in major litigation, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, and estimating the extent and timing of any contractual liability, and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

14. Income Taxes

The Company and its eligible domestic subsidiaries file a consolidated federal income tax return. Tax liabilities and benefits realized by the consolidated group are allocated as generated by the respective entities. Tax liabilities and benefits of ineligible domestic subsidiaries are computed separately based on taxable income of the individual subsidiary and reported on separate federal tax returns.

The Internal Revenue Service ("IRS") has completed its review of the Company's federal income tax returns through the 1996 tax year. Any adjustments that may result from IRS examinations of tax returns

are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

The components of the deferred income tax assets and liabilities at December 31 are as follows:

(in millions)	2004	2003
Deferred assets		
Discount on loss reserves	$ 444	$ 452
Unearned premium reserves	675	620
Life and annuity reserves	975	734
Other postretirement benefits	264	249
Other assets	478	488
Total deferred assets	2,836	2,543
Deferred liabilities		
Deferred policy acquisition costs	(1,557)	(1,549)
Unrealized net capital gains	(1,609)	(1,679)
Pension	(267)	(237)
Other liabilities	(232)	(181)
Total deferred liabilities	(3,665)	(3,646)
Net deferred liability	$ (829)	$(1,103)

Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized based on the assumption that certain levels of income will be achieved. The total amount of the valuation allowance reducing deferred tax assets was $2 million and $8 million at December 31, 2004 and 2003, respectively.

The components of income tax expense for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Current	$1,280	$538	$ (8)
Deferred	(50)	308	73
Total income tax expense	$1,230	$846	$65

The Company paid income taxes of $1.21 billion and $279 million in 2004 and 2003, respectively, and received net income tax refunds of $14 million in 2002. The Company had a current income tax payable of $145 million and $125 million at December 31, 2004 and 2003, respectively.

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the years ended December 31 is as follows:

	2004	2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
Tax-exempt income	(7.4)	(9.1)	(20.0)
Adjustment to prior year tax liabilities	(0.2)	(1.6)	(8.5)
Other	(0.6)	(0.6)	(2.2)
Effective income tax rate	26.8%	23.7%	4.3%

Prior to January 1, 1984, ALIC and certain other life insurance subsidiaries included in the Allstate Financial segment were entitled to exclude certain amounts from taxable income and accumulate such amounts in a "policyholder surplus" account. Pursuant to the American Jobs Creation Act of 2004 ("the 2004 Act"), ALIC and the affected subsidiaries can reduce the policyholders surplus account in 2005 and 2006 without incurring any tax liability. The aggregate balance in this account at December 31, 2004 was $103 million, which prior to the 2004 Act would have resulted in federal income taxes payable of $36 million if such amounts had been distributed or deemed distributed from the policyholders surplus account. No provision for taxes has ever been made for this item since the affected subsidiaries had no intention of distributing such amounts. ALIC and the affected subsidiaries expect to utilize this provision, thereby eliminating or substantially reducing this potential tax liability.

15. Statutory Financial Information

Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual ("Codification"), subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director.

Statutory accounting practices primarily differ from GAAP since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing investments and establishing deferred taxes on a different basis.

Statutory net income and capital and surplus of Allstate's domestic insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities are as follows:

	Net income			Capital and Surplus	
(in millions)	**2004**	**2003**	**2002**	**2004**	**2003**
Amounts by major business type:					
Property-Liability	$3,334	$2,976	$1,626	$13,111	$12,541
Allstate Financial	294	605	92	3,804	3,746
Amount per statutory accounting practices	$3,628	$3,581	$1,718	$16,915	$16,287

The Property-Liability statutory capital and surplus balances above exclude wholly-owned subsidiaries included in the Allstate Financial segment.

Dividends

The ability of the Company to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends from AIC and other relevant factors. The payment of shareholder dividends by AIC without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus, determined in conformity with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months. Notification and approval of inter-company lending activities is also required by the Illinois Department of

Insurance ("IL DOI") for transactions that exceed a level that is based on a formula using statutory admitted assets and statutory surplus.

In the twelve-month period beginning January 1, 2004, AIC paid dividends of $2.49 billion, which was less than the maximum amount allowed under Illinois insurance law, without the prior approval of the IL DOI based on 2003 formula amounts. Based on 2004 AIC statutory net income, the maximum amount of dividends AIC will be able to pay without prior IL DOI approval at a given point in time during 2005 is $3.86 billion, less dividends paid during the preceding twelve months measured at that point in time.

16. Benefit Plans

Pension and other postretirement plans

Defined benefit pension plans cover most full-time employees, certain part-time employees and employee-agents. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. A cash balance formula was added to the Allstate Retirement Plan effective January 1, 2003. All eligible employees hired before August 1, 2002 were provided with a one-time opportunity to choose between the cash balance formula and the final average pay formula. The cash balance formula applies to all eligible employees hired after August 1, 2002.

The Company also provides certain health care and life insurance subsidies for employees hired before January 1, 2003 when they retire ("Postretirement benefits"). Qualified employees may become eligible for these benefits if they retire in accordance with the Company's established retirement policy and are continuously insured under the Company's group plans or other approved plans in accordance with the plan's participation requirements. The Company shares the cost of the retiree medical benefits with retirees based on years of service, with the Company's share being subject to a 5% limit on annual medical cost inflation after retirement. The Company has the right to modify or terminate these plans.

Obligations and funded status

The Company calculates benefit obligations based upon generally accepted actuarial methodologies using the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation for other postretirement plans. The determination of pension costs and other postretirement obligations as of December 31 are determined using an October 31 measurement date. The benefit obligations are the actuarial present value of all benefits attributed to employee service rendered. The PBO is measured using the pension benefit formula and assumptions as to future compensation levels. A plan's funded status is calculated as the difference between the benefit obligation and the fair value of plan assets. The Company's funding policy for the pension plans is to make annual contributions in accordance with regulations under the Internal Revenue Code ("IRC") and in accordance with generally accepted actuarial principles. The Company's postretirement benefit plans are not funded.

A reconciliation of the plans' funded status to amounts recognized in the Consolidated Statements of Financial Position as of December 31 is as follows:

(in millions)	Pension benefits		Postretirement benefits	
	2004	2003	2004	2003
Fair value of plan assets	$3,983	$3,437	$ —	$ —
Benefit obligation	4,981	4,317	1,244	1,163
Funded status	(998)	(880)	(1,244)	(1,163)
Amounts not recognized:				
Unamortized prior service cost	(27)	(32)	(14)	(16)
Unrecognized net actuarial loss	2,333	2,044	290	277
Net amount recognized	$1,308	$1,132	$ (968)	$ (902)
Prepaid benefit costs	$ 980	$ 814	$ —	$ —
Accrued benefit cost	(279)	(243)	(968)	(902)
Intangible assets	8	9	—	—
Accumulated other comprehensive income	599	552	—	—
Net amount recognized	$1,308	$1,132	$ (968)	$ (902)

The majority of the $2.33 billion and $2.04 billion of unrecognized net actuarial pension benefit losses in 2004 and 2003, respectively, reflect the effect of increases in the PBO resulting from decreases in the discount rate as well as the impact of unfavorable equity market conditions on the value of the pension plan assets in prior years. Allstate amortizes its excess unrecognized net actuarial losses over the average remaining service period of active employees expected to receive benefits.

The accumulated benefit obligation ("ABO") for all defined benefit pension plans was $4.14 billion and $3.62 billion at December 31, 2004 and 2003, respectively. The ABO is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered. However, it differs from the PBO due to the exclusion of an assumption as to future compensation levels. A minimum pension liability is recognized as a reduction to accumulated other comprehensive income when the ABO exceeds the fair value of plan assets. In 2004, the minimum pension liability increased by $30 million, after-tax, and was reported as a decrease to accumulated other comprehensive income. In 2003, the Company recorded a decrease in the minimum pension liability of $461 million, after-tax, which was reported as an increase to accumulated other comprehensive income.

The PBO, ABO, and fair value of plan assets for the Company pension plans with an ABO in excess of plan assets were $1.09 billion, $1.04 billion, and $758 million, respectively as of December 31, 2004, and $945 million, $934 million, and $692 million, respectively, as of December 31, 2003.

Included in the accrued benefit cost of the pension benefits are certain unfunded non-qualified plans with accrued benefit costs of $116 million and $83 million for 2004 and 2003, respectively.

The changes in benefit obligations for all plans for the years ended December 31 are as follows:

(in millions)	Pension benefits 2004	Pension benefits 2003	Postretirement benefits 2004	Postretirement benefits 2003
Change in benefit obligation				
Benefit obligation, beginning of year	$4,317	$3,684	$1,163	$1,032
Service cost	157	134	28	18
Interest cost	268	254	71	71
Participant contributions	1	1	39	32
Actuarial loss	496	472	27	91
Benefits paid	(266)	(250)	(86)	(84)
Translation adjustment and other	8	22	2	3
Benefit obligation, end of year	$4,981	$4,317	$1,244	$1,163

Benefits paid include lump sum distributions, a portion of which may trigger settlement accounting treatment.

Components of net periodic cost

The components of net periodic cost for all plans for the years ended December 31 are as follows:

(in millions)	Pension benefits 2004	Pension benefits 2003	Pension benefits 2002	Postretirement benefits 2004	Postretirement benefits 2003	Postretirement benefits 2002
Service cost	$ 157	$ 134	$ 123	$ 28	$18	$16
Interest cost	268	254	233	71	71	67
Expected return on plan assets	(288)	(221)	(306)	—	—	—
Amortization of:						
Prior service costs	(3)	(3)	5	(1)	(1)	(1)
Unrecognized transition obligation	—	(1)	1	—	—	—
Net loss	121	92	11	14	8	5
Settlement loss	41	43	59	—	—	—
Net periodic cost	$ 296	$ 298	$ 126	$112	$96	$87

Assumptions

Weighted average assumptions used to determine net pension cost and net postretirement benefit cost for the years ended December 31 are:

	Pension benefits 2004	Pension benefits 2003	Pension benefits 2002	Postretirement benefits 2004	Postretirement benefits 2003	Postretirement benefits 2002
Weighted average discount rate	6.25%	7.0%	7.25%	6.25%	7.0%	7.25%
Rate of increase in compensation levels	4.0-4.5	4.0-5.0	4.0-5.0	n/a	n/a	n/a
Expected long-term rate of return on plan assets	8.5	8.5	9.5	n/a	n/a	n/a

Weighted-average assumptions used to determine benefit obligations at December 31, based on an October 31 measurement date, are:

	Pension benefits		Postretirement benefits	
	2004	2003	2004	2003
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of increase in compensation levels	4.0-4.5	4.0-5.0	n/a	n/a

The weighted average health care cost trend rate used in measuring the accumulated postretirement benefit cost is 10.50% for 2005, gradually declining to 5.50% in 2010 and remaining at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage-point increase in assumed health care cost trend rates would increase the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the accumulated postretirement benefit obligation by $6 million and $62 million, respectively. A one percentage-point decrease in assumed health care cost trend rates would decrease the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the accumulated postretirement benefit obligation by $8 million and $54 million, respectively.

Plan Assets

The pension plans target percentage of plan assets at 2004 and the actual percentage of plan assets, by asset category at December 31 are as follows:

	Target percentage of plan assets	Percentage of plan assets	
Asset Category	**2004**	**2004**	**2003**
Equity securities	66%	62%	63%
Fixed income securities	29	31	32
Real estate	1	1	—
Other	4	6	5
Total	100%	100%	100%

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. This assumption is reviewed annually giving consideration to appropriate financial data including, but not limited to, the plan asset allocation, the period over which benefits will be paid, historical returns on plan assets and other relevant market data. As of the 2004 measurement date, the arithmetic average of the annual actual return on plan assets for the most recent 10 and 5 years was 10.8% and 1.7%, respectively. This is consistent with the allocation used to determine the long-term return on plan assets assumption at December 31, 2004 and 2003 of 8.5%.

The change in pension plan assets for the years ended December 31 is as follows:

(in millions)	Pension benefits 2004	Pension benefits 2003
Fair value of plan assets, beginning of year	$3,437	$2,322
Actual return on plan assets	340	475
Employer contribution	468	871
Benefits paid	(266)	(250)
Translation adjustment and other	4	19
Fair value of plan assets, end of year	$3,983	$3,437

Cash Flows

There was no minimum funding requirement under the IRC for the tax qualified pension plans as of December 31, 2004. The company currently plans to contribute $71 million to its pension plans in 2005. This plan is subject to revision at the discretion of management.

The Company contributed to the postretirement benefit plans $47 million and $51 million in 2004 and 2003, respectively. The Company estimates that it will contribute $59 million for its postretirement benefit plans in 2005. Contributions by participants to the postretirement benefit plans were $39 million and $32 million for the years ending December 31, 2004 and 2003, respectively.

Estimated Future Benefit Payments

Estimated future benefit payments expected to be paid in the next ten years based on the assumptions used to measure the Company's benefit obligation at December 31, 2004 are as follows:

(in millions)	Pension benefits	Postretirement benefits
2005	$ 188	$ 59
2006	204	62
2007	230	66
2008	268	68
2009	323	72
2010-2014	2,182	407
Total benefit payments	$3,395	$734

Profit sharing plans

Employees of the Company, with the exception of those employed by the Company's Canadian subsidiaries and Sterling, are eligible to become members of The Savings and Profit Sharing Fund of Allstate Employees ("Allstate Plan"). The Company's contributions are based on the Company's matching obligation and performance. The Allstate Plan includes an ESOP to pre-fund a portion of the Company's anticipated contribution. In connection with the Allstate Plan, the Company has a note from the ESOP with a current principal balance of $70 million. The ESOP note has a fixed interest rate of 7.9% and matures in 2019.

The Company's contribution to the Allstate Plan was $112 million, $125 million and $120 million in 2004, 2003 and 2002, respectively. These amounts were reduced by the ESOP benefit computed for the years ended December 31 as follows:

(in millions)	2004	2003	2002
Interest expense recognized by ESOP	$ 6	$ 8	$ 10
Less dividends accrued on ESOP shares	(14)	(14)	(26)
Cost of shares allocated	17	24	27
	9	18	11
Reduction of defined contribution due to ESOP	107	128	120
ESOP benefit	$ (98)	$(110)	$(109)

The Company contributed $24 million, $34 million and $10 million to the ESOP in 2004, 2003 and 2002, respectively. At December 31, 2004, total committed to be released, allocated and unallocated ESOP shares were 2 million, 26 million, and 11 million, respectively.

Allstate has profit sharing plans for eligible employees of its Canadian insurance subsidiaries and Sterling. Profit sharing expense for these plans is not significant.

17. Equity Incentive Plans

The Company has three equity incentive plans which permit the Company to grant nonqualified stock options, incentive stock options, restricted or unrestricted shares of the Company's stock and restricted stock units to certain employees and directors of the Company. A maximum of 78.1 million shares of common stock will be subject to awards under the plans, subject to adjustment in accordance with the plans' terms. At December 31, 2004 and 2003, 22.7 million and 26.9 million shares, respectively, were reserved and remained available for future issuance under these plans. To date, the Company has not issued incentive stock options. During 2004, 2003 and 2002, the Company issued 0.6 million, 1.1 million and .1 million shares of restricted stock, respectively, to employees under the plans. The weighted average grant date fair value of these restricted shares was $45.98, $32.00 and $37.20 as of December 31, 2004, 2003 and 2002, respectively. Generally, the restricted shares unrestrict in full on the fourth anniversary of the grant date, with awards subject to forfeiture upon termination (other than termination due to retirement, upon which shares continue to unrestrict as provided for in the original grant).

The Company records compensation expense for the restricted shares over the vesting period and the unamortized cost of the restricted shares is included in deferred compensation expense as a component of shareholders' equity. In 2003, the Company began prospectively expensing the fair value of all stock options granted on or after January 1, 2003 in accordance with SFAS 148 (see Note 2). Options are granted under the plans at exercise prices equal to the fair value of the Company's common stock on the applicable grant date. The options granted under the Allstate plans generally vest ratably over a three or four-year period. The options granted may be exercised once vested and will expire ten years after the date of grant.

The changes in stock options for the years ended December 31 are as follows:

(number of shares in thousands)	2004	Weighted average exercise price	2003	Weighted average exercise price	2002	Weighted average exercise price
Beginning balance	32,597	$34.12	31,957	$33.57	25,544	$32.96
Granted	4,272	45.93	4,724	32.28	8,508	33.52
Exercised	(7,560)	31.32	(3,198)	25.34	(1,263)	20.42
Canceled or expired	(608)	35.67	(886)	35.90	(832)	34.53
Ending balance	28,701	36.59	32,597	34.12	31,957	33.57
Exercisable	16,440	35.30	18,448	34.11	16,026	32.40
Weighted average fair value (at grant date) for options granted during the year	$ 12.10		$ 8.08		$ 8.81	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for grants in 2004, 2003 and 2002; dividend yield of 2.4%, 2.7% and 2.5%, respectively; volatility factor of 30%; risk-free interest rate of 3.28%, 3.15% and 4.94%, respectively; and expected life of six years.

Information on the range of exercise prices for options outstanding as of December 31, 2004 is as follows:

(number of shares in thousands)	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at 12/31/2004	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable at 12/31/2004	Weighted average exercise price
$12.82 - $26.69	3,088	$25.12	4.48 years	3,088	$25.12
$27.44 - $33.38	9,732	32.74	7.33	3,402	32.96
$34.50 - $42.00	9,826	38.87	5.15	8,097	38.49
$42.25 - $50.79	6,055	44.92	7.31	1,853	42.64
	28,701	36.59	6.27	16,440	35.30

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

(in millions except per share data)	2004	2003	2002
Net income, as reported	$3,181	$2,705	$1,134
Add: Employee stock option expense included in reported net income, after-tax	14	9	—
Deduct: Total employee stock option expense determined under fair value based method for all awards, after-tax	(40)	(40)	(40)
Pro forma net income	$3,155	$2,674	$1,094
Earnings per share—basic			
As reported	$ 4.57	$ 3.85	$ 1.60
Pro forma	4.54	3.80	1.55
Earnings per share—diluted			
As reported	4.54	3.83	1.60
Pro forma	4.51	3.79	1.54

18. Business Segments

Allstate management is organized around products and services, and this structure is considered in the identification of its four reportable segments. These segments and their respective operations are as follows:

Allstate Protection sells principally private passenger auto and homeowners insurance in the United States and Canada. Revenues generated outside the United States were $622 million, $596 million and $509 million for the years ended December 31, 2004, 2003 and 2002, respectively. The Company evaluates the results of this segment based upon underwriting results.

Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and other discontinued lines exposures, and certain commercial and other business in run-off. This segment also includes the historical results of the commercial and reinsurance businesses sold in 1996. The Company evaluates the results of this segment based upon underwriting results.

Allstate Financial sells life insurance, retirement and investment products to individual and institutional customers. Individual retail products include traditional life, interest-sensitive life, supplemental accident and health insurance, variable life, long-term care insurance, variable and fixed annuities and funding agreements. Banking products and services are also offered to customers through the Allstate Bank. The principal institutional product is funding agreements backing medium-term notes. Revenues generated outside the United States were immaterial with respect to Allstate Financial total revenues for the years ended December 31, 2004, 2003 and 2002. The Company evaluates the results of this segment based upon operating income.

Corporate and Other comprises holding company activities and certain non-insurance operations.

Allstate Protection and Discontinued Lines and Coverages together comprise Property-Liability. The Company does not allocate Property-Liability investment income, realized capital gains and losses, or assets to the Allstate Protection and Discontinued Lines and Coverages segments. Management reviews assets at the Property-Liability, Allstate Financial, and Corporate and Other levels for decision-making purposes.

The accounting policies of the business segments are the same as those described in Note 2. The effects of certain inter-segment transactions are excluded from segment performance evaluation and therefore eliminated in the segment results.

Measuring segment profit or loss

The measure of segment profit or loss used by Allstate's management in evaluating performance is underwriting income (loss) for the Allstate Protection and Discontinued Lines and Coverages segments and operating income (loss) for Allstate Financial and Corporate and Other segments. A reconciliation of these measures to income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax, is provided below.

Underwriting income (loss) is calculated as premiums earned, less claims and claims expenses ("losses"), amortization of DAC, operating costs and expenses, and restructuring and related charges as determined using GAAP.

Operating income (loss) is income (loss) before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax, excluding:

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

Summarized revenue data for each of the Company's business segments for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Revenues			
Property-Liability			
Property-liability insurance premiums			
Standard Auto	$15,498	$14,601	$13,861
Non-standard auto	1,984	2,238	2,502
Auto	17,482	16,839	16,363
Homeowners	5,878	5,386	4,745
Other	2,623	2,439	2,243
Allstate Protection	25,983	24,664	23,351
Discontinued Lines and Coverages	6	13	10
Total property-liability insurance premiums	25,989	24,677	23,361
Net investment income	1,773	1,677	1,656
Realized capital gains and losses	592	288	(496)
Total Property-Liability	28,354	26,642	24,521
Allstate Financial			
Life and annuity premiums and contract charges			
Traditional Life	321	388	403
Immediate annuities with life contingencies	316	413	416
Accident, health and other	408	564	552
Total life and annuity premiums	1,045	1,365	1,371
Interest-sensitive life	729	688	672
Fixed annuities	52	37	32
Variable annuities	246	206	212
Institutional products	—	8	6
Total contract charges	1,027	939	922
Total life and annuity premiums and contract charges	2,072	2,304	2,293
Net investment income	3,410	3,233	3,121
Realized capital gains and losses	1	(85)	(432)
Total Allstate Financial	5,483	5,452	4,982
Corporate and Other			
Service fees	12	13	40
Net investment income	101	62	72
Realized capital gains and losses	(2)	(7)	4
Total Corporate and Other before reclassification of service fees	111	68	116
Reclassification of service fees[1]	(12)	(13)	(40)
Total Corporate and Other	99	55	76
Consolidated Revenues	$33,936	$32,149	$29,579

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

Summarized financial performance data for each of the Company's reportable segments for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax			
Property-Liability			
Underwriting income (loss)			
Allstate Protection	$2,468	$1,903	$ 497
Discontinued Lines and Coverages	(638)	(571)	(234)
Total underwriting income	1,830	1,332	263
Net investment income	1,773	1,677	1,656
Income tax expense on operations	955	682	290
Realized capital gains and losses, after-tax	397	192	(314)
Gain on disposition of operations, after-tax	–	3	6
Property-Liability income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	3,045	2,522	1,321
Allstate Financial			
Life and annuity premiums and contract charges	2,072	2,304	2,293
Net investment income	3,410	3,233	3,121
Periodic settlements and accruals on non-hedge derivative financial instruments	49	23	5
Contract benefits and interest credited to contractholder funds	3,601	3,697	3,534
Operating costs and expenses and amortization of deferred acquisition costs	1,105	1,164	1,125
Restructuring and related charges	5	7	2
Income tax expense on operations	269	243	202
Operating income	551	449	556
Loss on disposition of operations, after-tax	(6)	(29)	(4)
Realized capital gains and losses, after-tax	(3)	(53)	(287)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(32)	(15)	(3)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	(89)	(30)	(1)
Allstate Financial income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	421	322	261
Corporate and Other			
Service fees[(1)]	12	13	40
Net investment income	101	62	72
Operating costs and expenses	330	291	322
Income tax benefit on operations	(109)	(102)	(100)
Operating loss	(108)	(114)	(110)
Realized capital gains and losses, after-tax	(2)	(5)	3
Corporate and Other loss before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	(110)	(119)	(107)
Consolidated income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	$3,356	$2,725	$1,475

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

Additional significant financial performance data for each of the Company's reportable segments for the years ended December 31 are as follows:

(in millions)	2004	2003	2002
Amortization of deferred policy acquisition costs			
Property-Liability	$3,874	$3,520	$3,216
Allstate Financial	591	538	478
Consolidated	$4,465	$4,058	$3,694
Income tax expense			
Property-Liability	$1,150	$ 780	$ 112
Allstate Financial	189	170	52
Corporate and Other	(109)	(104)	(99)
Consolidated	$1,230	$ 846	$ 65

In 2004, the Company wrote down $108 million of DAC and $16 million of DSI due to the adoption of SOP 03-1 (see Note 2). In addition, the Company recorded $45 million of amortization related to DSI in 2004.

Interest expense is primarily incurred in the Corporate and Other segment. Capital expenditures for long-lived assets are generally made in the Property-Liability segment. A portion of these long-lived assets are used by entities included in the Allstate Financial and Corporate and Other segments, and accordingly, are charged expenses in proportion to their use.

Summarized data for total assets and investments for each of the Company's reportable segments as of December 31 are as follows:

(in millions)	2004	2003	2002
Assets			
Property-Liability	$ 52,458	$ 49,191	$ 43,812
Allstate Financial	94,274	82,890	72,566
Corporate and Other	2,993	2,061	1,048
Consolidated	$149,725	$134,142	$117,426
Investments			
Property-Liability	$ 40,267	$ 37,859	$ 34,253
Allstate Financial	72,530	62,895	55,264
Corporate and Other	2,733	2,327	1,133
Consolidated	$115,530	$103,081	$ 90,650

19. Other Comprehensive Income

The components of other comprehensive income (loss) on a pretax and after-tax basis for the years ended December 31 are as follows:

(in millions)	2004 Pretax	2004 Tax	2004 After-tax	2003 Pretax	2003 Tax	2003 After-tax	2002 Pretax	2002 Tax	2002 After-tax
Unrealized net holding gains arising during the period	$ 416	$(145)	$ 271	$ 961	$(336)	$ 625	$ 370	$(129)	$ 241
Less: reclassification adjustment	627	(219)	408	157	(55)	102	(881)	309	(572)
Unrealized net capital gains (losses)	(211)	74	(137)	804	(281)	523	1,251	(438)	813
Unrealized foreign currency translation adjustments	40	(14)	26	60	(21)	39	(9)	3	(6)
Unrealized minimum pension liability adjustments	(46)	16	(30)	710	(249)	461	(1,134)	397	(737)
Other comprehensive income (loss)	$(217)	$ 76	$(141)	$1,574	$(551)	$1,023	$ 108	$ (38)	$ 70

20. Quarterly Results (unaudited)

(in millions except per share data)	First Quarter 2004	First Quarter 2003	Second Quarter 2004	Second Quarter 2003	Third Quarter 2004	Third Quarter 2003	Fourth Quarter 2004	Fourth Quarter 2003
Revenues	$8,311	$7,861	$8,304	$7,899	$8,442	$8,127	$8,879	$8,262
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	1,124	668	1,034	590	56	692	1,142	775
Net income	949	665	1,034	588	56	691	1,142	761
Earnings per share-Basic:								
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	1.60	0.95	1.47	0.84	0.10	0.99	1.65	1.09
Net income	1.35	0.95	1.47	0.84	0.10	0.98	1.65	1.08
Earnings per share-Diluted:								
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	1.59	0.94	1.47	0.84	0.09	0.98	1.64	1.09
Net income	1.34	0.94	1.47	0.84	0.09	0.97	1.64	1.08