

Measuring our Performance

Highlights: In 2005, Allstate incurred \$5.7 billion in losses primarily related to the three devastating hurricanes in the Gulf states. Nevertheless, we generated net income of \$1.8 billion, which produced an 8.4 percent return on equity. We also repurchased 43.8 million shares at a cost of \$2.5 billion. Our total shareholder return of 7.0 percent outpaced the S&P 500 in 2005, as it has cumulatively since we became a public company in June 1993.

Net Income per Diluted Share

Net income per diluted share, which decreased 41.9 percent in 2005, divides net income by the number of weighted average diluted shares outstanding. It demonstrates net income during the year that is attributable to each share of stock.

Operating Income*

In 2005, operating income was \$1.6 billion. This is a common measure used by the investment community to analyze our results. Operating income reveals trends in our insurance and financial services business that may be obscured by business decisions and economic developments unrelated to the insurance underwriting process.

Revenues

Revenues rose 4.3 percent to \$35.4 billion in 2005. Revenues indicate Allstate's total premium and investment results.

Return on Equity

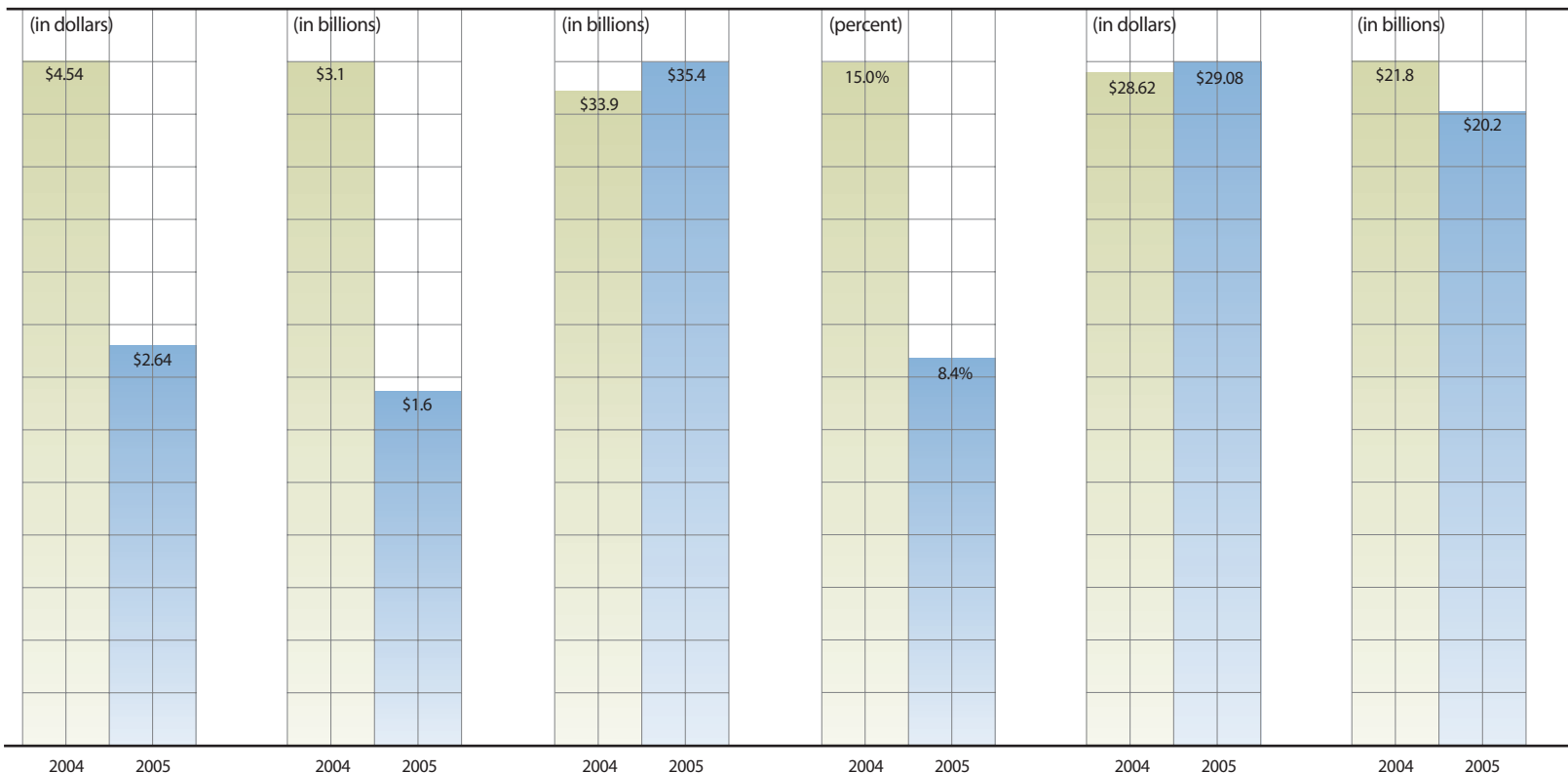
Return on average beginning and ending period shareholders' equity, which measures how well Allstate used shareholders' equity to generate net income, decreased to 8.4 percent in 2005 from 15.0 percent in 2004.

Book Value per Diluted Share Excluding the Net Impact of Unrealized Net Capital Gains on Fixed Income Securities*

This measure, commonly used by insurance investors as a valuation technique, is shareholders' equity less unrealized net capital gains on fixed income securities divided by the number of diluted shares outstanding on December 31.

Shareholders' Equity

Shareholders' equity, which is the company's total assets minus total liabilities, indicates the book value of the ownership interest of Allstate shareholders. It declined 7.5 percent in 2005 to \$20.2 billion from \$21.8 billion in 2004, reflecting a net return of capital to shareholders through dividends and share repurchasing.



*Measures we use that are not based on accounting principles generally accepted in the United States (non-GAAP) are defined and reconciled to the most directly comparable GAAP measure, and operating measures are defined in the "Definitions of non-GAAP and Operating Measures" section on page 17 of this report.

Financial Scorecard

For Allstate, transparency means giving investors clear and easy access to all the information they need to assess our performance. This financial scorecard demonstrates our progress in executing our “better, bigger, broader” strategy.

Better
We're striving to become more efficient and profitable in our operations and in our relationships with customers.

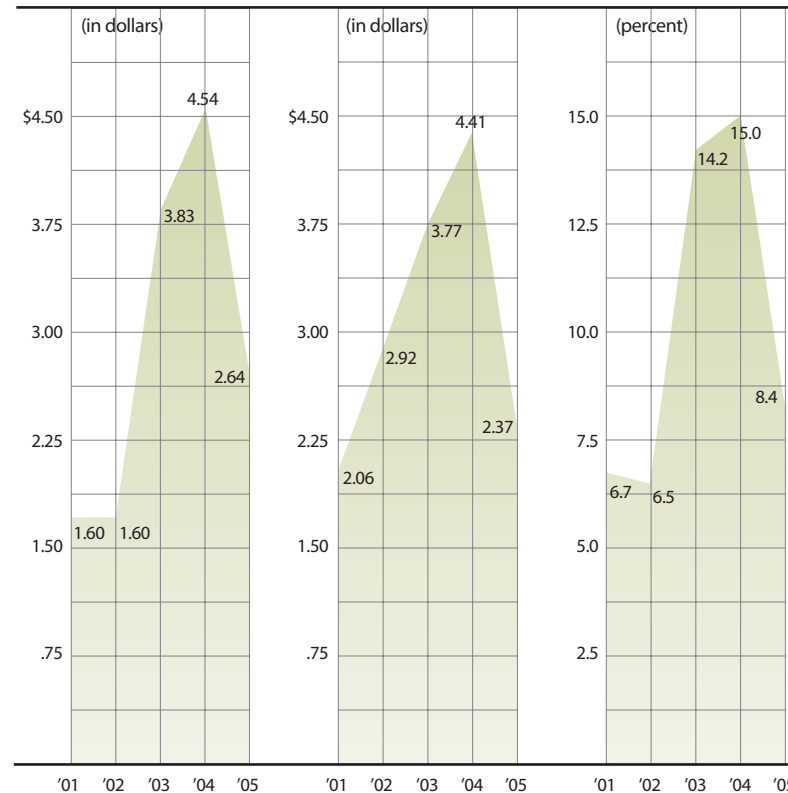
Bigger
Our goal is to drive top line growth in a way that also delivers bottom line profits.

Broader
We seek to expand in the personal lines, life insurance, retirement and investment products marketplace.

Better

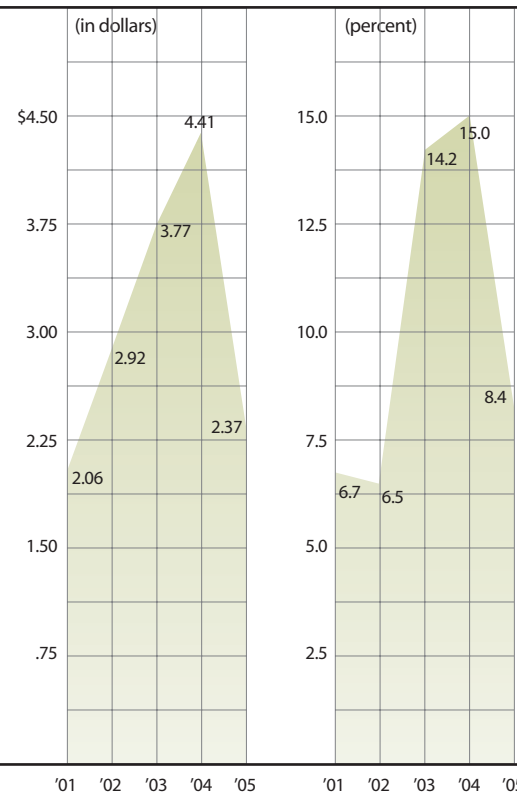
Net Income per Diluted Share

This “bottom line” measure demonstrates net income during the year that is attributable to each share of stock. This number declined in 2005 as severe catastrophe losses reduced net income.



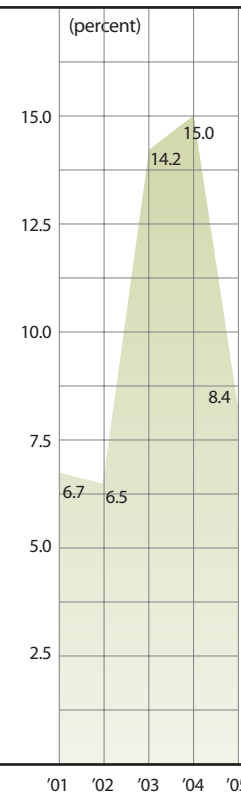
Operating Income per Diluted Share

This is a common measure used by the investment community to analyze our results. Operating income reveals trends in our insurance and financial services business that may be obscured by business decisions and economic developments unrelated to the insurance underwriting process.



Return on Equity

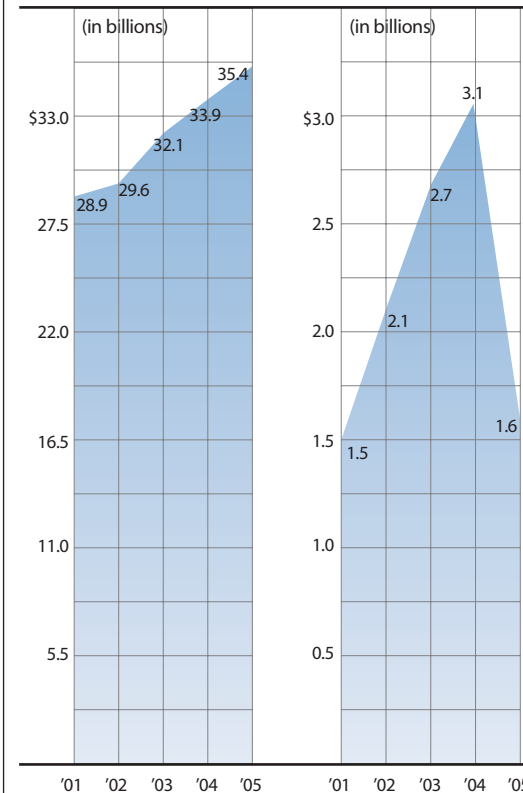
Return on equity measures how well Allstate used shareholders' equity to generate net income.



Bigger

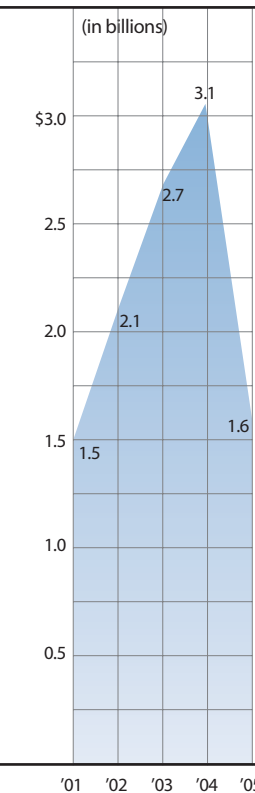
Revenue

This measure indicates Allstate's total premium and investment results. In 2005, Allstate generated record revenue.



Operating Income

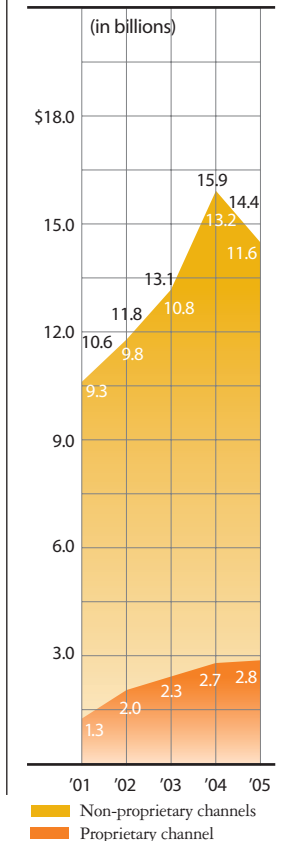
This measure reveals trends in our insurance and financial services business that may be obscured by business decisions and economic developments unrelated to the insurance underwriting process.



Broader

Premiums and Deposits

This measure is used to analyze the production trends for Allstate Financial sales. It shows the progress on meeting the goal of becoming a broader-based company.



Definitions of Non-GAAP and Operating Measures

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

Operating income is income before 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 deferred policy acquisition costs ("DAC") and deferred sales inducements ("DSI"), to the extent they resulted from the recognition of certain 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.

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

We use operating income to evaluate our results of operations. It reveals trends in our insurance and financial services business that may be obscured by the net effect of realized capital gains and losses, (loss) gain on disposition of operations and adjustments for other significant non-recurring, infrequent or unusual items. Realized capital gains and losses and (loss) gain on disposition of operations may vary significantly between periods and are generally driven by business decisions and economic developments such as market conditions, the timing of which is unrelated to the insurance underwriting process. Moreover, we reclassify periodic settlements on non-hedge derivative instruments into operating income to report them in a manner consistent with the economically hedged investments, replicated assets or product attributes (e.g. net investment income and interest credited to contractholder funds) and by doing so, appropriately reflect trends in product performance. Non-recurring items are excluded because, by their nature, they are not indicative of our business or economic trends. Therefore, we believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. We note that the price to earnings multiple commonly used by insurance investors as a forward-looking valuation technique uses operating income as the denominator. We use adjusted measures of operating income and operating income per diluted share in incentive compensation. Operating income should not be considered as a substitute for net income and does not reflect the overall profitability of our business.

The following tables reconcile operating income and net income for the years ended December 31.

Operating income

	Allstate Financial		Consolidated					Per diluted share				
	2004	2005	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
(\$ in millions, except per share data)												
Operating income	\$ 551	\$ 581	\$1,492	\$2,075	\$2,662	\$3,091	\$1,582	\$ 2.06	\$ 2.92	\$ 3.77	\$ 4.41	\$ 2.37
Realized capital gains and losses	1	19	(352)	(924)	196	591	549					
Income tax (expense) benefit	(4)	(7)	127	326	(62)	(199)	(189)					
Realized capital gains and losses, after-tax	(3)	12	(225)	(598)	134	392	360	(0.31)	(0.84)	0.19	0.56	0.54
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(32)	(40)	(4)	(3)	(15)	(32)	(40)	(0.01)	(0.01)	(0.02)	(0.04)	(0.06)
DAC and DSI amortization related to realized capital gains and losses, after-tax	(89)	(103)	(11)	(1)	(30)	(89)	(103)	(0.01)	—	(0.05)	(0.13)	(0.16)
(Loss) gain on disposition of operations, after-tax	(6)	(12)	(40)	2	(26)	(6)	(12)	(0.06)	—	(0.04)	(0.01)	(0.02)
Non-recurring increase in liability for future benefits, after-tax	—	(22)	—	—	—	—	(22)	—	—	—	—	(0.05)
Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax	421	416	1,212	1,475	2,725	3,356	1,765	1.67	2.07	3.85	4.79	2.64
Dividends on preferred securities of subsidiary trust, after-tax	—	—	(45)	(10)	(5)	—	—	(0.06)	(0.01)	—	—	—
Cumulative effect of change in accounting principle, after-tax	(175)	—	(9)	(331)	(15)	(175)	—	(0.01)	(0.46)	(0.02)	(0.25)	—
Net income	\$ 246	\$ 416	\$1,158	\$1,134	\$2,705	\$3,181	\$1,765	\$ 1.60	\$ 1.60	\$ 3.83	\$ 4.54	\$ 2.64

Premiums and deposits is an operating measure that we use to analyze production trends for Allstate Financial sales. It includes premiums on insurance policies and annuities and all deposits and other funds received from customers on deposit-type products including the

net new deposits of Allstate Bank, which we account for under GAAP as increases to liabilities rather than as revenue.

The following table illustrates where premiums and deposits are reflected in the consolidated financial statements for the years ended December 31.

Premiums and deposits

(\$ in millions)	2001	2002	2003	2004	2005
Life and annuity premiums	\$ 1,345	\$ 1,371	\$ 1,365	\$ 1,045	\$ 918
Deposits to contractholder funds	7,970	9,484	10,373	13,616	12,004
Deposits to separate accounts and other	1,290	979	1,357	1,258	1,473
Total premiums and deposits	\$10,605	\$11,834	\$13,095	\$15,919	\$14,395

Book value per diluted share excluding the net impact of unrealized net capital gains on fixed income securities is calculated by dividing shareholders' equity after excluding the net impact of unrealized net capital gains on fixed income securities and related DAC and life insurance reserves by total shares outstanding plus dilutive potential shares outstanding. Book value per diluted share is the most directly comparable GAAP measure.

We use the trend in book value per diluted share excluding unrealized net capital gains on fixed income securities in conjunction with book value per diluted share to identify and analyze the change in net worth attributable to management efforts between periods. We believe the non-GAAP ratio is useful to investors because it eliminates the effect of items that can fluctuate significantly

from period to period and are generally driven by economic developments, primarily market conditions, the magnitude and timing of which are generally not influenced by management, and we believe it enhances understanding and comparability of performance by highlighting underlying business activity and profitability drivers. We note that book value per diluted share excluding unrealized net capital gains on fixed income securities is a measure commonly used by insurance investors as a valuation technique. Book value per diluted share excluding unrealized net capital gains on fixed income securities should not be considered as a substitute for book value per diluted share and does not reflect the recorded net worth of our business. The following table shows the reconciliation.

Book value per diluted share

As of December 31, (\$ in millions, except per share data)	2004	2005
Book value per diluted share		
Numerator: Shareholders' equity	\$21,823	\$20,186
Denominator: Shares outstanding and dilutive potential shares outstanding	688.0	651.0
Book value per diluted share	\$ 31.72	\$ 31.01
Book value per diluted share, excluding the net impact of unrealized net capital gains on fixed income securities		
Numerator: Shareholders' equity	\$21,823	\$20,186
Unrealized net capital gains on fixed income securities	2,134	1,255
Adjusted shareholders' equity	\$19,689	\$18,931
Denominator: Shares outstanding and dilutive potential shares outstanding	688.0	651.0
Book value per diluted share, excluding the net impact of unrealized net capital gains on fixed income securities	\$ 28.62	\$ 29.08

New sales of financial products by Allstate exclusive agencies is an operating measure that we use to quantify the current year sales of financial products by the Allstate Agency proprietary distribution channel. New sales of financial products by Allstate exclusive agencies includes annual premiums on new insurance policies, initial premiums and deposits on annuities, net new

deposits in the Allstate Bank and sales of other companies' mutual funds, and excludes renewal premiums. New sales of financial products by Allstate exclusive agencies for the years ended December 31, 2005, 2004, 2003, 2002, 2001 and 2000 totaled \$2.40 billion, \$2.27 billion, \$1.83 billion, \$1.61 billion, \$702 million and \$414 million, respectively.

Combined ratio, excluding the effect of catastrophe losses, is computed as the difference between two operating ratios, combined ratio (a GAAP measure) and the effect of catastrophes on the combined ratio. The most directly comparable GAAP measure is the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our property-liability business that may be obscured by catastrophe losses, which cause our loss trends to vary significantly between periods as a result of their rate of occurrence and magnitude. We believe it is useful for investors to evaluate these components

separately and in the aggregate when reviewing our underwriting performance. The combined ratio excluding the effect of catastrophe losses should not be considered a substitute for the combined ratio and does not reflect the overall underwriting profitability of our business. The following table shows the reconciliation for the years ended December 31.

	2004	2005
Combined ratio	93.0	102.4
Effect of catastrophes on the combined ratio	9.5	21.0
Combined ratio, excluding the effect of catastrophe losses	83.5	81.4