ALLSTATE CORP
Form 10-K
February 26, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange Chicago Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No ý

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

Yes ý No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2008, was approximately $24.81 billion.

As of January 31, 2009, the registrant had 536,041,789 shares of common stock outstanding.

Documents Incorporated By Reference

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

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 19, 2009 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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Part I

Item 1. Business

The Allstate Corporation was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and their affiliates (collectively, including The Allstate Corporation, "Allstate"). Allstate is primarily engaged in the personal property and casualty insurance business and the life insurance, retirement and investment products business. It conducts its business primarily in the United States.

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate®" slogan, Allstate is reinventing protection and retirement to help individuals in approximately 17 million households protect what they have today and better prepare for tomorrow. Customers can access Allstate products and services such as auto insurance and homeowners insurance through more than 14,000 exclusive Allstate agencies and financial representatives in the United States and Canada. Allstate is the 2nd largest personal property and casualty insurer in the United States on the basis of 2007 statutory direct premiums earned. In addition, according to A.M. Best, it is the nation's 16th largest issuer of life insurance business on the basis of 2007 ordinary life insurance in force and 17th largest on the basis of 2007 statutory admitted assets.

Allstate has four business segments:

Allstate Protection	Discontinued Lines and Coverages
Allstate Financial	Corporate and Other

To achieve its goals in 2009, Allstate is focused on three priorities: protect Allstate's financial strength, build customer loyalty, and continue reinventing protection and retirement for the consumer. In addition, we will continue to monitor market conditions and will consider business start-ups, acquisitions and alliances that would forward our business objectives and represent prudent uses of corporate capital.

In this annual report on Form 10-K, we occasionally refer to statutory financial information. All domestic United States insurance companies are required to prepare statutory-basis financial statements. As a result, industry data is available that enables comparisons between insurance companies, including competitors that are not subject to the requirement to prepare financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position.

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Our Allstate Protection segment accounted for about 93% of Allstate's 2008 consolidated insurance premiums and contract charges. In this segment, we sell principally private passenger auto and homeowners insurance, primarily through agencies. These products are marketed under the Allstate, Encompass® and Deerbrook® brand names. The Allstate Protection segment also includes a separate organization called Emerging Businesses which is comprised of Small Business ("Commercial"), Consumer Household ("Specialty Product Lines"), Allstate Dealer Services ("Allstate Credit Division") and Allstate Roadside Service ("Allstate Motor Club and Partnership Marketing Group"). We also participate in the involuntary or shared private passenger auto insurance business in order to maintain our licenses to do business in many states. In some states, Allstate exclusive agencies offer non-proprietary property insurance products.

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and, to a lesser extent, through independent agencies in areas not served by exclusive agencies. Encompass brand auto and homeowners insurance products as well as Deerbrook brand auto insurance products are sold through independent agencies.

In many states, consumers also can purchase certain Allstate brand personal insurance products and obtain service through our Customer Information Centers and the internet.

Our broad-based network of approximately 12,800 Allstate exclusive agencies in approximately 12,000 locations in the U.S. produced approximately 87% of the Allstate Protection segment's written premiums in 2008. The rest was generated primarily by approximately 8,800 independent agencies. We are among the six largest providers of personal property and casualty insurance products through independent agencies in the United States, based on statutory written premium information provided by A.M. Best for 2007.

Competition

The markets for personal private passenger auto and homeowners insurance are highly competitive. The following charts provide the market shares of our principal competitors in the U.S. by direct written premium for the year ended December 31, 2007 (the most recent date such competitive information is available) according to A.M. Best.

Private Passenger Auto Insurance		Homeowners Insurance	
Insurer	**Market Share**	**Insurer**	**Market Share**
State Farm	17.5%	State Farm	21.1%
Allstate	11.3%	Allstate	10.9%
Progressive	7.3%	Farmers	6.7%
Government Employees Group	7.2%	Nationwide	4.7%
Farmers	5.5%	Travelers	4.5%
Nationwide	4.7%	USAA	4.0%

In the personal property and casualty insurance market, we compete principally on the basis of the recognition of our brands, the scope of our distribution system, price, the breadth of our product offerings, product features, customer service, claim handling, and use of technology. In addition, our proprietary database of underwriting and pricing experience enables Allstate to use pricing sophistication to more accurately price risks and to cross sell products within our customer base.

Pricing sophistication and related underwriting and marketing programs use a number of risk evaluation factors. For auto insurance, these factors can include but are not limited to vehicle make, model and year; driver age and marital status; territory; years licensed; loss history; years insured with prior carrier, prior liability limits, prior lapse in coverage; and insurance scoring based on credit report information. For property insurance, these factors can include but are not limited to amount of insurance purchased; geographic location of the property; loss history; age and construction characteristics of the property; and insurance scoring based on credit report information.

Our primary focus in using pricing sophistication methods has been on acquiring and retaining new business. The aim has been to enhance Allstate's competitive position with respect to "high lifetime value" market segments while maintaining or improving profitability. "Lifetime value" is the discounted value of a customer's future cash flow stream. To estimate a customer's lifetime value score, we analyze characteristics about the customer (for example, age, marital status and driving record) and characteristics about the product the customer has purchased (for example: coverages, limits, and descriptors of the asset insured) on the basis of historic data patterns and trends. Because future loss and retention patterns of customers vary significantly, the distribution of lifetime values for a large group of customers will vary from very negative to very positive. "High lifetime value" generally refers to customers who potentially present more favorable prospects for profitability over the course of their relationships with us.

Allstate® Your Choice Auto insurance allows qualified customers to choose from a variety of optional auto insurance packages at various prices. We believe that Allstate® Your Choice Auto differentiates Allstate from its competitors and allows for increased growth and increased retention. Allstate® Your Choice Home allows qualified customers to choose from options such as a claim-free bonus and greater ability to tailor their own home insurance protection coverage. Allstate Blue℠ is our non-standard auto insurance product which offers features such as a loyalty bonus and roadside assistance coverage.

Geographic Markets

The principal geographic markets for our auto, homeowners and other personal property and casualty products are in the United States. Through various subsidiaries, we are authorized to sell various types of personal property and casualty insurance products in all 50 states, the District of Columbia and Puerto Rico. We also sell personal property and casualty insurance products in Canada through a distribution system similar to that used in the United States.

The following table reflects, in percentages, the principal geographic distribution of premiums earned for the Allstate Protection segment for the year ended December 31, 2008, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the premiums earned for the segment.

California	10.4%
New York	10.3%
Texas	9.5%
Florida	8.2%
Pennsylvania	5.3%

We continue to take actions to support earning an acceptable return on the risks assumed in our property business and to reduce the variability in our earnings, while providing quality protection to our customers. Accordingly, we expect to continue to adjust underwriting practices with respect to our property business in markets with significant catastrophe risk exposure.

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Protection segment is contained in Note 18 of the Consolidated Financial Statements. Note 18 also includes information regarding the last three years' identifiable assets attributable to our property- liability operations, which includes our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 18 is incorporated in this Part I, Item 1 by reference.

Information regarding the amount of premium earned for Allstate Protection segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, page 47, in the table regarding premiums earned by brand. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE FINANCIAL SEGMENT

Products and Distribution

Our Allstate Financial segment provides life insurance, retirement and investment products, and voluntary accident and health insurance products to individual and institutional customers. Our principal individual products are fixed annuities including deferred, immediate and indexed; interest-sensitive, traditional and variable life insurance; and voluntary accident and health insurance. We also distribute variable annuities through our bank distribution partners, however this product is fully reinsured with an unaffiliated entity. Our principal institutional product is funding agreements backing medium-term notes. Banking products and services are also offered to customers through the Allstate Bank. The table on page 4 lists our major distribution channels for this segment, with the associated products and targeted customers.

As the table indicates, we sell Allstate Financial products to individuals through multiple intermediary distribution channels, including Allstate exclusive agencies and exclusive financial specialists, independent agents, banks, broker-dealers, and specialized structured settlement brokers. We have distribution relationships with over 60% of the 25 largest banks, a number of regional brokerage firms and many independent broker-dealers. We sell products through independent agents affiliated with approximately 160 master brokerage agencies. Independent workplace enrolling agents and Allstate exclusive agencies also sell our voluntary accident and health insurance products primarily to employees of unaffiliated businesses. We sell funding agreements to unaffiliated trusts used to back medium-term notes.

Allstate Financial Distribution Channels, Products and Target Customers

Distribution Channel	Proprietary Products	Target Customers
Allstate exclusive agencies (Allstate Exclusive Agents and Allstate Exclusive Financial Specialists)	Term life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and market value adjusted "MVA") Immediate fixed annuities Bank products (Certificates of deposit, money market accounts, savings accounts, checking accounts and Allstate Agency loans) Workplace life and voluntary accident and health insurance(4)	Middle market consumers(1) with retirement and family financial protection needs
Independent agents (through master brokerage agencies)	Term life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and MVA) Immediate fixed annuities	Mass market(2) and mass affluent consumers(3) with retirement and financial protection needs
Independent agents (as workplace enrolling agents)	Workplace life and voluntary accident and health insurance(4)	Middle market consumers with family financial protection needs employed by small, medium, and large size firms
Banks	Deferred fixed annuities (including indexed and MVA) Single premium fixed life insurance Variable annuities fully reinsured with an unaffiliated entity	Middle market consumers with retirement needs
Broker-dealers	Deferred fixed annuities (including indexed and MVA) Single premium variable life insurance	Mass market and mass affluent consumers with retirement needs
Structured settlement annuity brokers	Structured settlement annuities	Typically used to fund or annuitize large claims or litigation settlements
Broker-dealers (Funding agreements)	Funding agreements backing medium-term notes	Institutional and individual investors

(1) Consumers with $50,000-$125,000 in household income

(2) Consumers with $50,000-$75,000 in household income

(3) Consumers with $75,000-$125,000 in household income

(4)

Interest-sensitive and term life insurance; disability income insurance; cancer, accident, critical illness and heart/stroke insurance; hospital indemnity; limited benefit medical insurance; and dental insurance

Allstate exclusive agencies and exclusive financial specialists also sell the following non-proprietary products in addition to Allstate Financial products: mutual funds, variable annuities, disability insurance and long-term care insurance.

Competition

We compete on a wide variety of factors, including the scope of our distribution systems, the type of our product offerings, the recognition of our brands, our financial strength and ratings, our differentiated product features and prices, and the level of customer service that we provide. With regard to funding agreements, we compete principally on the basis of our financial strength and ratings.

The market for life insurance, retirement and investment products continues to be highly fragmented and competitive. As of December 31, 2008, there were approximately 500 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2007, the Allstate Financial segment is the nation's 16th largest issuer of life insurance and related business on the basis of 2007 ordinary life insurance in force and 17th largest on the basis of 2007 statutory admitted assets. In addition, because many of these products include a savings or investment component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions. Competitive pressure continues to grow due to several factors, including cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the financial services industry.

Geographic Markets

We sell life insurance, retirement and investment, and voluntary accident and health insurance products throughout the United States. Through subsidiaries, we are authorized to sell various types of these products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. We also sell funding agreements in the United States.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Financial segment for the year ended December 31, 2008, based on information contained in statements filed with state insurance departments.

Delaware	37.7%
California	6.6%
Florida	6.0%
New York	5.8%

Approximately 99 percent of the statutory premiums and annuity considerations generated in Delaware represent deposits received in connection with funding agreements sold to trusts domiciled in Delaware. No other jurisdiction accounted for more than 5 percent of the statutory premiums and annuity considerations.

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Financial segment is contained in Note 18 of the Consolidated Financial Statements. Note 18 also includes information regarding the last three years' identifiable assets attributable to the Allstate Financial segment. Note 18 is incorporated in this Part I, Item 1 by reference.

Information regarding premiums and contract charges for Allstate Financial segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, page 74, in the table that summarizes premiums and contract charges by product. That table is incorporated in this Part I, Item 1 by reference.

OTHER BUSINESS SEGMENTS

Our Corporate and Other segment is comprised of holding company activities and certain non-insurance operations. Note 18 of the Consolidated Financial Statements contains information regarding the revenues, income from operations, and identifiable assets attributable to our Corporate and Other segment over the last three years.

Our Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other business in run-off. Our exposure to asbestos, environmental and other discontinued lines claims arises in this segment. Note 18 of the Consolidated Financial Statements contains information for the last three years regarding revenues, income from operations, and identifiable assets attributable to our property-liability operations, which includes both our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 18 is incorporated in this Part I, Item 1 by reference.

RESERVE FOR PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE

The following information regarding reserves applies to all of our property-liability operations, encompassing both the Allstate Protection segment and the Discontinued Lines and Coverages segment.

Reconciliation of Claims Reserves

The following tables are summary reconciliations of the beginning and ending property-liability insurance claims and claims expense reserves, displayed individually for each of the last three years. The first table presents reserves on a gross (before reinsurance) basis. The end of year gross reserve balances are reflected in the Consolidated Statements of Financial Position. The second table presents reserves on a net (after reinsurance) basis. The total net property-liability insurance claims and claims expense amounts are reflected in the Consolidated Statements of Operations.

GROSS	**Year Ended December 31,**		
($ in millions)	**2008**	**2007**	**2006**
Gross reserve for property-liability claims and claims expense, beginning of year	$ 18,865	$ 18,866	$ 22,117
Incurred claims and claims expense			
Provision attributable to the current year	20,381	18,107	17,247
Change in provision attributable to prior years	303	(70)	(816)
Total claims and claims expense	20,684	18,037	16,431
Claim payments			
Claims and claims expense attributable to current year	12,941	11,026	10,349
Claims and claims expense attributable to prior years	7,152	7,012	9,333
Total payments	20,093	18,038	19,682
Gross reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table	$ 19,456	$ 18,865	$ 18,866

NET	**Year Ended December 31,**		
($ in millions)	**2008**	**2007**	**2006**
Net reserve for property-liability claims and claims expense, beginning of year	$ 16,660	$ 16,610	$ 18,931
Incurred claims and claims expense			
Provision attributable to the current year	19,894	17,839	16,988
Change in provision attributable to prior years	170	(172)	(971)
Total claims and claims expense	20,064	17,667	16,017
Claim payments			
Claims and claims expense attributable to current year	12,658	10,933	10,386
Claims and claims expense attributable to prior years	6,884	6,684	7,952
Total payments	19,542	17,617	18,338
Net reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table (1)	$ 17,182	$ 16,660	$ 16,610

(1) Reserves for claims and claims expense are net of reinsurance of $2.27 billion, $2.21 billion and $2.26 billion at December 31, 2008, 2007 and 2006, respectively.

The year-end 2008 gross reserves of $19.46 billion for property-liability insurance claims and claims expense, as determined under GAAP, were $3.34 billion more than the net reserve balance of $16.12 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal differences are reinsurance recoverables from third parties totaling $2.27 billion that reduce reserves for statutory reporting but are recorded as assets for GAAP reporting, and a liability for the reserves of the Canadian subsidiaries for $0.84 billion. Remaining differences are due to variations in requirements between GAAP and statutory reporting.

As the tables above illustrate, Allstate's net reserve for property-liability insurance claims and claims expense at the end of 2007 increased in 2008 by $170 million, compared to reestimates of the gross reserves of an increase of $303 million. Net reserve reestimates in 2008, 2007 and 2006 were more favorable than the gross reserve reestimates due to reinsurance cessions.

Loss Reserve Reestimates

The following Loss Reserve Reestimates table illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of the last eleven calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year which is the result of Allstate's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable. The Loss Reserve Reestimates table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve reestimates are shown in this table in parentheses.

Loss Reserve Reestimates

	December 31,										
($ in millions)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Gross Reserves for Unpaid Claims and Claims Expense	$16,881	$17,814	$16,859	$16,500	$16,690	$17,714	$19,338	$22,117	$18,866	$18,865	$19,456
Reinsurance Recoverable	1,458	1,653	1,634	1,667	1,672	1,734	2,577	3,186	2,256	2,205	2,274
Reserve For Unpaid Claims and Claims Expense	15,423	16,161	15,225	14,833	15,018	15,980	16,761	18,931	16,610	16,660	17,182
Paid (cumulative) as of:											
One year later	5,615	5,973	6,748	6,874	6,275	6,073	6,665	7,952	6,684	6,884	
Two years later	8,638	9,055	10,066	9,931	9,241	9,098	9,587	11,293	9,957		
Three years later	10,588	11,118	11,889	11,730	11,165	10,936	11,455	13,431			
Four years later	11,950	12,197	12,967	12,949	12,304	12,088	12,678				
Five years later	12,608	12,842	13,768	13,648	13,032	12,866					
Six years later	13,038	13,434	14,255	14,135	13,583						
Seven years later	13,532	13,800	14,617	14,558							
Eight years later	13,835	14,085	14,945								
Nine years later	14,084	14,358									
Ten years later	14,335										
Reserve Reestimated as of:											
End of year	15,423	16,161	15,225	14,833	15,018	15,980	16,761	18,931	16,610	16,660	17,182
One year later	14,836	15,439	15,567	15,518	15,419	15,750	16,293	17,960	16,438	16,830	
Two years later	14,371	15,330	15,900	16,175	15,757	15,677	16,033	17,876	16,633		
Three years later	14,296	15,583	16,625	16,696	15,949	15,721	16,213	18,162			
Four years later	14,530	16,317	17,249	16,937	16,051	15,915	16,337				
Five years later	15,260	17,033	17,501	17,041	16,234	16,027					
Six years later	16,024	17,302	17,633	17,207	16,351						
Seven years later	16,292	17,436	17,804	17,321							
Eight years later	16,431	17,595	17,885								
Nine years later	16,581	17,665									
Ten years later	16,657										
Initial reserve in excess of (less than) reestimated reserve:											
Amount of reestimate	(1,234)	(1,504)	(2,660)	(2,488)	(1,333)	(47)	424	769	(23)	(170)	
Percent	(8.0)%	(9.3)%	(17.5)%	(16.8)%	(8.9)%	(0.3)%	2.5%	4.1%	(0.1)%	(1.0)%	
Gross Reestimated Liability-Latest	19,735	20,853	21,068	20,480	19,496	18,989	19,544	21,744	19,121	19,168	
Reestimated Recoverable-Latest	3,078	3,188	3,183	3,159	3,145	2,962	3,207	3,582	2,488	2,338	
Net Reestimated Liability-Latest	16,657	17,665	17,885	17,321	16,351	16,027	16,337	18,162	16,633	16,830	
Gross Cumulative Reestimate (Increase) Decrease	$ (2,854)	$ (3,039)	$ (4,209)	$ (3,980)	$ (2,806)	$ (1,275)	$ (206)	$ 373	$ (255)	$ (303)	

Amount of Reestimates for Each Segment

	December 31,									
($ in millions)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Net Discontinued Lines and Coverages Reestimate	$(1,876)	$(1,839)	$(1,830)	$(1,804)	$(1,573)	$ (999)	$ (364)	$ (197)	$ (65)	$ (18)
Net Allstate Protection Reestimate	642	335	(830)	(684)	240	952	788	966	42	(152)
Amount of Reestimate (Net)	$(1,234)	$(1,504)	$(2,660)	$(2,488)	$(1,333)	$ (47)	$ 424	$ 769	$ (23)	$ (170)

As shown in the above table, the subsequent cumulative increase in the net reserves established from December 31, 1998 to December 31, 2003 reflects additions to reserves in the Discontinued Lines and Coverages Segment, primarily for asbestos and environmental liabilities, which offset the effects of favorable severity trends experienced by Allstate Protection, as discussed more fully below.

The following table is derived from the Loss Reserve Reestimates table and summarizes the effect of reserve reestimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2008. The total of each column details the amount of reserve reestimates made in the indicated calendar year and shows the accident years to which the reestimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve reestimates for the indicated accident year(s). Favorable reserve reestimates are shown in this table in parentheses.

Effect of Net Reserve Reestimates on Calendar Year Operations

($ in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
BY ACCIDENT YEAR											
1998 & PRIOR	$ (587)	$ (465)	$ (75)	$ 234	$ 730	$ 764	$ 268	$ 139	$ 150	$ 76	$ 1,234
1999		(257)	(34)	19	4	(48)	1	(5)	9	(7)	(318)
2000			451	80	(9)	(92)	(17)	(2)	12	11	434
2001				352	(68)	(103)	(11)	(28)	(5)	33	170
2002					(256)	(183)	(49)	(2)	18	3	(469)
2003						(568)	(265)	(58)	11	(4)	(884)
2004							(395)	(304)	(14)	12	(701)
2005								(711)	(264)	162	(813)
2006									(89)	(91)	(180)
2007										(25)	(25)
TOTAL	$ (587)	$ (722)	$ 342	$ 685	$ 401	$ (230)	$ (468)	$ (971)	$ (172)	$ 170	$ (1,552)

In 2008, unfavorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses that were more than anticipated in previous estimates.

In 2007, favorable prior year reserve estimates were primarily due to Allstate Protection auto severity development that was less than what was anticipated in previous estimates. Decreased reserve reestimates for Allstate Protection more than offset increased reestimates of losses primarily related to environmental liabilities reported by the Discontinued Lines and Coverages segment.

In 2006, 2005 and 2004, favorable prior year reserve estimates were primarily due to Allstate Protection auto injury severity and late reported loss development that was less than what was anticipated in previous reserve estimates and in 2006, also by catastrophe losses that were less than anticipated in previous estimates. Decreased reserve reestimates for Allstate Protection more than offset increased reestimates of losses primarily related to asbestos liabilities reported by the Discontinued Lines and Coverages segment.

In 2003, unfavorable prior year reserve estimates were due to increases primarily related to asbestos and other discontinued lines, partially offset by favorable Allstate Protection auto injury severity and late reported loss development that was better than previous estimates.

In 2002, unfavorable prior year reserve estimates were due to claim severity and late reported losses for Allstate Protection that were greater than what was anticipated in previous reserve estimates and to increased estimates of losses primarily related to asbestos and environmental liabilities in the Discontinued Lines and Coverages segment.

In 2001, unfavorable prior year reserve estimates were due to greater volume of late reported weather related losses than expected from the end of the year 2000 which were reported in the year 2001, additional incurred losses on the 1994 Northridge earthquake, adverse results of class action and other litigation, upward reestimates of property losses and upward reestimates of losses in the Encompass and Canadian businesses.

Favorable calendar year reserve reestimates in 1999 and 2000 were the result of favorable severity trends in each year for Allstate Protection, which more than offset adverse reestimates in the Discontinued Lines and Coverages segment, primarily for asbestos and environmental liabilities, virtually all of which relates to 1984 and prior years. The favorable severity trend during this period was primarily the result of favorable injury severity trends, as compared to our anticipated trends. Favorable injury severity trends were largely due to more moderate medical cost inflation and the mitigating effects of our loss management programs.

For additional information regarding reserves, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Property-Liability Claims and Claims Expense Reserves."

REGULATION

Allstate is subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation varies by state but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency. In general, such regulation is intended for the protection of those who purchase or use insurance products issued by our subsidiaries, not the holders of securities issued by The Allstate Corporation. These rules have a substantial effect on our business and relate to a wide variety of matters including insurance company licensing and examination, agent and adjuster licensing, price setting, trade practices, policy forms, accounting methods, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, reserve adequacy, insurer solvency, transactions with affiliates, the payment of dividends, and underwriting standards. Some of these matters are discussed in more detail below. For a discussion of statutory financial information, see Note 15 of the Consolidated Financial Statements. For a discussion of regulatory contingencies, see Note 13 of the Consolidated Financial Statements. Notes 13 and 15 are incorporated in this Part I, Item 1 by reference.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny. Legislation that would provide for federal chartering of insurance companies has been proposed. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect any such measures would have on Allstate.

Agent and Broker Compensation. In recent years, several states considered new legislation or regulations regarding the compensation of agents and brokers by insurance companies. The proposals ranged in nature from new disclosure requirements to new duties on insurance agents and brokers in dealing with customers. New disclosure requirements have been imposed in certain circumstances upon some agents and brokers in several states.

Limitations on Dividends By Insurance Subsidiaries. As a holding company with no significant business operations of its own, The Allstate Corporation relies on dividends from Allstate Insurance Company as one of the principal sources of cash to pay dividends and to meet its obligations, including the payment of principal and interest on debt. Allstate Insurance Company is regulated as an insurance company in Illinois and its ability to pay dividends is restricted by Illinois law. For additional information regarding those restrictions, see Part II, Item 5 of this report. The laws of the other jurisdictions that generally govern our other insurance subsidiaries contain similar limitations on the payment of dividends and in some jurisdictions the laws may be more restrictive.

Insurance Holding Company Regulation. The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation in the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of Florida, Illinois, Massachusetts, Nebraska, New Hampshire, New York and Texas, and some of these subsidiaries are considered commercially domiciled in California and Utah. Generally, the insurance codes in these states provide that the acquisition or change of "control" of a domestic or commercially domiciled insurer or of any person that controls such an insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to, ten percent or more of the voting securities of an insurer or of a person that controls an insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation's common stock would generally require prior approval by the state insurance departments in California, Illinois, Massachusetts, Nebraska, New Hampshire, New York, Texas, and Utah. The prior approval of the Florida insurance department would be necessary for the acquisition of five percent or more. Moreover, notification would be required in those other states that have adopted pre-acquisition notification provisions and where the insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of The Allstate Corporation's common stock.

Price Regulation. Nearly all states have insurance laws requiring personal property and casualty insurers to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such price schedules, policy forms or both must be approved prior to use. While they vary from state to state, the objectives of the pricing laws are generally the same: a price cannot be excessive, inadequate or unfairly discriminatory.

The speed with which an insurer can change prices in response to competition or in response to increasing costs depends, in part, on whether the pricing laws are (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a price before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a price, but the price must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file prices within a certain period of time after the insurer begins using them. Approximately one half of the states, including California and New York, have prior approval laws. Under all three types of pricing laws, the regulator has the authority to disapprove a price subsequent to its filing.

An insurer's ability to adjust its prices in response to competition or to increasing costs is often dependent on an insurer's ability to demonstrate to the regulator that its pricing or proposed pricing meets the requirements of the pricing laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a price that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer's ability to charge a price that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it underwrites. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability.

Changes in Allstate's claim settlement process may require Allstate to actuarially adjust loss information used in its pricing process. Some state insurance regulatory authorities may not approve price increases that give full effect to these adjustments.

From time to time, the private passenger auto insurance industry comes under pressure from state regulators, legislators and special interest groups to reduce, freeze or set prices at levels that do not correspond with our analysis of underlying costs and expenses. Homeowners insurance comes under similar pressure, particularly as regulators in states subject to high levels of catastrophe losses struggle to identify an acceptable methodology to price for catastrophe exposure. We expect this kind of pressure to persist. In addition, our use of insurance scoring based on credit report information for underwriting and pricing has been the subject of challenges and investigations by regulators, legislators and special interest groups. The result could be legislation or regulation that adversely affects the profitability of the Allstate Protection segment. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding pricing.

Involuntary Markets. As a condition of maintaining our licenses to write personal property and casualty insurance in various states, we are 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 our results of operations.

Guaranty Funds. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies.

National Flood Insurance Program. We voluntarily participate as a Write Your Own ("WYO") carrier in the National Flood Insurance Program ("NFIP"). The NFIP is administered and regulated by the Federal Emergency Management Agency ("FEMA"). We operate as a fiscal agent of the federal government in the selling and administering of the Standard Flood Insurance Policy ("SFIP"). This involves the collection of premiums belonging to the federal government and the paying of covered claims by directly drawing on funds of the United States Treasury. We receive expense allowances from NFIP for underwriting administration, claims management, commission and adjuster fees.

Investment Regulation. Our insurance subsidiaries are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments.

Exiting Geographic Markets; Canceling and Non-Renewing Policies. Most states regulate an insurer's ability to exit a market. For example, states limit, to varying degrees, an insurer's ability to cancel and non-renew policies. Some states prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. Regulations that limit cancellation and non-renewal and that subject withdrawal plans to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

Variable Life Insurance, Variable Annuities and Registered Fixed Annuities. The sale and administration of variable life insurance, variable annuities and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission and the Financial Industry Regulatory Authority ("FINRA").

Broker-Dealers, Investment Advisors and Investment Companies. The Allstate entities that operate as broker-dealers, registered investment advisors and investment companies are subject to regulation and supervision by the Securities and Exchange Commission, FINRA and/or, in some cases, state securities administrators.

Banking. The Allstate Corporation is a diversified savings and loan holding company for Allstate Bank, a federal stock savings bank and a member of the Federal Deposit Insurance Corporation ("FDIC"). The principal supervisory authority for the diversified savings and loan holding company activities and the bank is the Office of Thrift Supervision. The bank is also subject to the authority of the FDIC and other federal financial regulators implementing various laws applicable to banking.

Privacy Regulation. Federal law and the laws of some states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal law and the laws of some states also regulate disclosures of customer information. Congress, state legislatures and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

Asbestos. Congress has considered legislation to address asbestos claims and litigation in the past, but unified support among various defendant and insurer groups considered essential to any possible reform has been lacking. We cannot predict the impact on our business of possible future legislative measures regarding asbestos.

Environmental. Environmental pollution and clean-up of polluted waste sites is the subject of both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration of waste sites by Potentially Responsible Parties ("PRPs"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish a mechanism to assign liability to PRPs or to fund the clean-up of waste sites if PRPs fail to do so. The extent of liability to be allocated to a PRP is dependent on a variety of factors. By some estimates, there are thousands of potential waste sites subject to clean-up, but the exact number is unknown. The extent of clean-up necessary and the process of assigning liability remain in dispute. The insurance industry is involved in extensive litigation regarding coverage issues arising out of the clean-up of waste sites by insured PRPs and the insured parties' alleged liability to third parties responsible for the clean-up. The insurance industry, including Allstate, has disputed and is disputing many such claims. Key coverage issues include whether Superfund response, investigation and clean-up costs are considered damages under the policies; trigger of coverage; the applicability of several types of pollution exclusions; proper notice of claims; whether administrative liability triggers the duty to defend; appropriate allocation of liability among triggered insurers; and whether the liability in question falls within the definition of an "occurrence." Identical coverage issues exist for clean-up and waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues. Allstate's exposure to liability with regard to its insureds that have been, or may be, named as PRPs is uncertain. While comprehensive Superfund reform proposals have been introduced in Congress, only modest reform measures have been enacted.

INTERNET WEBSITE

Our Internet website address is Allstate.com. The Allstate Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports that we file or furnish pursuant to Section 13(a) of the Securities Exchange Act of 1934 are available through our Internet website, free of charge, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. In addition, our corporate governance guidelines, our code of ethics, and the charters of our Audit Committee, Compensation and Succession Committee, and Nominating and Governance Committee are available on our website and in print to any stockholder who requests copies by contacting Investor Relations, The Allstate Corporation, 2775 Sanders Road, Northbrook, Illinois 60062-6127, 1-800-416-8803.

OTHER INFORMATION ABOUT ALLSTATE

As of December 31, 2008, Allstate had approximately 38,000 full-time employees and 900 part-time employees.

Information regarding revenues generated outside of the United States is incorporated in this Part I, Item 1 by reference to Note 18 of the Consolidated Financial Statements.

Allstate's four business segments use shared services, including human resources, investment, finance, information technology and legal services, provided by Allstate Insurance Company and other affiliates.

Although the insurance business generally is not seasonal, claims and claims expense for the Allstate Protection segment tend to be higher for periods of severe or inclement weather.

"Allstate" is one of the most recognized brand names in the United States. We use the names "Allstate," "Encompass," "Deerbrook" and "Lincoln Benefit Life" extensively in our business, along with related logos and slogans, such as "Good Hands." Our rights in the United States to these names, logos and slogans continue so long as we continue to use them in commerce. Most of these service marks are the subject of renewable U.S. and/or foreign service mark registrations. We believe that these service marks are important to our business and we intend to maintain our rights to them through continued use.

Executive Officers

The following table sets forth the names of our executive officers, their ages as of February 1, 2009, their positions, and the dates of their first election as officers. "AIC" refers to Allstate Insurance Company.

Name	Age	Position/Offices	Date First Elected Officer
Thomas J. Wilson	51	Chairman of the Board, President, and Chief Executive Officer of The Allstate Corporation; also Chairman of the Board, President and Chief Executive Officer of AIC.	1995
Catherine S. Brune	55	Senior Vice President of AIC (Chief Information Officer).	1999
Don Civgin	47	Vice President and Chief Financial Officer of The Allstate Corporation; Senior Vice President and Chief Financial Officer of AIC.	2008
Frederick F. Cripe	51	Senior Vice President of AIC.	2000
James D. DeVries	45	Senior Vice President of AIC (Human Resources).	2008
Judith P. Greffin	48	Senior Vice President and Chief Investment Officer of AIC.	2002
Michele C. Mayes	59	Vice President and General Counsel of The Allstate Corporation; Senior Vice President, General Counsel and Assistant Secretary of AIC (Chief Legal Officer).	2007
Samuel H. Pilch	62	Controller of The Allstate Corporation; Group Vice President and Controller of AIC.	1995
Joseph J. Richardson	48	Senior Vice President of AIC (Allstate Protection Distribution).	1999
Michael J. Roche	57	Senior Vice President of AIC (Claims).	2003
George E. Ruebenson	60	Senior Vice President of AIC; President of Allstate Protection and Interim President of Allstate Financial.	1990
Steven P. Sorenson	44	Senior Vice President of AIC (Allstate Protection Product Operations).	2000
Joan H. Walker	61	Senior Vice President of AIC (Corporate Relations and Interim Chief Marketing Officer).	2005

Each of the officers named above may be removed from office at any time, with or without cause, by the board of directors of the relevant company.

With the exception of Mr. Civgin, Mr. DeVries, Ms. Mayes and Ms. Walker, these officers have held the listed positions for at least the last five years or have served Allstate in various executive or administrative capacities for at least five years.

Prior to joining Allstate in 2008, Mr. Civgin was Executive Vice President and Chief Financial Officer of OfficeMax, Incorporated and served in that position since 2005. From 2002 to 2005, he served as Senior Vice President and Chief Financial Officer of General Binding Corporation.

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Prior to joining Allstate in 2008, Mr. DeVries served as Senior Vice President of Human Resources at Principal Financial Group since 2000.

Prior to joining Allstate in 2007, Ms. Mayes served as Senior Vice President and General Counsel of Pitney Bowes since 2003 and Vice President, Assistant Secretary and Counsel of Colgate-Palmolive Company from 2001 to 2003.

Prior to joining Allstate in 2005, Ms. Walker served as Executive Vice President of Marketing and Communications at Qwest Communications International, Inc. from 2002 to 2005 and as Senior Vice President of Global Public Affairs at Pharmacia Corporation from 1999 to 2001.

Item 1A. Risk Factors

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

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements.

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer and a provider of other financial services. These risks constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995 and readers should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and historical trends. These cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this document, in our filings with the Securities and Exchange Commission ("SEC") or in materials incorporated therein by reference.

Risks Relating to the Property-Liability business

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including earthquakes, volcanoes, wildfires, tornadoes, hurricanes, tropical storms and certain types of terrorism. In 2008 catastrophe losses were $3.34 billion and included estimates of losses for Hurricanes Ike and Gustav, among other events. We may continue to incur catastrophe losses in our auto and property business in excess of those experienced in prior years, those that management projects would be incurred based on hurricane and earthquake losses which have a one percent probability of occurring on an annual aggregate countrywide basis, those that external modeling firms estimate would be incurred based on other levels of probability, the average expected level used in pricing, and our current reinsurance coverage limits. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material adverse effect on operating results and financial condition. For example, our historical catastrophe experience includes losses relating to Hurricane Katrina in 2005 totaling $3.6 billion, the Northridge earthquake of 1994 totaling $2.1 billion and Hurricane Andrew in 1992 totaling $2.3 billion. We are also exposed to assessments from the California Earthquake Authority, and various state-created catastrophe insurance facilities, and to losses that could surpass the capitalization of these facilities. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our debt or financial strength ratings.

In addition, we are subject to claims arising from weather events such as winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of auto and property claims when severe weather conditions occur.

The nature and level of catastrophes in any period cannot be predicted and could be material to catastrophe losses

Along with others in the industry, we use models developed by third party vendors in assessing our property exposure to catastrophe losses that assume various conditions and probability scenarios. Such models do not necessarily accurately predict future losses or accurately measure losses currently incurred. Catastrophe models, which have been evolving since the early 1990s, use historical information about hurricanes and earthquakes and also utilize detailed information about our in-force business. While we use this information in connection with our

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pricing and risk management activities, there are limitations with respect to its usefulness in predicting losses in any reporting period. These limitations are evident in significant variations in estimates between models and modelers, material increases and decreases in model results due to changes and refinements of the underlying data elements, assumptions which lead to questionable predictive capability, and actual event conditions that have not been well understood previously and not incorporated into the models. In addition, the models are not necessarily reflective of actual demand surge, loss adjustment expenses and the occurrence of mold losses, which are subject to wide variation by event or location.

Impacts of catastrophes and our catastrophe management strategy may adversely affect premium growth

Due to our catastrophe risk management efforts, our short-term growth has been negatively impacted and may continue to be negatively impacted if we take further actions. Homeowners premium growth rates and retention could be more adversely impacted than we expect by adjustments to our business structure, size and underwriting practices in markets with significant catastrophe risk exposure. In addition, due to the diminished potential for cross-selling opportunities, new business growth in our auto lines could be lower than expected.

Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition

Changes in the severity or frequency of claims may affect the profitability of our Allstate Protection segment. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy and litigation. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in homeowner's claim severity are driven by inflation in the construction industry, in building materials and in home furnishings and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Examples of such events include a decision in 2001 by the Georgia Supreme Court that diminished value coverage was included in auto policies under Georgia law and the emergence of mold-related homeowners losses in the state of Texas during 2002. Although we pursue various loss management initiatives in the Allstate Protection segment in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

Our Allstate Protection segment may experience declines in claim frequency from time to time. The short-term level of claim frequency we experience may vary from period to period and may not be sustainable over the longer term. A spike in gas prices and a significant decline in miles driven, both of which occurred in 2008, are examples of factors leading to a short-term frequency change. A significant long-term increase in claim frequency could have an adverse effect on our operating results and financial condition.

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition

Recorded claim reserves in the Property-Liability business are based on our best estimates of losses, both reported and incurred but not reported ("IBNR"), after considering known facts and interpretations of circumstances. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims, loss management programs, product mix, and contractual terms. External factors are also considered which include but are not limited to law changes, court decisions, changes to regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, including 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 reserves and such variance may adversely affect our operating results and financial condition.

Predicting claim expense relating to asbestos, environmental, and other discontinued lines is inherently uncertain and may have a material adverse effect on our operating results and financial condition

The process of estimating asbestos, environmental and other discontinued lines liabilities is complicated by complex legal issues concerning, among other things, the interpretation of various insurance policy provisions and whether those losses are, or were ever intended to be covered; and whether losses could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Asbestos-related bankruptcies and other asbestos litigation are complex, lengthy proceedings that involve substantial uncertainty for insurers. Actuarial techniques and databases used in estimating asbestos, environmental and other discontinued lines net loss reserves may prove to be inadequate indicators of the extent of probable loss. Ultimate net losses from these discontinued lines could materially exceed established loss reserves and expected recoveries and have a material adverse effect on our operating results and financial condition.

Regulation limiting rate increases and requiring us to underwrite business and participate in loss sharing arrangements may decrease our profitability

From time to time, political events and positions affect the insurance market, including efforts to suppress rates to a level that may not allow us to reach targeted levels of profitability. For example, if Allstate Protection's loss ratio compares favorably to that of the industry, state regulatory authorities may impose rate rollbacks, require us to pay premium refunds to policyholders, or resist or delay our efforts to raise rates even if the property and casualty industry generally is not experiencing regulatory resistance to rate increases. Such resistance affects our ability, in all product lines, to obtain approval for rate changes that may be required to achieve targeted levels of profitability and returns on equity. Our ability to afford reinsurance required to reduce our catastrophe risk in designated areas may be dependent upon the ability to adjust rates for its cost.

In addition to regulating rates, certain states have enacted laws that require a property-liability insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities and joint underwriting associations or require the insurer to offer coverage to all consumers, often restricting an insurer's ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, possibly leading to an unacceptable return on equity, or as the facilities recognize a financial deficit, they may in turn have the ability to assess participating insurers, adversely affecting our results of operations and financial condition. Laws and regulations of many states also limit an insurer's ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state insurance department. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

The potential benefits of implementing our sophisticated risk segmentation process may not be fully realized

We believe that pricing sophistication and underwriting (including Strategic Risk Management which, in some situations, considers information that is obtained from credit reports among other factors) has allowed us to be more competitive and operate more profitably. However, because many of our competitors have adopted underwriting criteria and sophisticated pricing models similar to those we use and because other competitors may follow suit, our competitive advantage could decline or be lost. Further, the use of insurance scoring from information that is obtained from credit reports as a factor in underwriting and pricing has at times been challenged by regulators, legislators, litigants and special interest groups in various states. Competitive pressures could also force us to modify our pricing sophistication model. Furthermore, we cannot be assured that these pricing sophistication models will accurately reflect the level of losses that we will ultimately incur from the mix of new business generated.

Allstate Protection's financial condition and operating results may be adversely affected by the cyclical nature of the property and casualty business

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability cycle of the property and casualty business could have a material adverse effect on our financial condition and results of operations.

Risks Relating to the Allstate Financial Segment

Changes in underwriting and actual experience could materially affect profitability and financial condition

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. Management establishes target returns for each product based upon these factors and the average amount of capital that the Company must hold to support in-force contracts taking into account rating agencies and regulatory requirements. We monitor and manage our pricing and overall sales mix to achieve target new business returns on a portfolio basis, which could result in the discontinuation of products or distribution relationships and a decline in sales. Profitability from new business emerges over a period of years depending on the nature and life of the product and is subject to variability as actual results may differ from pricing assumptions.

Our profitability in this segment depends on the adequacy of investment spreads, the management of market and credit risks associated with investments, the sufficiency of premiums and contract charges to cover mortality and morbidity benefits, the persistency of policies to ensure recovery of acquisition expenses, and the management of operating costs and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect our profitability and financial condition.

Changes in reserve estimates may adversely affect our operating results

Reserve for life-contingent contract benefits is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses. We periodically review the adequacy of these reserves on an aggregate basis and if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs ("DAC") may be required which could have a material adverse effect on our operating results.

Changes in market interest rates may lead to a significant decrease in the sales and profitability of spread-based products

Our ability to manage the Allstate Financial spread-based products, such as fixed annuities and institutional products, is dependent upon maintaining profitable spreads between investment yields and interest crediting rates. When market interest rates decrease or remain at relatively low levels, proceeds from investments that have matured or have been prepaid or sold may be reinvested at lower yields, reducing investment spread. Lowering interest crediting rates in such an environment can partially offset decreases in investment yield on some products. However, these changes could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in asset yields. Decreases in the rates offered on products in the Allstate Financial segment could make those products less attractive, leading to lower sales and/or changes in the level of policy loans, surrenders and withdrawals. Non-parallel shifts in interest rates, such as increases in short-term rates without accompanying increases in medium- and long-term rates, can influence customer demand for fixed annuities, which could impact the level and profitability of new customer deposits. Increases in market interest rates can also have negative effects on Allstate Financial, for example by increasing the attractiveness of other investments to our customers, which can lead to higher surrenders at a time when the segment's fixed income investment asset values are lower as a result of the increase in interest rates. This could lead to the sale of fixed income securities at a loss. For certain products, principally fixed annuity and interest-sensitive life products, the earned rate on assets could lag behind rising market yields. We may react to market conditions by increasing crediting rates, which could narrow spreads and reduce profitability. Unanticipated surrenders could result in accelerated amortization of DAC or affect the recoverability of DAC and thereby increase expenses and reduce profitability.

Changes in estimates of profitability on interest-sensitive life, fixed annuities and other investment products may adversely affect our profitability and financial condition through increased amortization of DAC

DAC related to interest-sensitive life, fixed annuities and other investment contracts is amortized in proportion to actual historical gross profits and estimated future gross profits ("EGP") over the estimated lives of the contracts. The principal assumptions for determining the amount of EGP are investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of persistency, mortality, expenses, and hedges if applicable. Updates to these assumptions (commonly referred to as "DAC unlocking") could adversely affect our profitability and financial condition. In 2008, DAC unlocking resulted in increased amortization of DAC of $327 million.

Narrowing the focus of our product offerings and reducing our concentration in fixed annuities and funding agreements may adversely affect reported results

Due to the current capital market conditions, we have been pursuing strategies to narrow our product offerings and reduce our concentration in fixed annuities and funding agreements. Lower new sales of these products, as well as our ongoing risk mitigation and return optimization programs, could negatively impact investment portfolio levels, complicate settlement of expiring contracts including forced sales of assets with unrealized capital losses, impact DAC amortization, and affect goodwill impairment testing and insurance reserves deficiency testing.

A loss of key product distribution relationships could materially affect sales

Certain products in the Allstate Financial segment are distributed under agreements with other members of the financial services industry that are not affiliated with us. Termination of one or more of these agreements due to, for example, a change in control of one of these distributors, could have a detrimental effect on the sales of Allstate Financial.

Changes in tax laws may decrease sales and profitability of products and financial condition

Under current federal and state income tax law, certain products we offer, primarily life insurance and annuities, receive favorable tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress from time to time considers legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities. Congress also considers proposals to reduce the taxation of certain products or investments that may compete with life insurance and annuities. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products making them less competitive. Such proposals, if adopted, could have a material adverse effect on our profitability and financial condition 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 could negatively affect the demand for the types of life insurance used in estate planning.

Risks Relating to Investments

We are subject to market risk and declines in credit quality which may adversely impact investment income and cause additional realized losses

Although we continually reevaluate our proactive risk mitigation and return optimization programs, we remain subject to the risk that we will incur losses due to adverse changes in equity prices, interest rates, commodity prices or foreign currency exchange rates. Our primary market risk exposures are to changes in interest rates and equity prices and, to a lesser degree, changes in foreign currency exchange rates and commodity prices. In addition, we are subject to potential declines in credit quality, either related to issues specific to certain industries or to a general weakening in the economy. Although to some extent we use derivative financial instruments to manage these risks, the effectiveness of such instruments is subject to the same risks.

A decline in market interest rates could have an adverse effect on our investment income as we invest cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. An increase in market interest rates could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio. A declining equity market could also cause the investments in our pension plans to decrease or decreasing interest rates could cause the funding target and the projected benefit obligation of our pension plans or the accumulated benefit obligation of our other post retirement benefit plans to increase, either or both resulting in a decrease in the funded status of the plans and a reduction of shareholders' equity, increases in pension expense and increases in required contributions to the pension plans. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause additional realized losses on securities, including realized losses relating to equity and derivative strategies.

Deteriorating financial performance on securities collateralized by mortgage loans and commercial mortgage loans may lead to write-downs

Changes in mortgage delinquency or recovery rates, declining real estate prices, changes in credit or bond insurer strength ratings and the quality of service provided by service providers on securities in our portfolios could lead us to determine that write-downs are appropriate in the future.

The impact of our investment strategies may be adversely affected by developments in the investment markets

The impact of our investment portfolio risk mitigation and return optimization programs and enterprise asset allocation actions may be adversely affected by unexpected developments in the investment markets. For example, derivative contracts, when entered into, may result in coverage that is not as effective as intended.

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects on our operating results and financial condition

The concentration of our investment portfolios in any particular industry, collateral types, group of related industries or geographic sector could have an adverse effect on our investment portfolios and consequently on our results of operations and financial condition. Events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated rather than diversified.

The determination of the amount of realized capital losses recorded for impairments of our investments is highly subjective and could materially impact our operating results and financial condition

The determination of the amount of realized capital losses recorded for impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in realized capital gains and losses from impairments in operating results as such evaluations are revised. There can be no assurance that our management has accurately assessed the level of or amounts recorded for impairments taken in our financial statements. Furthermore, additional impairments may need to be recorded in the future. Historical trends may not be indicative of future impairments. For example, the cost of our fixed income and equity securities is adjusted for impairments in value deemed to be other than temporary in the period in which the determination is made. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value.

The determination of the fair value of our fixed income and equity securities results in unrealized net capital gains and losses and is highly subjective and could materially impact our operating results and financial condition

In determining fair value we generally utilize market transaction data for the same or similar instruments. The degree of management judgment involved in determining fair values is inversely related to the availability of market observable information. The fair value of financial assets and financial liabilities may differ from the amount actually received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the financial assets' and financial liabilities' fair values. The difference between amortized cost or cost and fair value, net of deferred income taxes, certain life and annuity DAC, certain deferred sales inducement costs ("DSI"), and certain reserves for life-contingent contract benefits, is reflected as a component of accumulated other comprehensive income in shareholders' equity. As of December 31, 2008, total unrealized net capital losses was $8.81 billion. In the last 10 years, our quarterly net unrealized capital gains and losses have ranged from a $7.55 billion net unrealized capital gain at June 30, 2003 to an $8.81 billion net unrealized capital loss at December 31, 2008. Changing market conditions could materially effect the determination of the fair value of our securities and unrealized net capital gains and losses could vary significantly. Determining fair value is highly subjective and could materially impact our operating results and financial condition.

Risks Relating to the Insurance Industry

Our future results are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include a savings or investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. Many of our competitors have well-established national reputations and market similar products. Because of the competitive nature of the insurance industry, including competition for producers such as exclusive and independent agents, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our business, operating results or financial condition. Furthermore, certain competitors operate using a mutual insurance company structure and therefore, may have dissimilar profitability and return targets. Our ability to successfully operate may also be impaired if we are not effective in filling critical leadership positions, in developing the talent and skills of our human resources, in assimilating new executive talent into our organization, or in deploying human resource talent consistently with our business goals.

Difficult conditions in the economy generally could adversely affect our business and operating results

Economists now believe the United States economy has entered into a recessionary period and are projecting significant negative macroeconomic trends, including widespread job losses, higher unemployment, lower consumer spending, continued declines in home prices and substantial increases in delinquencies on consumer debt, including defaults on home mortgages. Moreover, recent disruptions in the financial markets, particularly the reduced availability of credit and tightened lending requirements, have impacted the ability of borrowers to refinance loans at more affordable rates. We cannot predict the length and severity of a recession, but as with most businesses, we believe a longer or more severe recession could have an adverse effect on our business and results of operations.

A general economic slowdown could adversely affect us in the form of consumer behavior and pressure on our investment portfolios. Consumer behavior could include decreased demand for our products. For example, as consumers purchase fewer automobiles, our sales of auto insurance may decline. Also, as consumers become more cost conscious, they may choose lower levels of auto and homeowners insurance. In 2008, declining new car sales, weakness in the housing market and a highly competitive environment contributed to lower policies in force. In addition, holders of some of our life insurance and annuity products may engage in an elevated level of discretionary withdrawals of contractholder funds. Our investment portfolios could be adversely affected as a result of deteriorating financial and business conditions affecting the issuers of the securities in our investment portfolio.

There can be no assurance that actions of the U.S. federal government, Federal Reserve and other governmental and regulatory bodies for the purpose of stabilizing the financial markets and stimulating the economy will achieve the intended effect

In response to the financial crises affecting the banking system, the financial markets and the broader economy, the U.S. federal government, the Federal Reserve and other governmental and regulatory bodies have taken or are considering taking action to address such conditions including, among other things, purchasing mortgage-backed and other securities from financial institutions, investing directly in banks, thrifts and bank and savings and loan holding companies and increasing federal spending to stimulate the economy. There can be no assurance as to what impact such actions will have on the financial markets or on economic conditions. Such continued volatility and economic deterioration could materially and adversely affect our business, financial condition and results of operations.

Losses from litigation may be material to our operating results or cash flows and financial condition

As is typical for a large company, we are involved in a substantial amount of litigation, including class action litigation challenging a range of company practices and coverage provided by our insurance products. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently reserved and may be material to our operating results or cash flows for a particular quarter or annual period and to our financial condition.

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

As insurance companies, broker-dealers, investment advisers and/or investment companies, many of our subsidiaries are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Moreover, they are administered and enforced by a number of different governmental authorities, including state insurance regulators, state securities administrators, the SEC, Financial Industry Regulatory Authority, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products, not holders of securities issued by The Allstate Corporation. In many respects, these laws and regulations limit our ability to grow and improve the profitability of our business.

In recent years, the state insurance regulatory framework has come under public scrutiny and members of Congress have discussed proposals to provide for federal chartering of insurance companies. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance regulation.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business

Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as are currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk in designated areas may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available next year. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our exposure risk, reduce our insurance writings, or develop or seek other alternatives.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded insurance, which could have a material adverse effect on our operating results and financial condition

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Our inability to collect a material recovery from a reinsurer could have a material adverse effect on our operating results and financial condition.

The continued threat of terrorism and ongoing military actions may adversely affect the level of claim losses we incur and the value of our investment portfolio

The continued threat of terrorism, both within the United States and abroad, and ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and losses from declines in the equity markets and from interest rate changes in the United States, Europe and elsewhere, and result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by the continued threat of terrorism. We seek to mitigate the potential impact of terrorism on our commercial mortgage portfolio by limiting geographical concentrations in key metropolitan areas and by requiring terrorism insurance to the extent that it is commercially available. Additionally, in the event that terrorist acts occur, both Allstate Protection and Allstate Financial could be adversely affected, depending on the nature of the event.

A downgrade in our financial strength ratings may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be under the insurer's control. The current insurance financial strength ratings of Allstate Insurance Company are A+, AA- and Aa3 from A.M. Best, Standard & Poor's and Moody's, respectively. The current insurance financial strength ratings of Allstate Life Insurance Company are A+, AA- and A1 from A.M. Best, Standard & Poor's and Moody's, respectively. The Allstate Corporation currently maintains a senior debt rating of a-, A- and A3 from A.M. Best, Standard & Poor's and Moody's, respectively. Several other affiliates have been assigned their own financial strength ratings by one or more rating agencies. Because all of these ratings are subject to continuous review, the retention of these ratings cannot be assured. A downgrade in any of these ratings could have a material adverse effect on our sales, our competitiveness, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

The capital and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity. In the event that we need access to additional capital to pay our operating expenses, make payments on our indebtedness, pay for capital expenditures or fund acquisitions, our ability to obtain such capital may be limited and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, as well as lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on favorable terms.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Accordingly, we are required to adopt new guidance or interpretations, or could be subject to existing guidance as we enter into new transactions, which may have a material adverse effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note 2 of the consolidated financial statements.

The change in our unrecognized tax benefit during the next 12 months is subject to uncertainty

As required by FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", which was adopted as of January 1, 2007, we have disclosed our estimate of net unrecognized tax benefits and the reasonably possible increase or decrease in its balance during the next

12 months. However, actual results may differ from our estimate for reasons such as changes in our position on specific issues, developments with respect to the

governments' interpretations of income tax laws or changes in judgment resulting from new information obtained in audits or the appeals process.

The realization of deferred tax assets is subject to uncertainty

The realization of our deferred tax assets, net of valuation allowances, is based on our assumption that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. However, actual results may differ from our assumptions if adequate levels of taxable income are not attained.

The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations

The Allstate Corporation is a holding company with no significant operations. The principal asset is the stock of its subsidiaries. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries, as described in Note 15 of the consolidated financial statements. In addition, competitive pressures generally require the subsidiaries to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of the subsidiaries to make dividend payments. Limits on the ability of the subsidiaries to pay dividends could adversely affect our liquidity, including our ability to pay dividends to shareholders, service our debt and complete share repurchase programs in the timeframe expected.

The occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively

In the event of a disaster such as a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems could have an adverse impact on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage and retrieval systems. In the event that a significant number of our managers could be unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows

Allstate recognizes the scientific view that the world is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires, the affordability and availability of homeowners insurance and the results for our Allstate Protection segment. To the extent that climate change impacts mortality rates and those changes do not match the long-term mortality assumptions in our product pricing, the results for our Allstate Financial segment would be impacted.

Loss of key vendor relationships could affect our operations

We rely on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software and vendors of services such as claim adjustment services and human resource benefits management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, we may suffer operational impairments and financial losses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office complex is located in Northbrook, Illinois. As of December 31, 2008, the Home Office complex consists of several buildings totaling approximately 2.3 million square feet of office space on a 250-acre site.

We also operate from approximately 1,500 administrative, data processing, claims handling and other support facilities in North America. Approximately 4.0 million square feet are owned and 6.9 million square feet are leased. In addition, we lease three properties as lessee in Northern Ireland comprising approximately 118,700 square feet and 90 properties in Canada comprising approximately 230,000 square feet. We also now have one lease in London for approximately 3,700 square feet. Generally, only major Allstate facilities are owned. In a majority of cases, new lease terms and renewals are for five years or less.

The locations out of which the Allstate exclusive agencies operate in the U.S. are normally leased by the agencies as lessees.

Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation" and under the heading "Legal proceedings" in Note 13 of the Consolidated Financial Statements.

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

None.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of January 31, 2009, there were 117,498 record holders of The Allstate Corporation's common stock. The principal market for the common stock is the New York Stock Exchange but it is also listed on the Chicago Stock Exchange. Set forth below are the high and low New York Stock Exchange Composite listing prices of, and cash dividends declared for, the common stock during 2008 and 2007.

	High	Low	Close	Dividends Declared
2008				
First quarter	52.90	44.56	48.06	.41
Second quarter	52.16	45.49	45.59	.41
Third quarter	48.00	41.37	46.12	.41
Fourth quarter	47.00	17.72	32.76	.41
2007				
First quarter	65.85	58.28	60.06	.38
Second quarter	63.73	59.46	61.51	.38
Third quarter	62.45	50.25	57.19	.38
Fourth quarter	59.23	48.90	52.23	.38

The payment of dividends by Allstate Insurance Company ("AIC") to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. In the twelve-month period ending December 31, 2008, AIC paid dividends of $3.40 billion. Based on the greater of 2008 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay without prior Illinois Division of Insurance approval at a given point in time in 2009 is $1.30 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Division of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

Period	Total number of shares (or units) purchased(1)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs(2)	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1, 2008 - October 31, 2008	139,703	$ 42.9465	139,703	$928 million
November 1, 2008 - November 30, 2008				$928 million
December 1, 2008 - December 31, 2008				$928 million
Total	139,703	$ 42.9465	139,703	

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

October: none
November: none
December: none

(2) Repurchases under our programs are, from time to time, executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.

On October 22, 2008, Allstate announced the suspension of the $2.00 billion share repurchase program and does not plan to complete it by the target date of March 31, 2009. The $2.00 billion share repurchase program was announced on February 26, 2008.

Item 6. Selected Financial Data

5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

($ in millions, except per share data and ratios)	**2008**	**2007**	**2006**	**2005**	**2004**
Consolidated Operating Results					
Insurance premiums and contract charges	$ 28,862	$ 29,099	$ 29,333	$ 29,088	$ 28,061
Net investment income	5,622	6,435	6,177	5,746	5,284
Realized capital gains and losses	(5,090)	1,235	286	549	591
Total revenues	29,394	36,769	35,796	35,383	33,936
(Loss) income from continuing operations	(1,679)	4,636	4,993	1,765	3,356
Cumulative effect of change in accounting principle, after-tax					(175)
Net (loss) income	(1,679)	4,636	4,993	1,765	3,181
Net (loss) income per share:					
Diluted:					
(Loss) income before cumulative effect of change in accounting principle, after-tax	(3.07)	7.77	7.84	2.64	4.79
Cumulative effect of change in accounting principle, after-tax					(0.25)
Net (loss) income	(3.07)	7.77	7.84	2.64	4.54
Basic:					
(Loss) income before cumulative effect of change in accounting principle, after-tax	(3.07)	7.83	7.89	2.67	4.82
Cumulative effect of change in accounting principle, after-tax					(0.25)
Net (loss) income	(3.07)	7.83	7.89	2.67	4.57
Cash dividends declared per share	1.64	1.52	1.40	1.28	1.12
Consolidated Financial Position					
Investments	$ 95,998	$ 118,980	$ 119,757	$ 118,297	$ 115,530
Total assets	134,798	156,408	157,554	156,072	149,725
Reserves for claims and claims expense, life-contingent contract benefits and contractholder funds	90,750	94,052	93,683	94,639	86,801
Short-term debt			12	413	43
Long-term debt	5,659	5,640	4,650	4,887	5,291
Shareholders' equity	12,641	21,851	21,846	20,186	21,823
Shareholders' equity per diluted share	23.51	38.58	34.84	31.01	31.72
Property-Liability Operations					
Premiums earned	$ 26,967	$ 27,233	$ 27,369	$ 27,039	$ 25,989
Net investment income	1,674	1,972	1,854	1,791	1,773
Net income	228	4,258	4,614	1,431	3,045
Operating ratios[(1)]					
Claims and claims expense ("loss") ratio	74.4	64.9	58.5	78.3	68.7
Expense ratio	25.0	24.9	25.1	24.1	24.3
Combined ratio	99.4	89.8	83.6	102.4	93.0
Allstate Financial Operations					
Premiums and contract charges	$ 1,895	$ 1,866	$ 1,964	$ 2,049	$ 2,072
Net investment income	3,811	4,297	4,173	3,830	3,410
(Loss) income before cumulative effect of change in accounting principle, after-tax	(1,721)	465	464	416	421
Cumulative effect of change in accounting principle, after-tax					(175)
Net (loss) income	(1,721)	465	464	416	246
Investments	61,499	74,256	75,951	75,233	72,530

(1) We use operating ratios to measure the profitability of our Property-Liability results. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows: Claims and claims expense ("loss") ratio is the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses. Expense ratio is the ratio of amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned. Combined ratio is the ratio of claims and claims expense, amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between

100% and the combined ratio represents underwriting income (loss) as a percentage of premiums earned.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we", "our", "us", the "Company" or "Allstate"). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6 and Item 8 contained herein. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management's Discussion and Analysis ("MD&A"). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

Allstate is focused on three priorities in 2009: protecting Allstate's financial strength, building customer loyalty, and continue reinventing protection and retirement for the consumer. In addition, we will continue to monitor market conditions and will consider business start-ups, acquisitions and alliances that would forward our business objectives and represent prudent uses of corporate capital.

The most important factors we monitor to evaluate the financial condition and performance of our company include:

- For Allstate Protection: premium written, the number of policies in force ("PIF"), retention, price changes, claim frequency (rate of claim occurrence per policy in force) and severity (average cost per claim), catastrophes, loss ratio, expenses, underwriting results and sales of all products and services;
- For Allstate Financial: premiums and deposits, benefit and investment spread, amortization of deferred policy acquisition costs, expenses, operating income, net income, invested assets, and new business returns;
- For Investments: credit quality/experience, realized capital gains and losses, investment income, unrealized capital gains and losses, stability of long-term returns, total returns, cash flows, and asset and liability duration; and
- For financial condition: liquidity, parent company deployable invested assets, financial strength ratings, operating leverage, debt leverage, book value per share, and return on equity.

2008 HIGHLIGHTS

- Consolidated net loss was $1.68 billion in 2008 compared to net income of $4.64 billion in 2007. Net loss per diluted share was $3.07 in 2008 compared to net income per diluted share of $7.77 in 2007.
- Property-Liability net income was $228 million in 2008 compared to $4.26 billion in 2007.
- The Property-Liability combined ratio was 99.4 in 2008 compared to 89.8 in 2007.
- Catastrophe losses in 2008 totaled $3.34 billion compared to $1.41 billion in 2007. The effect of catastrophe losses on the combined ratio was 12.4 points and 5.2 points in 2008 and 2007, respectively.
- Allstate Financial had a net loss of $1.72 billion in 2008 compared to net income of $465 million in 2007.
- Total revenues were $29.39 billion in 2008 compared to $36.77 billion in 2007.
- Property-Liability premiums earned in 2008 totaled $26.97 billion, a decrease of 1.0% from $27.23 billion in 2007.

Net realized capital losses were $5.09 billion in 2008 compared to net realized capital gains of $1.24 billion in 2007.

Investments as of December 31, 2008 totaled $96.00 billion, a decrease of 19.3% from $118.98 billion as of December 31, 2007. Net investment income in 2008 was $5.62 billion, a decrease of 12.6% from $6.44 billion in 2007.

Book value per diluted share was $23.51 as of December 31, 2008, a decrease of 39.1% from $38.58 as of December 31, 2007.

For the twelve months ended December 31, 2008, return on the average of beginning and ending period shareholders' equity was (9.7)%, a decrease of 30.9 points from 21.2% for the twelve months ended December 31, 2007.

To further enhance our liquidity and capital levels, we suspended our $2.00 billion share repurchase program and do not plan to complete it by our original target date of March 2009. The number of shares repurchased under the program was 22.7 million shares for $1.07 billion during the twelve months ended December 31, 2008.

At December 31, 2008, we held $12.64 billion in capital. This total included $3.64 billion in deployable invested assets at the parent holding company level.

On February 25, 2009, we announced that our shareholder dividend was being revised to $.20.

CONSOLIDATED NET (LOSS) INCOME

($ in millions)	For the years ended December 31, 2008	2007	2006
Revenues			
Property-liability insurance premiums earned	$ 26,967	$ 27,233	$ 27,369
Life and annuity premiums and contract charges	1,895	1,866	1,964
Net investment income	5,622	6,435	6,177
Realized capital gains and losses	(5,090)	1,235	286
Total revenues	29,394	36,769	35,796
Costs and expenses			
Property-liability insurance claims and claims expense	(20,064)	(17,667)	(16,017)
Life and annuity contract benefits	(1,612)	(1,589)	(1,570)
Interest credited to contractholder funds	(2,411)	(2,681)	(2,609)
Amortization of deferred policy acquisition costs	(4,679)	(4,704)	(4,757)
Operating costs and expenses	(3,273)	(3,103)	(3,033)
Restructuring and related charges	(23)	(29)	(182)
Interest expense	(351)	(333)	(357)
Total costs and expenses	(32,413)	(30,106)	(28,525)
Loss on disposition of operations	(6)	(10)	(93)
Income tax benefit (expense)	1,346	(2,017)	(2,185)
Net (loss) income	$ (1,679)	$ 4,636	$ 4,993
Property-Liability	$ 228	$ 4,258	$ 4,614
Allstate Financial	(1,721)	465	464
Corporate and Other	(186)	(87)	(85)
Net (loss) income	$ (1,679)	$ 4,636	$ 4,993

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

- Fair Value of Financial Assets and Financial Liabilities
- Impairment of Fixed Income and Equity Securities
- Deferred Policy Acquisition Costs ("DAC") Amortization
- Reserve for Property-Liability Insurance Claims and Claims Expense Estimation
- Reserve for Life-Contingent Contract Benefits Estimation

In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. It is reasonably likely that changes in these estimates could occur from period to period and result in a material impact on our consolidated financial statements.

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see Note 2 of the consolidated financial statements.

Fair Value of Financial Assets and Financial Liabilities Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"), is effective for fiscal years beginning after November 15, 2007. We adopted the provisions of SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities that are measured at fair value. SFAS No. 157:

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

We categorize our financial assets and financial liabilities measured at fair value based on the observability of inputs to the valuation techniques, into a three-level fair value hierarchy as follows:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in non-active markets; or

(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

Observable inputs are those used by market participants in valuing financial instruments that are developed based on market data obtained from independent sources. In the absence of sufficient observable inputs, unobservable inputs reflect our estimates of the assumptions market participants would use in valuing financial assets and financial liabilities and are developed based on the best information available in the circumstances. The degree of management judgment involved in determining fair values is inversely related to the availability of market observable information.

To distinguish among the categories, we consider the frequency of completed transactions such as daily trading for equity securities. If inputs used to measure a financial instrument fall within different levels of the fair value hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the entire instrument. Certain financial assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting measurement is reflected in the consolidated financial statements. In addition, equity options embedded in fixed income securities are not disclosed in the hierarchy with free-standing derivatives, as the embedded derivatives are presented as combined instruments in fixed income securities.

We are responsible for the determination of the value of the financial assets and financial liabilities carried at fair value and the supporting assumptions and methodologies. We gain assurance on the overall reasonableness and consistent application of valuation input assumptions, valuation methodologies and compliance with accounting standards for fair value determination through the execution of various processes and controls designed to ensure that our financial assets and financial liabilities are appropriately valued. We monitor fair values received from third parties and those derived internally on an ongoing basis.

In certain situations, we employ independent third-party valuation service providers to gather, analyze, and interpret market information and derive fair values based upon relevant assumptions and methodologies for individual instruments. In situations where our valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a single quote or by employing internal valuation models that are widely accepted in the financial services industry. Changing market conditions are incorporated into valuation assumptions and reflected in the fair values, which are validated by calibration and other analytical techniques to available market observable data.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of proprietary algorithms, produce valuation information in the form of a single fair value for individual securities for which a fair value has been requested under the terms of our agreements. For certain equity securities, valuation service providers provide market quotations for completed transactions on the measurement date. For other security types, fair values are derived from the valuation service providers' proprietary valuation models. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, liquidity spread, currency rates, and other market-observable information, as applicable. Credit and liquidity spreads are typically implied from completed transactions and transactions of comparable securities. Valuation service providers also use proprietary discounted cash flow models that are widely accepted in the financial services industry and similar to those used by other market participants to value the same financial instruments. The valuation models take into account, among other things, market observable information as of the measurement date, as described above, as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and where applicable, collateral quality and other issue or issuer specific information. Executing valuation models effectively requires seasoned professional judgment and experience. In cases where market transactions or other market observable data is limited, the extent to which judgment is applied varies inversely with the availability of market observable information.

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

The fair value of financial assets and financial liabilities, including privately-placed securities, certain free-standing derivatives and certain derivatives embedded in certain contractholder liabilities, where our valuation service providers or brokers do not provide fair value determinations, is determined using valuation methods and models widely accepted in the financial services industry. Internally developed valuation models, which include inputs that may not be market observable and as such involve some degree of judgment, are considered appropriate for each class of security to which they are applied.

Our internal pricing methods are primarily based on models using discounted cash flow methodologies that determine a single best estimate of fair value for individual financial instruments. In addition, our models use internally assigned credit ratings as inputs (which are generally consistent with any external ratings and those we use to report our holdings by credit rating) and stochastically determined cash flows for certain derivatives embedded in certain contractholder liabilities, both of which are difficult to independently observe and verify. Instrument specific inputs used in our internal fair value determinations include: coupon rate, coupon type, weighted average life, sector of the issuer, call provisions, and the contractual elements of derivatives embedded in certain contractholder liabilities. Market related inputs used in these fair values, which we believe are representative of inputs other market participants would use to determine fair value of the same instruments include: interest rate yield curves, quoted market prices of comparable securities, credit spreads, estimated liquidity premiums, and other applicable market data including lapse and anticipated market return estimates for derivatives embedded in certain contractholder liabilities. Credit spreads are determined using those published by a commonly used industry specialist for comparable public securities. A liquidity premium is also added to certain securities to reflect spreads commonly required for the types of securities being valued and are calibrated based on actual trades or other market data. As a result of the significance of non-market observable inputs, including internally assigned credit ratings and stochastic cash flow estimates as described above, judgment is required in developing these fair values. The fair value of these financial assets and financial liabilities may differ from the amount actually received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the financial assets' and financial liabilities' fair values.

Fair value of our investments comprise an aggregation of numerous, single best estimates for each security in the Consolidated Statements of Financial Position. Because of this detailed approach, there is no single set of assumptions that determine our fair value estimates at a consolidated level. Moreover, management does not compile a range of estimates for items reported at fair value at the consolidated level because we do not believe that a range would provide meaningful information. In the last 10 years, our quarterly net unrealized capital gains and losses have ranged from a $7.55 billion net unrealized capital gain at June 30, 2003 to an $8.81 billion net unrealized capital loss at December 31, 2008. The change in net unrealized capital gains and losses by quarter over the 10 year period has averaged $1.10 billion and has ranged from a $4.71 billion decrease to a $2.29 billion increase.

Level 1 and Level 2 measurements represent valuations where all significant inputs are market observable. Level 3 measurements have one or more significant inputs that are not market observable and as a result these fair value determinations have greater potential variability as it relates to their significant inputs. The Level 3 principal components are privately placed securities valued using internal models and broker quoted securities. Additionally, due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market, all asset-backed residential mortgage-backed securities ("ABS RMBS"), auction rate securities ("ARS") backed by student loans, Alt-A residential mortgage-backed securities ("Alt-A"), other collateralized debt obligations ("CDO"), certain asset-backed securities ("ABS") and certain commercial mortgage-backed securities ("CMBS") are categorized as Level 3. In general, the greater the reliance on significant inputs that are not market observable, the greater potential variability of the fair value determinations. For broker quoted securities' fair value determinations, which were all categorized as Level 3, we believe the brokers providing the quotes may consider market observable transactions or activity in similar securities, as applicable, and other information as calibration points. Privately placed securities' fair value determinations, which are based on internal ratings that are not market observable and categorized as Level 3, are calibrated to market observable information in the form of external National Association of Insurance Commissioners ("NAIC") ratings and credit spreads.

We believe our most significant exposure to changes in fair value is due to market risk. Our exposure to changes in market conditions is discussed fully in the Market Risk section of the MD&A.

We employ specific control processes to determine the reasonableness of the fair values of our financial assets and financial liabilities. Our processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, we assess the reasonableness of individual security values received from valuation service providers that exceed certain thresholds as compared to previous values received from those valuation service providers. In addition, we may validate the reasonableness of fair values by comparing information obtained from our valuation service providers to other third party valuation sources for selected financial assets. When fair value determinations are expected to be more variable, we validate them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions. We do not alter fair values provided by our valuation providers or brokers.

The following table identifies investments as of December 31, 2008 by source of value determination:

	Investments	
($ in millions)	**Fair value**	**Percent to total**
Fair value based on internal sources	$ 9,256	9.7%
Fair value based on external sources[(1)]	71,063	74.0
Total fixed income, equity and short-term securities	80,319	83.7
Fair value of derivatives	301	0.3
Mortgage loans, policy loans, bank loans and certain limited partnership and other investments, valued at cost, amortized cost and the equity method	15,378	16.0
Total	$ 95,998	100.0%

(1) Includes $2.73 billion that are valued using broker quotes.

For more detailed information on our accounting policy for the fair value of financial assets and financial liabilities and information on the financial assets and financial liabilities included in the levels promulgated by SFAS No. 157, see Note 2 of the consolidated financial statements.

Impairment of Fixed Income and Equity Securities For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of certain other items and deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the Consolidated Statements of Financial Position and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when the decline in fair value is deemed other than temporary. The assessment of whether the impairment of a security's fair value is other than temporary is performed using a portfolio review as well as a case-by-case review considering a wide range of factors.

There are a number of assumptions and estimates inherent in evaluating impairments and determining if they are other than temporary, including: 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities or cost for equity securities; 4) the financial condition, near-term and long-term prospects of the issue or 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 liquidity. Additionally, once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that an impairment is other than temporary, including: 1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances obtained that causes a change in our ability or intent to hold a security to maturity or until it recovers in value. Examples of situations which may change our ability or intent to hold a security to maturity or recovery include where significant unanticipated new facts and circumstances emerge or existing facts and circumstances increase in significance and are anticipated to adversely impact a security's future valuations more than previously expected, including negative developments that would change the view of long term investors and their intent to continue to hold the investment, subsequent credit deterioration of an issuer or holding, subsequent further deterioration in capital markets (i.e. debt and equity) and of economic conditions, subsequent further deterioration in the financial services and real estate industries, liquidity needs, federal income tax situations involving capital gains and capital loss carrybacks and carryforwards with specific expiration dates, investment risk mitigation actions, and other new facts and circumstances that would cause a change in our previous intent to hold a security to recovery or maturity. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on shareholders' equity, since the majority of our portfolio is designated as available-for-sale and carried at fair value and as a result, any related net unrealized loss would already be reflected as a component of accumulated other comprehensive income in shareholders' equity.

The determination of the amount of impairment is an inherently subjective process based on periodic evaluation of the factors described above. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in impairments in results of operations as such evaluations are revised. The use of different methodologies and assumptions as to the determination of the fair value of investments and the timing and amount of impairments may have a material effect on the amounts presented within the consolidated financial statements.

Fixed income securities subject to other-than-temporary impairment write-downs continue to earn investment income when future expected payments are both reasonably estimable and probable, and any discount or premium is recognized using the effective yield method over the expected life of the security; otherwise income recognition is discontinued. For a more detailed discussion of the risks relating to changes in investment values and levels of investment impairment as well as the potential causes of such changes, see Note 5 of the consolidated financial statements and the Investments, Market Risk, Enterprise Risk and Return Management and Forward-looking Statements and Risk Factors sections of this document.

Deferred Policy Acquisition Costs Amortization We incur significant costs in connection with acquiring insurance policies and investment contracts. In accordance with GAAP, costs that vary with and are primarily related to acquiring insurance policies and investment contracts are deferred and recorded as an asset on the Consolidated Statements of Financial Position.

DAC related to property-liability contracts is amortized into income as premiums are earned, typically over periods of six to twelve months. The amortization methodology for DAC for Allstate Financial policies and contracts includes significant assumptions and estimates.

DAC related to traditional life insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment returns, which include investment income and realized capital gains and losses, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of this business. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. We aggregate all products accounted for pursuant to Statement of Financial Accounting Standard No. 60, "Accounting and Reporting by Insurance Enterprises" ("SFAS No. 60"), in the analysis. In the event actual experience is significantly adverse compared to the original assumptions, any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining DAC balance is insufficient to absorb the deficiency. In 2008, for traditional life insurance and immediate annuities with life contingencies, an aggregate premium deficiency of $336 million pre-tax ($219 million after-tax) resulted primarily from a study indicating that the annuitants on certain life-contingent contracts are projected to live longer than we anticipated when the contracts were issued and, to a lesser degree, a reduction in the related investment portfolio yield. The deficiency was recorded through a reduction in DAC. In 2007 and 2006, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected income from traditional life insurance more than offsetting the projected deficiency in immediate annuities with life contingencies.

DAC related to interest-sensitive life, annuities and other investment contracts is amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of customer surrender rates, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period. The cumulative DAC amortization is reestimated and adjusted by a cumulative charge or credit to results of operations when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP.

AGP and EGP consist primarily of the following components: contract charges for the cost of insurance less mortality costs and other benefits (benefit margin); investment income and realized capital gains and losses less interest credited (investment margin); and surrender and other contract charges less maintenance expenses (expense margin). The amount of EGP is principally dependent on assumptions for investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of persistency, mortality, expenses, and hedges if applicable, and these assumptions are reasonably likely to have the greatest impact on the amount of DAC amortization. Changes in these assumptions can be offsetting and the Company is unable to reasonably predict their future movements or offsetting impacts over time.

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance. This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in-force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is less than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally decrease, resulting in a current period increase to earnings. The opposite result generally occurs when the AGP exceeds the EGP in the period, but the total EGP is unchanged.

Annually, we review all assumptions underlying the projections of EGP, including investment returns, comprising investment income and realized capital gains and losses, interest crediting rates, persistency, mortality, and expenses. Management annually updates assumptions used in the calculation of EGP. At each reporting period, we assess whether any revisions to assumptions used to determine DAC amortization are required. These reviews and updates may result in amortization acceleration or deceleration, which are commonly referred to as "DAC unlocking".

If the update of assumptions causes total EGP to increase, the rate of DAC amortization will generally decrease, resulting in a current period increase to earnings. A decrease to earnings generally occurs when the assumption update causes the total EGP to decrease.

Over the past three years, our most significant DAC assumption updates that resulted in a change to EGP and the amortization of DAC have been revisions to expected future investment returns, primarily realized capital losses, expenses, mortality and the number of contracts in force or persistency resulting in net DAC amortization acceleration of $327 million in 2008, deceleration of $14 million in 2007 and acceleration of $2 million in 2006.

The following table provides the effect on DAC amortization of changes in assumptions relating to the gross profit components of investment margin, benefit margin and expense margin during the years ended December 31.

($ in millions)	**2008**	**2007**	**2006**
Investment margin	$ (303)	$ 11	$ 15
Benefit margin	35	34	(13)
Expense margin	(59)	(31)	(4)
Net (acceleration) deceleration	$ (327)	$ 14	$ (2)

DAC amortization acceleration related to changes in the EGP component of investment margin in 2008 was primarily due to the level of realized capital losses impacting actual gross profits in 2008 and the impact of realized capital losses on expected gross profits in 2009. The deceleration related to benefit margin was due to more favorable projected life insurance mortality. The acceleration related to expense margin resulted from current and expected expense levels higher than previously projected. DAC amortization deceleration related to changes in the EGP component of investment margin in 2007 was due to higher yields from repositioning of the investment portfolio and reduced interest crediting rates on annuities. The deceleration related to benefit margin was due to more favorable projected life insurance mortality. The acceleration related to expense margin was a result of expenses being higher than expected.

The following table displays the sensitivity of reasonably likely changes in assumptions included in the gross profit components of investment margin or benefit margin to amortization of the DAC balance as of December 31, 2008.

($ in millions)	December 31, 2008 Increase/(reduction) in DAC	
Increase in future investment margins of 25 basis points	$	169
Decrease in future investment margins of 25 basis points	$	(195)
Decrease in future life mortality by 1%	$	28
Increase in future life mortality by 1%	$	(31)

Any potential changes in assumptions discussed above are measured without consideration of correlation among assumptions. Therefore, it would be inappropriate to add them together in an attempt to estimate overall variability in amortization.

For additional discussion see the Allstate Financial Segment and Forward-looking Statements and Risk Factors sections of this document and Note 2 and 10 of the consolidated financial statements.

Reserve for Property-Liability Insurance Claims and Claims Expense Estimation Reserves are established to provide for the estimated costs of paying claims and claims expenses under insurance policies we have issued. Property-Liability underwriting results are significantly influenced by estimates of property-liability insurance claims and claims expense reserves. These reserves are an estimate of amounts necessary to settle all outstanding claims, including claims that have been incurred but not reported ("IBNR"), as of the financial statement date.

Characteristics of Reserves Reserves are established independently of business segment management for each business segment and line of business based on estimates of the ultimate cost to settle claims, less losses that have been paid. The significant lines of business are auto, homeowners, and other lines for Allstate Protection, and asbestos, environmental, and other discontinued lines for Discontinued Lines and Coverages. Allstate Protection's claims are typically reported promptly with relatively little reporting lag between the date of occurrence and the date the loss is reported. Auto and homeowners liability losses generally take an average of about two years to settle, while auto physical damage, homeowners property and other personal lines have an average settlement time of less than one year. Discontinued Lines and Coverages involve long-tail losses, such as those related to asbestos and environmental claims, which often involve substantial reporting lags and extended times to settle.

Reserves are the difference between the estimated ultimate cost of losses incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update the majority of our reserve estimates quarterly and as new information becomes available or as events emerge that may affect the resolution of unsettled claims. Changes in prior year reserve estimates (reserve reestimates), which may be material, are determined by comparing updated estimates of ultimate losses to prior estimates, and the differences are recorded as property-liability insurance claims and claims expenses in the Consolidated Statements of Operations in the period such changes are determined. Estimating the ultimate cost of claims and claims expenses is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

The Actuarial Methods used to Develop Reserve Estimates Reserve estimates are derived by using several different actuarial estimation methods that are variations on one primary actuarial technique. The actuarial technique is known as a "chain ladder" estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident year or a report year to create an estimate of how losses are likely to develop over time. An accident year refers to classifying claims based on the year in which the claims occurred. A report year refers to classifying claims based on the year in which the claims are reported. Both classifications are used to prepare estimates of required reserves for payments to be made in the future. The key assumptions affecting our reserve estimates comprise data elements including claim counts, paid losses, case reserves, and development factors calculated with this data.

In the chain ladder estimation technique, a ratio (development factor) is calculated which compares current period results to results in the prior period for each accident year. A three-year or two-year average development factor, based on historical results, is usually multiplied by the current period experience to estimate the development of losses of each accident year into the next time period. The development factors for the future time periods for each accident year are compounded over the remaining future periods to calculate an estimate of ultimate losses for each accident year. The implicit assumption of this technique is that an average of historical development factors is predictive of future loss development, as the significant size of our experience data base achieves a high degree of statistical credibility in actuarial projections of this type. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that a multi-year average development factor includes an adequate provision. Occasionally, unusual aberrations in loss patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors, and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses.

How Reserve Estimates are Established and Updated Reserve estimates are developed at a very detailed level, and the results of these numerous micro-level best estimates are aggregated to form a consolidated reserve estimate. For example, over one thousand actuarial estimates of the types described above are prepared each quarter to estimate losses for each line of insurance, major components of losses (such as coverages and perils), major states or groups of states and for reported losses and IBNR. The actuarial methods described above are used to analyze the settlement patterns of claims by determining the development factors for specific data elements that are necessary components of a reserve estimation process. Development factors are calculated quarterly for data elements such as, claim counts reported and settled, paid losses, and paid losses combined with case reserves. The calculation of development factors from changes in these data elements also impacts claim severity trends, which is a common industry reference used to explain changes in reserve estimates. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates.

Often, several different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which we select our best estimate for each component, occasionally incorporating additional analyses and actuarial judgment, as described above. These micro-level estimates are not based on a single set of assumptions. Actuarial judgments that may be applied to these components of certain micro-level estimates generally do not have a material impact on the consolidated level of reserves. Moreover, this detailed micro-level process does not permit or result in a compilation of a company-wide roll up to generate a range of needed loss reserves that would be meaningful. Based on our review of these estimates, our best estimate of required reserves for each state/line/coverage component is recorded for each accident year, and the required reserves for each component are summed to create the reserve balance carried on our Consolidated Statements of Financial Position.

Reserves are reestimated quarterly, by combining historical results with current actual results to calculate new development factors. This process incorporates the historic and latest actual trends, and other underlying changes in the data elements used to calculate reserve estimates. New development factors are likely to differ from previous development factors used in prior reserve estimates because actual results (claims reported or settled, losses paid, or changes to case reserves) occur differently than the implied assumptions contained in the previous development factor calculations. If claims reported, paid losses, or case reserve changes are greater or lower than the levels estimated by previous development factors, reserve reestimates increase or decrease. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve reestimate and an increase or decrease in property-liability insurance claims and claims expense will be recorded in the Consolidated Statements of Operations. Total Property-liability reserve reestimates, after-tax, as a percent of net income, in 2008, 2007 and 2006 were (6.6)%, 2.4% and 12.6%, respectively. For Property-Liability, the 3-year average of reserve reestimates as a percentage of total reserves was a favorable 1.9%, for Allstate Protection, the 3-year average of reserve estimates was a favorable 2.6% and for Discontinued Lines and Coverages the 3-year average of reserve reestimates was an unfavorable 3.1%, each of these results being consistent within a reasonable actuarial tolerance for our respective businesses. Allstate Protection reserve reestimates were primarily the result of claim severity development that was better than expected and late reported loss development that was better than expected due to lower frequency trends, and for Discontinued Lines and Coverages, reestimates were primarily a result of increased reported claim activity (claims frequency). A more detailed discussion of reserve reestimates is presented in the Property-Liability Claims and Claims Expense Reserves section of this document.

The following table shows claims and claims expense reserves by operating segment and line of business as of December 31:

($ in millions)	2008	2007	2006
Allstate Protection			
Auto	$10,220	$10,175	$ 9,995
Homeowners	2,824	2,279	2,226
Other lines	2,207	2,131	2,235
Total Allstate Protection	15,251	14,585	14,456
Discontinued Lines and Coverages			
Asbestos	1,228	1,302	1,375
Environmental	195	232	194
Other discontinued lines	508	541	585
Total Discontinued Lines and Coverages	1,931	2,075	2,154
Total Property-Liability	$17,182	$16,660	$16,610

Allstate Protection Reserve Estimates

Factors Affecting Reserve Estimates Reserve estimates are developed based on the processes and historical development trends as previously described. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our experience with similar cases, actual claims paid, differing payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. When we experience changes of the type previously mentioned, we may need to apply actuarial judgment in the determination and selection of development factors considered more reflective of the new trends, such as combining shorter or longer periods of historical results with current actual results to produce development factors based on two-year, three-year, or longer development periods to reestimate our reserves. For example, if a legal change is expected to have a significant impact on the development of claim severity for a coverage which is part of a particular line of insurance in a specific state, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. Another example would be when a change in economic conditions is expected to affect the cost of repairs to damaged autos or property for a particular line, coverage, or state, actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and a statistical case reserve is set for these claims based on estimation techniques previously described. In the normal course of business, we may also supplement our 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.

Historically, the case reserves set by the field adjusting staff have not proven to be an entirely accurate estimate of the ultimate cost of claims. To provide for this, a development reserve is estimated using previously described processes, and allocated to pending claims as a supplement to case reserves. Typically, the case and supplemental development reserves comprise about 90% of total reserves.

Another major component of reserves is IBNR. Typically, IBNR comprises about 10% of total reserves.

Generally, the initial reserves for a new accident year are established based on severity assumptions for different business segments, lines, and coverages based on historical relationships to relevant inflation indicators, and reserves for prior accident years are statistically determined using processes previously described. Changes in auto current year claim severity are generally influenced by inflation in the medical and auto repair sectors of the economy. We mitigate these effects through various loss management programs. Injury claims are affected largely by medical cost inflation while physical damage claims are affected largely by auto repair cost inflation and used car prices. For auto physical damage coverages, we monitor our rate of increase in average cost per claim against a weighted average of the Maintenance and Repair price index and the Parts & Equipment price index. We believe our claim settlement initiatives, such as improvements to the claim review and settlement process, the use of special investigative units to detect fraud and handle suspect claims, litigation management and defense strategies, as well as various other loss management initiatives underway, contribute to the mitigation of injury and physical damage severity trends.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, deductibles and other economic and environmental factors. We employ various loss management programs to mitigate the effect of these factors.

As loss experience for the current year develops for each type of loss, it is monitored relative to initial assumptions until it is judged to have sufficient statistical credibility. From that point in time and forward, reserves are reestimated using statistical actuarial processes to reflect the impact actual loss trends have on development factors incorporated into the actuarial estimation processes. Statistical credibility is usually achieved by the end of the first calendar year; however, when trends for the current accident year exceed initial assumptions sooner, they are usually given credibility, and reserves are increased accordingly.

The very detailed processes for developing reserve estimates and the lack of a need and existence of a common set of assumptions or development factors, limits aggregate reserve level testing for variability of data elements. However, by applying standard actuarial methods to consolidated historic accident year loss data for major loss types, comprising auto injury losses, auto physical damage losses and homeowner losses, we develop variability analyses consistent with the way we develop reserves by measuring the potential variability of development factors, as described in the section titled, "Potential Reserve Estimate Variability" below.

Causes of Reserve Estimate Uncertainty Since reserves are estimates of the unpaid portions of claims and claims expenses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophes, requires regular reevaluation and refinement of estimates to determine our ultimate loss estimate.

At each reporting date, the highest degree of uncertainty in estimates of losses arises from claims remaining to be settled for the current accident year and the most recent preceding accident year. The greatest degree of uncertainty exists in the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. Most of these losses relate to damaged property such as automobiles and homes, and medical care for injuries from accidents. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which we tend to make our largest reestimates of losses for an accident year. After the second year, the losses that we pay for an accident year typically relate to claims that are more difficult to settle, such as those involving serious injuries or litigation. Private passenger auto insurance provides a good illustration of the uncertainty of future loss estimates: our typical annual percentage payout of reserves for an accident year is approximately 50% in the first year after the end of the accident year, 20% in the second year, 15% in the third year, 5% in the fourth year, and the remaining 10% thereafter.

Reserves for Catastrophe Losses Property-Liability claims and claims expense reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes, and volcanoes. We are also exposed to man-made catastrophic events, such as certain acts of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be predicted.

The estimation of claims and claims expense reserves for catastrophes also comprises estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described previously. However, depending on the nature of the catastrophe, as noted above, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to be able to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain), or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge, exposure to mold damage, and the effects of numerous other considerations, including the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, we may need to adapt our practices to accommodate these circumstances in order to determine a best estimate of our losses from a catastrophe. As an example, in 2005 to complete an estimate for certain areas affected by Hurricane Katrina and not yet inspected by our claims adjusting staff, or where we believed our historical loss development factors were not predictive, we relied on analysis of actual claim notices received compared to total policies in force, as well as visual, governmental and third party information, including aerial photos, area observations, and data on wind speed and flood depth to the extent available.

Potential Reserve Estimate Variability The aggregation of numerous micro-level estimates for each business segment, line of insurance, major components of losses (such as coverages and perils), and major states or groups of states for reported losses and IBNR forms the reserve liability recorded in the Consolidated Statements of Financial Position. Because of this detailed approach to developing our reserve estimates, there is not a single set of assumptions that determine our reserve estimates at the consolidated level. Given the numerous micro-level estimates for reported losses and IBNR, management does not believe the processes that we follow will produce a statistically credible or reliable actuarial reserve range that would be meaningful. Reserve estimates, by their very nature, are very complex to determine and subject to significant judgment, and do not represent an exact determination for each outstanding claim. Accordingly, as actual claims, and/or paid losses, and/or case reserve results emerge, our estimate of the ultimate cost to settle will be different than previously estimated.

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, an actuarial technique (stochastic modeling) is applied to the countrywide consolidated data elements for paid losses and paid losses combined with case reserves separately for injury losses, auto physical damage losses, and homeowners losses excluding catastrophe losses. Based on the combined historical variability of the development factors calculated for these data elements, an estimate of the standard error or standard deviation around these reserve estimates is calculated within each accident year for the last eleven years for each type of loss. The variability of these reserve estimates within one standard deviation of the mean (a measure of frequency of dispersion often viewed to be an acceptable level of accuracy) is believed by management to represent a reasonable and statistically probable measure of potential variability. Based on our products and coverages, historical experience, the statistical credibility of our extensive data, and stochastic modeling of actuarial chain ladder methodologies used to develop reserve estimates, we estimate that the potential variability of our Allstate Protection reserves, within a reasonable probability of other possible outcomes, may be approximately plus or minus 4%, or plus or minus $400 million in net income. A lower level of variability exists for auto injury losses, which comprise approximately 70% of reserves, due to their relatively stable development patterns over a longer duration of time required to settle claims. Other types of losses, such as auto physical damage, homeowners losses and other losses, which comprise about 30% of reserves, tend to have greater variability, but are settled in a much shorter period of time. Although this evaluation reflects most reasonably likely outcomes, it is possible the final outcome may fall below or above these amounts. Historical variability of reserve estimates is reported in the Property-Liability Claims and Claims Expense Reserves section of this document.

Adequacy of Reserve Estimates We believe our net claims and claims expense reserves are appropriately established based on available methodology, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for each line of insurance, its components (coverages and perils), and state, for reported losses and for IBNR losses and as a result we believe that no other estimate is better than our recorded amount. Due to the uncertainties involved, the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates.

Discontinued Lines and Coverages Reserve Estimates

Characteristics of Discontinued Lines Exposure We continue to receive asbestos and environmental claims. Asbestos claims relate primarily to bodily injuries asserted by people who were exposed to asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs.

Our exposure to asbestos, environmental and other discontinued lines claims arises principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large U.S. companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on large U.S. companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Other discontinued lines exposures primarily relate to general liability and product liability mass tort claims, such as those for medical devices and other products.

In 1986, the general liability policy form used by us and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims, and to add an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage. General liability policies issued in 1987 and thereafter contain annual aggregate limits for product liability coverage and annual aggregate limits for all coverages. Our experience to date is that these policy form changes have limited the extent of our exposure to environmental and asbestos claim risks.

Our exposure to liability for asbestos, environmental, and other discontinued lines losses manifests differently depending on whether it arises from assumed reinsurance coverage, direct excess insurance, or direct primary commercial insurance. The direct insurance coverage we provided that covered asbestos, environmental and other discontinued lines was substantially "excess" in nature.

Direct excess insurance and reinsurance involve coverage written by us for specific layers of protection above retentions and other insurance plans. The nature of excess coverage and reinsurance provided to other insurers limits our exposure to loss to specific layers of protection in excess of policyholder retention on primary insurance plans. Our exposure is further limited by the significant reinsurance that we had purchased on our direct excess business.

Our assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which we participate may be a proportion of all eligible losses or eligible losses in excess of defined retentions. The majority of our assumed reinsurance exposure, approximately 85%, is for excess of loss coverage, while the remaining 15% is for pro-rata coverage.

Our direct primary commercial insurance business did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in many diverse business sectors located throughout the country.

How Reserve Estimates are Established and Updated We conduct an annual review in the third quarter to evaluate and establish asbestos, environmental and other discontinued lines reserves. Changes to reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive "grounds up" methodology determines asbestos reserves based on assessments of the characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, and determines environmental reserves based on assessments of the characteristics of exposure (e.g. environmental damages, respective shares of liability of potentially responsible parties, appropriateness and cost of remediation) to pollution and related clean-up costs. The number and cost of these claims is affected by intense advertising by trial lawyers seeking asbestos plaintiffs, and entities with asbestos exposure seeking bankruptcy protection as a result of asbestos liabilities, initially causing a delay in the reporting of claims, often followed by an acceleration and an increase in claims and claims expenses as settlements occur.

After evaluating our insureds' probable liabilities for asbestos and/or environmental claims, we evaluate our insureds' coverage programs for such claims. We consider our insureds' total available insurance coverage, including the coverage we issued. We also consider relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds' estimated liabilities and our exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by our specialized claims adjusting staff and legal counsel. Based on these evaluations, case reserves are established by claims adjusting staff and actuarial analysis is employed to develop an IBNR reserve, which includes estimated potential reserve development and claims that have occurred but have not been reported. As of December 31, 2008 and 2007, IBNR was 63.8% and 63.2%, respectively, of combined asbestos and environmental reserves.

For both asbestos and environmental reserves, we also evaluate our historical direct net loss and expense paid and incurred experience to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and incurred activity.

Other Discontinued Lines and Coverages The following table shows reserves for Other Discontinued Lines which provide for remaining loss and loss expense liabilities related to business no longer written by us, other than asbestos and environmental as of December 31.

($ in millions)	**2008**	**2007**	**2006**
Other mass torts	$ 177	$ 189	$ 185
Workers' compensation	130	133	140
Commercial and other	201	219	260
Other discontinued lines	$ 508	$ 541	$ 585

Other mass torts describes direct excess and reinsurance general liability coverage provided for cumulative injury losses other than asbestos and environmental. Workers' compensation and commercial and other include run-off from discontinued direct primary, direct excess and reinsurance commercial insurance operations of various coverage exposures other than asbestos and environmental. Reserves are based on considerations similar to those previously described, as they relate to the characteristics of specific individual coverage exposures.

Potential Reserve Estimate Variability Establishing Discontinued Lines and Coverages net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much 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 and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also 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. Our reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. We believe these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. Historical variability of reserve estimates is demonstrated in the Property-Liability Claims and Claims Expense Reserves section of this document.

Adequacy of Reserve Estimates Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. 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.

Further Discussion of Reserve Estimates For further discussion of these estimates and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see Notes 7 and 13 to the consolidated financial statements and the Catastrophe Losses, Property-Liability Claims and Claims Expense Reserves and Forward-looking Statements and Risk Factors sections of this document.

Reserve for Life-Contingent Contract Benefits Estimation Benefits for these policies are payable over many years; accordingly, the reserves are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits payable under insurance policies including traditional life insurance, life-contingent immediate annuities and voluntary health products. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with assumptions for determining DAC amortization for these policies, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to DAC or reserves may be required resulting in a charge to earnings which could have a material adverse effect on our operating results and financial condition. We periodically review the adequacy of these reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. In the event that actual experience is significantly adverse compared to the original assumptions, any remaining unamortized DAC balance must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. The effects of changes in reserve estimates are reported in the results of operations in the period in which the changes are determined. In 2008, for traditional life insurance and immediate annuities with life contingencies, an aggregate premium deficiency of $336 million pre-tax ($219 million after-tax) resulted primarily from a study indicating that the annuitants on certain life-contingent contracts are projected to live longer than we anticipated when the contracts were issued and, to a lesser degree, a reduction in the related investment portfolio yield. The deficiency was recorded through a reduction in DAC. In 2007 and 2006, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected income from traditional life insurance more than offsetting the projected deficiency in immediate annuities with life contingencies. We will continue to monitor the experience of our traditional life insurance and immediate annuities. Further significant changes in mortality experience or the portfolio yield could result in additional charges in future periods. The Company has not recognized a charge of this nature in previous years. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require adjustment to these reserves or related DAC.

For further discussion of these policies, see Note 8 of the consolidated financial statements and the Forward-looking Statements and Risk Factors section of this document.

PROPERTY-LIABILITY 2008 HIGHLIGHTS

Premiums written, an operating measure that is defined and reconciled to premiums earned on page 46, decreased 2.2% to $26.58 billion in 2008 from $27.18 billion in 2007. Allstate brand standard auto premiums written in 2008 decreased 0.7% to $15.92 billion in 2008 from $16.04 billion in 2007. Allstate brand homeowners premiums written decreased 1.3% to $5.64 billion in 2008 from $5.71 billion in 2007. A continuation of declining new car sales, weakness in the housing market and a highly competitive environment contributed to lower policies in force.

Premium operating measures and statistics contributing to the overall Allstate brand standard auto premiums written decline were the following:

- 1.8% decrease in PIF as of December 31, 2008 compared to December 31, 2007
- 0.6 point decline in the six month renewal ratio to 88.9% in 2008 compared to 89.5% in 2007
- 1.2% increase in the six month policy term average gross premium before reinsurance to $427 in 2008 from $422 in 2007
- 7.5% decrease in new issued applications in 2008 compared to 2007

Premium operating measures and statistics contributing to the overall Allstate brand homeowners premiums written decline were the following:

- 4.2% decrease in PIF as of December 31, 2008 compared to December 31, 2007
- 0.5 point increase in the twelve month renewal ratio to 87.0% in 2008 compared to 86.5% in 2007
- 1.3% increase in the twelve month policy term average gross premium before reinsurance to $861 in 2008 from $850 in 2007
- 26.0% decrease in new issued applications in 2008 compared to 2007
- $100 million decrease in catastrophe reinsurance costs to $657 million in 2008 from $757 million in 2007

Factors contributing to the Allstate brand standard auto loss ratio increase of 2.3 points to 68.1 in 2008 from 65.8 in 2007 were the following:

- 6.5% decrease in standard auto property damage gross claim frequency in 2008 compared to 2007
- 8.5% decrease in bodily injury gross claim frequency in 2008 compared to 2007
- 1.8% increase in claim severities for auto property damage in 2008 compared to 2007
- 6.5% increase in claim severities for bodily injury in 2008 compared to 2007
- unfavorable prior year reserve reestimates in 2008 compared to favorable reestimates in 2007

Factors contributing to the Allstate brand homeowners loss ratio, which includes catastrophes, increase of 29.8 points to 96.3 in 2008 from 66.5 in 2007 were the following:

- 46.5 point effect of catastrophe losses in 2008 compared to 19.5 point in 2007
- 7.2% increase in homeowner gross claim frequency, excluding catastrophes, in 2008 compared to 2007, fueled by weather-related claim trends
- 0.6% increase in claim severity, excluding catastrophes, in 2008 compared to 2007

Factors contributing to catastrophe losses increase of $1.93 billion to $3.34 billion in 2008 compared to $1.41 billion in 2007 were the following:

- $966 million and $342 million estimated losses for Hurricanes Ike and Gustav, respectively
- 121 other events with losses of $2.03 billion in 2008 compared to 91 events with losses of $1.41 billion in 2007

Factors contributing to prior year reserve reestimates of $170 million unfavorable in 2008 compared to $172 million favorable in 2007 included:

- prior year reserve reestimates related to auto, homeowners and other lines in 2008 contributed $27 million favorable, $124 million unfavorable and $55 million unfavorable, respectively, compared to prior year reserve reetimates in 2007 of $311 million favorable, $115 million unfavorable and $23 million favorable, respectively

Property-Liability underwriting income of $164 million in 2008 compared to $2.78 billion in 2007 included the following primary contributing factors. Underwriting income (loss), a measure not based on GAAP, is defined below.

- catastrophe losses increase of $1.93 billion to $3.34 billion in 2008 compared to $1.41 billion in 2007
- $170 million unfavorable prior year reserve reestimates in 2008 compared to $172 million favorable in 2007

Property-Liability investments as of December 31, 2008 were $30.84 billion, a decrease of 24.6% from $40.91 billion as of December 31, 2007. Net investment income was $1.67 billion in 2008, a decrease of 15.1% from $1.97 billion in 2007.

Net realized capital losses were $1.86 billion in 2008 compared to net realized capital gains of $1.42 billion in 2007.

PROPERTY-LIABILITY OPERATIONS

Overview Our Property-Liability operations consist of two business segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises two brands, the Allstate brand and Encompass® brand. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

Underwriting income (loss), a measure that is not based on GAAP and is reconciled to net income on page 44, is calculated as premiums earned, less claims and claims expense ("losses"), amortization of DAC, operating costs and expenses and restructuring and related charges, as determined using GAAP. We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Net income is the GAAP measure most directly comparable to underwriting income (loss). Underwriting income (loss) should not be considered as a substitute for net income and does not reflect the overall profitability of the business.

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

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

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

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

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

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

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

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

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

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

($ in millions, except ratios)	2008	2007	2006
Premiums written	$ 26,584	$ 27,183	$ 27,526
Revenues			
Premiums earned	$ 26,967	$ 27,233	$ 27,369
Net investment income	1,674	1,972	1,854
Realized capital gains and losses	(1,858)	1,416	348
Total revenues	26,783	30,621	29,571
Costs and expenses			
Claims and claims expense	(20,064)	(17,667)	(16,017)
Amortization of DAC	(3,975)	(4,121)	(4,131)
Operating costs and expenses	(2,742)	(2,634)	(2,567)
Restructuring and related charges	(22)	(27)	(157)
Total costs and expenses	(26,803)	(24,449)	(22,872)
Loss on disposition of operations			(1)
Income tax benefit (expense)	248	(1,914)	(2,084)
Net income	$ 228	$ 4,258	$ 4,614
Underwriting income	$ 164	$ 2,784	$ 4,497
Net investment income	1,674	1,972	1,854
Income tax benefit (expense) on operations	(401)	(1,413)	(1,963)
Realized capital gains and losses, after-tax	(1,209)	915	227
Loss on disposition of operations, after-tax			(1)
Net income	$ 228	$ 4,258	$ 4,614
Catastrophe losses[1]	$ 3,342	$ 1,409	$ 810
GAAP operating ratios			
Claims and claims expense ratio	74.4	64.9	58.5
Expense ratio	25.0	24.9	25.1
Combined ratio	99.4	89.8	83.6
Effect of catastrophe losses on combined ratio[1]	12.4	5.2	3.0
Effect of prior year reserve reestimates on combined ratio[1]	0.7	(0.6)	(3.5)
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.6
Effect of Discontinued Lines and Coverages on combined ratio	0.1	0.2	0.5

(1) Reserve reestimates included in catastrophe losses totaled $125 million unfavorable in 2008, $127 million unfavorable in 2007 and $223 million favorable in 2006.

ALLSTATE PROTECTION SEGMENT

Overview and Strategy The Allstate Protection segment sells primarily private passenger auto and homeowners insurance to individuals through Allstate Exclusive Agencies and directly through Customer Information Centers and the internet under the Allstate brand and through independent agencies under both the Allstate brand and the Encompass brand.

The key elements of the Allstate Protection strategy of consumer focus, innovation and loyalty are:

- Build customer loyalty
- Increase distribution effectiveness
- Maintain leadership in pricing sophistication
- Provide innovative products and services
- Extend our claims competitive advantage
- Maintain a strong support foundation by continuing to effectively manage people, investments, technology and capital

In our strategy for the Allstate brand, we are seeking, through the utilization of our distribution channels, our pricing sophistication and targeted consumer marketing, to attract and retain high lifetime value customers who will potentially provide profitability over the course of their relationship with us.

We maintain a comprehensive marketing approach throughout the U.S. We have aligned agency and management compensation and the overall strategies of the Allstate brand to best serve our customers by basing certain incentives on Allstate brand profitability, PIF growth, retention, and sales of financial products. We differentiate the Allstate brand from competitors by offering a choice of products, including Allstate® Your Choice Auto Insurance ("YCA") with options such as safe driving deductibles and a safe driving bonus, Allstate® Your Choice Home ("YCH") with options such as a claim-free bonus and greater ability to tailor insurance coverage and Allstate Blue^{SM}, our non-standard auto product with features such as a loyalty bonus and roadside assistance coverage.

Our strategy for the Encompass brand includes enhancing our pricing and product offering by applying pricing sophistication to the Encompass Edge product, increasing distribution effectiveness and improving agency technology interfaces to support profitable growth.

Our pricing and underwriting are designed to enhance both our competitive position and profit potential, and produce a broader range of premiums that is more refined than the range generated by the standard/non-standard model. Pricing sophistication which underlies our Strategic Risk Management program uses a number of risk evaluation factors including, to the extent legally permissible, insurance scoring based on information that is obtained from credit reports. We continue to expand the number of price points with successive rating program releases.

Substantially all of new and approximately 88% of renewal business written for Allstate brand auto are rated using our pricing sophistication methods. For Allstate brand homeowners, approximately 94% of new and 60% of renewal business written are rated using pricing sophistication methods. For Allstate brand auto and homeowners business, our results indicate that over time, use of these methods has improved our mix of customers towards those who we consider high lifetime value that generally have better retention and more favorable loss experience.

The Allstate Protection segment also includes a separate organization called Emerging Businesses which is comprised of Small Business ("Commercial"), Consumer Household ("Specialty Product Lines"), Allstate Dealer Services ("Allstate Credit Division") and Allstate Roadside Services ("Allstate Motor Club and Partnership Marketing Group"). Consumer Household and Allstate Roadside Services accounted for $1.55 billion or 62.7% and $187 million or 7.6% of Emerging Businesses premiums written in 2008, respectively. We expect to accelerate growth in high-value areas of Emerging Businesses, including Consumer Household and Allstate Roadside Services, during 2009.

We are pursuing improvements in the overall customer experience through actions targeted to increase customer satisfaction and retention. These programs are designed around establishing customer service expectations and customer relationship building. Our claims strategy focuses on delivering fast, fair and consistent claim service while achieving loss cost management and customer satisfaction.

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We continue to enhance technology to integrate our distribution channels, improve customer service, facilitate the introduction of new products and services and reduce infrastructure costs related to supporting agencies and handling claims. These actions and others are designed to optimize the effectiveness of our distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies and our direct channel.

We continue to manage our property catastrophe exposure in order to provide our shareholders an acceptable return on the risks assumed in our property business and to reduce the variability of our earnings, while providing protection to our customers. Our property business includes personal homeowners, commercial property and other property lines. At December 31, 2008, we continue to be within our goal to have no more than a 1% likelihood of exceeding our expected annual aggregate catastrophe losses by $2 billion, net of reinsurance, based on modeled assumptions and applications currently available. The use of different assumptions and updates to industry models could materially change the projected loss.

Property catastrophe exposure management includes purchasing reinsurance in areas that have known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes. We are working for changes in the regulatory environment, including fewer restrictions on underwriting, recognizing the need for and improving appropriate risk based pricing and promoting the creation of government sponsored, privately funded solutions for large catastrophes. While the actions that we take will be primarily focused on reducing the catastrophe exposure in our property business, we also consider their impact on our ability to market our auto lines.

Pricing of property products is typically intended to establish returns that we deem acceptable over a long-term period. Losses, including losses from catastrophic events and weather-related losses (such as wind, hail, lightning and freeze losses not meeting our criteria to be declared a catastrophe) are accrued on an occurrence basis within the policy period. Therefore, in any reporting period, loss experience from catastrophic events and weather-related losses may contribute to negative or positive underwriting performance relative to the expectations we incorporated into the products' pricing. Additionally, property products are more capital intensive than other personal lines products.

Premiums written, an operating measure, is the amount of premiums charged for policies issued during a fiscal period. Premiums earned is a GAAP measure. Premiums are considered earned and are included in the financial results on a pro-rata basis over the policy period. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums on our Consolidated Statements of Financial Position. Since the Allstate brand policy periods are typically 6 months for auto and 12 months for homeowners, and the Encompass standard auto and homeowners policy periods are typically 12 months and non-standard auto policy periods are typically 6 months, rate changes will generally be recognized in premiums earned over a period of 6 to 24 months. During this period, premiums written at a higher rate will cause an increase in the balance of unearned premiums on our Consolidated Statements of Financial Position.

The following table shows the unearned premium balance at December 31 and the timeframe in which we expect to recognize these premiums as earned.

			% earned after			
($ in millions)	**2008**	**2007**	**90 days**	**180 days**	**270 days**	**360 days**
Allstate brand:						
Standard auto	$ 4,002	$ 4,092	73.7%	98.4%	99.6%	100.0%
Non-standard auto	259	302	71.9%	97.4%	99.4%	100.0%
Homeowners	3,182	3,322	43.9%	76.1%	94.4%	100.0%
Other personal lines[(1)]	1,385	1,413	39.0%	68.0%	85.9%	92.9%
Total Allstate brand	8,828	9,129	57.6%	85.7%	95.6%	98.9%
Encompass brand:						
Standard auto	506	572	44.6%	76.2%	94.4%	100.0%
Non-standard auto	9	15	76.3%	100.0%	100.0%	100.0%
Homeowners	269	303	44.3%	76.1%	94.4%	100.0%
Other personal lines[(1)]	60	66	44.2%	76.0%	94.3%	100.0%
Total Encompass brand	844	956	44.8%	76.4%	94.5%	100.0%
Allstate Protection unearned premiums	$ 9,672	$ 10,085	56.5%	84.9%	95.5%	99.0%

(1) Other personal lines include commercial lines, condominium, renters, involuntary auto and other personal lines.

A reconciliation of premiums written to premiums earned for the years ended December 31 is presented in the following table.

($ in millions)	2008	2007	2006
Premiums written:			
Allstate Protection	$26,584	$27,183	$27,525
Discontinued Lines and Coverages			1
Property-Liability premiums written	26,584	27,183	27,526
Decrease (increase) in unearned premiums[(1)]	383	17	(354)
Other[(1)]		33	197
Property-Liability premiums earned	$26,967	$27,233	$27,369
Premiums earned:			
Allstate Protection	$26,967	$27,232	$27,366
Discontinued Lines and Coverages		1	3
Property-Liability	$26,967	$27,233	$27,369

(1) Year ended December 31, 2008 includes $44 million in unearned premiums related to June 27, 2008 acquisition of Partnership Marketing Group. Year ended December 31, 2006 includes the transfer at January 1, 2006 of $152 million in unearned premiums to Property-Liability related to the loan protection business previously managed by Allstate Financial.

Premiums written by brand are shown in the following table.

	Allstate brand			Encompass brand			Allstate Protection		
($ in millions)	2008	2007	2006	2008	2007	2006	2008	2007	2006
Standard auto[(1)]	$15,918	$16,035	$15,704	$1,025	$1,125	$1,138	$16,943	$17,160	$16,842
Non-standard auto[(1)]	1,018	1,179	1,386	40	68	94	1,058	1,247	1,480
Homeowners	5,639	5,711	5,926	471	538	589	6,110	6,249	6,515
Other personal lines	2,358	2,397	2,548	115	130	140	2,473	2,527	2,688
Total	$24,933	$25,322	$25,564	$1,651	$1,861	$1,961	$26,584	$27,183	$27,525

(1) 2007 includes the impact from the fourth quarter 2007 discontinuation and reinstatement of mandatory personal injury protection in the state of Florida.

Premiums earned by brand are shown in the following table.

	Allstate brand			Encompass brand			Allstate Protection		
($ in millions)	2008	2007	2006	2008	2007	2006	2008	2007	2006
Standard auto	$15,957	$15,952	$15,591	$1,091	$1,127	$1,160	$17,048	$17,079	$16,751
Non-standard auto	1,055	1,232	1,436	45	76	98	1,100	1,308	1,534
Homeowners	5,758	5,732	5,793	503	551	590	6,261	6,283	6,383
Other personal lines	2,434	2,426	2,546	124	136	152	2,558	2,562	2,698
Total	$25,204	$25,342	$25,366	$1,763	$1,890	$2,000	$26,967	$27,232	$27,366

Premium operating measures and statistics that are used to analyze the business are calculated and described below. Measures and statistics presented for Allstate brand exclude Allstate Canada, loan protection and specialty auto.

PIF: Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.

Average premium-gross written: Gross premiums written divided by issued item count. Gross premiums written do not include the impacts from mid-term premium adjustments, ceded reinsurance premiums, or premium refund accruals. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners and 6 months for non-standard auto.

Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for standard and non-standard auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.

New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period. Does not include automobiles that are added by existing customers.

Standard auto premiums written totaled \$16.94 billion in 2008, a decrease of 1.3% from \$17.16 billion in 2007, following a 1.9% increase in 2007 from \$16.84 billion in 2006.

	Allstate brand			Encompass brand[2]		
Standard Auto	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
PIF (thousands)	17,924	18,256	18,084	1,090	1,103	1,124
Average premium-gross written[1]	\$ 427	\$ 422	\$ 420	\$ 961	\$ 969	\$ 983
Renewal ratio (%)[1]	88.9	89.5	90.0	73.9	75.0	76.4

(1) Policy term is six months for Allstate brand and twelve months for Encompass brand.

(2) Premium operating measures and statistics exclude the discontinuation of a large national broker arrangement.

Allstate brand standard auto premiums written totaled \$15.92 billion in 2008, a decrease of 0.7% from \$16.04 billion in 2007, following a 2.1% increase in 2007 from \$15.70 billion in 2006. Contributing to the Allstate brand standard auto premiums written decrease in 2008 compared to 2007 were the following:

- decrease in PIF as of December 31, 2008 compared to December 31, 2007 due to a lower renewal ratio and lower new business production
- 7.5% decrease in new issued applications on a countrywide basis to 1,807 thousand in 2008 from 1,954 thousand in 2007
- increase in average gross premium in 2008 compared to 2007, primarily due to rate changes, partially offset by deductible changes
- decline in the renewal ratio in 2008 compared to 2007

Our Allstate brand standard auto growth strategy includes actions such as the continued rollout of YCA policy options, enhanced marketing, the continued refinement of our pricing sophistication, and distribution effectiveness, while recognizing that the impact of catastrophe management actions on cross-sell opportunities and competitive pressures in certain markets may lessen their success.

Allstate brand standard auto premiums written increased in 2007 compared to 2006. Contributing to the Allstate brand standard auto premiums written increase in 2007 compared to 2006 were the following:

- increase in PIF as of December 31, 2007 compared to December 31, 2006 primarily due to the result of growth in policies available for renewal
- 1.5% decrease in new issued applications on a countrywide basis to 1,954 thousand in 2007 from 1,983 thousand in 2006

increase in average gross premium in 2007 compared to 2006; Standard auto average gross premium was impacted by rate changes, geographic and product shifts in the mix of business and changes in customer preferences

decline in the renewal ratio in 2007 compared to 2006 due to competitive conditions and the impact of our property catastrophe management actions on cross-sell opportunities

Encompass brand standard auto premiums written totaled $1.03 billion in 2008, a decrease of 8.9% from $1.13 billion in 2007, following a 1.1% decrease in 2007 from $1.14 billion in 2006. Contributing to the Encompass brand standard auto premiums written decrease in 2008 compared to 2007 were the following:

the discontinuation of a large national broker arrangement; Encompass brand standard auto premiums written excluding the terminated national broker's business decreased 3.3% to $1.01 billion in 2008 from $1.04 billion in 2007

decrease in PIF as of December 31, 2008 compared to December 31, 2007 driven by less policies available to renew and lower retention decrease in average gross premium in 2008 compared to 2007 due to a shift in the mix of business toward policies with basic coverages and fewer features, partially offset by rate changes

Decreases are expected in Encompass brand standard auto PIF as profit improvement actions are implemented. Some of these actions are improving business quality by changing risk management policy, terminating relationships with certain agents and rate changes. Encompass brand strategy includes targeting high quality business including the package market and the continued rollout of Encompass Edge, which provides more segmented pricing of auto and homeowners coverage.

Encompass brand standard auto premiums written decreased in 2007 compared to 2006. Contributing to the Encompass brand standard auto premiums written decrease in 2007 compared to 2006 were the following:

decrease in PIF as of December 31, 2007 compared to December 31, 2006 due to a decline in the policies available to renew more than offsetting new business production

decrease in average gross premium in 2007 compared to 2006 due to a change in the mix of business to policies with basic coverages and fewer features

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the net rate changes that were approved for standard auto during 2008 and 2007. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state.

	# of States		Countrywide(%)(1)		State Specific(%)(2)(3)	
	2008	2007(4)	2008(5)	2007(4)	2008(5)	2007(4)
Allstate brand	32	25	1.3	1.3	2.1	4.4
Encompass brand	33	12	2.5	0.4	4.8	1.2

(1) Represents the impact in the states where rate changes were approved during 2008 and 2007, respectively, as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2008 and 2007, respectively, as a percentage of total prior year-end premiums written in those states.

(3) Based on historical premiums written in those states, rate changes approved for standard auto totaled $223 million in 2008 compared to $208 million in 2007.

(4) Excludes the impact of rate changes in the state of Florida relating to the discontinuation and eventual reinstatement of mandatory personal injury protection.

(5) Excluding the impact of a 15.9% rate reduction in California related to an order effective in April 2008, the Allstate brand standard auto rate change is 6.0% on a state specific basis and 3.0% on a countrywide basis in 2008.

Non-standard auto premiums written totaled $1.06 billion in 2008, a decrease of 15.2% from $1.25 billion in 2007, following a 15.7% decrease in 2007 from $1.48 billion in 2006.

	Allstate brand			Encompass brand		
Non-Standard Auto	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
PIF (thousands)	745	829	943	39	56	85
Average premium-gross written	$ 624	$ 616	$ 617	$ 479	$ 526	$ 535
Renewal ratio (%)	73.7	76.1	75.9	68.3	65.0	67.3

Allstate brand non-standard auto premiums written totaled $1.02 billion in 2008, a decrease of 13.7% from $1.18 billion in 2007, following a 14.9% decrease in 2007 from $1.39 billion in 2006. Contributing to the Allstate brand non-standard auto premiums written decrease in 2008 compared to 2007 were the following:

decrease in PIF as of December 31, 2008 compared to December 31, 2007 due to new business production that was insufficient to offset declines in the renewal ratio and polices available to renew

10.1% increase in new issued applications to 328 thousand in 2008 from 298 thousand in 2007 due to the continued rollout and momentum of our Allstate Blue[SM] product

increase in average gross premium in 2008 compared to 2007 due to changes in the mix of customer segments resulting from the implementation of Allstate Blue

decrease in the renewal ratio in 2008 compared to 2007

Allstate brand non-standard auto premiums written decreased in 2007 compared to 2006. Contributing to the Allstate brand non-standard auto premiums written decrease in 2007 compared to 2006 were the following:

- decrease in PIF as of December 31, 2007 compared to December 31, 2006 due to new business production insufficient to offset the decline in polices available to renew
- 9.6% increase in new issued applications in 2007 compared to 2006 primarily due to the introduction of our Allstate Blue product
- comparable auto average gross premium in 2007 to 2006

Encompass brand non-standard auto premiums written totaled $40 million in 2008, a decrease of 41.2% from $68 million in 2007, following a 27.7% decrease in 2007 from $94 million in 2006. Contributing to the Encompass brand non-standard auto premiums written decrease in 2008 compared to 2007 were the following:

- decline in policies available to renew
- discontinued writing of new business in all states except for Pennsylvania
- decrease in average gross premium in 2008 compared to 2007 due to geographic shifts in the mix of business.

Encompass brand non-standard auto premiums written decreased in 2007 compared to 2006. Contributing to the Encompass brand non-standard auto premiums written decrease in 2007 compared to 2006 were the following:

- declines in PIF due to new business that was insufficient to offset the decline in polices available to renew
- decrease in average gross premium due to geographic shifts in the mix of business, partially offset by rate changes in specific markets

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the net rate changes that were approved for non-standard auto during 2008 and 2007. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state.

	# of States		Countrywide(%)(1)		State Specific(%)(2)(3)	
	2008(4)	2007(5)	2008	2007(5)	2008	2007(5)
Allstate brand	11	9		1.0		4.7
Encompass brand	4	7	4.8	8.1	23.2	14.6

(1) Represents the impact in the states where rate changes were approved during 2008 and 2007, respectively, as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2008 and 2007, respectively, as a percentage of total prior year-end premiums written in those states.

(3) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled $3 million in 2008 compared to $20 million in 2007.

(4)
Includes Washington D.C.

(5)
Excludes the impact of rate changes in the state of Florida relating to the discontinuation and eventual reinstatement of mandatory personal injury protection.

Homeowners premiums written totaled \$6.11 billion in 2008, a decrease of 2.2% from \$6.25 billion in 2007, following a 4.1% decrease in 2007 from \$6.52 billion in 2006. Excluding the cost of catastrophe reinsurance, premiums written declined 3.4% in 2008 compared to 2007. For a more detailed discussion on reinsurance, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A and Note 9 of the consolidated financial statements.

	Allstate brand			**Encompass brand[1]**		
Homeowners	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
PIF (thousands)	7,255	7,570	7,836	446	484	527
Average premium-gross written (12 months)	\$ 861	\$ 850	\$ 832	\$1,206	\$1,181	\$1,136
Renewal ratio (%)	87.0	86.5	87.3	80.6	80.0	84.0

(1)
Premium operating measures and statistics exclude the discontinuation of a large national broker arrangement.

Allstate brand homeowners premiums written totaled $5.64 billion in 2008, a decrease of 1.3% from $5.71 billion in 2007, following a 3.6% decrease in 2007 from $5.93 billion in 2006. Contributing to the Allstate brand homeowners premiums written decrease in 2008 compared to 2007 were the following:

- decrease in PIF due to lower new issued applications and policies available to renew
- 26.0% decrease in new issued applications to 594 thousand in 2008 from 803 thousand in 2007
- increase in average gross premium in 2008 compared to 2007, primarily due to higher average renewal premiums related to increases in insured value and approved rate changes, including those taken for our net cost of reinsurance, partially offset by a shift in geographic mix as our catastrophe management actions reduce premiums written in areas with generally higher average gross premiums and state insurance department initiated rate decreases in California and Texas
- increase in the renewal ratio in 2008 compared to 2007
- decrease in the net cost of our catastrophe reinsurance program

Actions taken to manage our catastrophe exposure in areas with known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes have had an impact on our new business writings for homeowners insurance, as demonstrated by the decline in Allstate brand homeowners new issued applications.

Allstate brand homeowners premiums written decreased in 2007 compared to 2006. Contributing to the Allstate brand homeowners premiums written decrease in 2007 compared to 2006 were the following:

- increases in ceded reinsurance premiums
- decrease in PIF due to lower new issued applications and renewal ratio
- 18.6% decrease in new issued applications to 803 thousand in 2007 from 987 thousand in 2006
- increase in average gross premium in 2007 compared to 2006, primarily due to higher average renewal premiums related to increases in insured value and approved rate changes, including our net cost of reinsurance, partially offset by a shift in geographic mix as our catastrophe management actions reduce premiums written in areas with generally higher average premiums

Our strategy to reduce risk in catastrophe prone areas will continue to impact new issued applications and the renewal ratio in 2009, although to a lesser degree than in 2008 and 2007. Examples of the impact of this strategy include our decision to cease writing new homeowners applications in California, to cease offering renewals on certain homeowners insurance policies in certain down-state locations in New York and to reduce PIF in coastal management areas (southern and eastern states) thereby lowering hurricane exposures. This includes Texas and Louisiana where the combination of reduced PIF and ceded wind coverage in the coastal regions reduced our loss exposures to wind by 43.5% and 34.9%, respectively, below 2006 levels.

Encompass brand homeowners premiums written totaled $471 million in 2008, a decrease of 12.5% from $538 million in 2007, following a 8.7% decrease in 2007 from $589 million in 2006. Contributing to the Encompass brand homeowners premiums written decrease in 2008 compared to 2007 were the following:

- decrease in PIF as of December 31, 2008 compared to December 31, 2007, primarily due to our catastrophe management actions in certain markets

- the discontinuation of a large national broker arrangement; Encompass brand homeowners premiums written excluding the terminated national broker's business decreased 8.3% to $464 million in 2008 from $506 million in 2007
- increase in average gross premium in 2008 compared to 2007 due to rate actions including those taken for our net cost of reinsurance

Encompass brand homeowners premiums written decreased in 2007 compared to 2006. Contributing to the Encompass brand homeowners premiums written decrease in 2007 compared to 2006 were the following:

- increases in ceded reinsurance premiums
- decrease in PIF as of December 31, 2007 compared to December 31, 2006 partially due to a decline in the renewal ratio in 2007 compared to 2006, primarily due to our catastrophe management actions in certain markets
- increase in average gross premium in 2007 compared to 2006 due to rate actions taken in the current year, including those taken for our net cost of reinsurance, and increases in insured value

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the net rate changes that were approved for homeowners during 2008 and 2007, including rate changes approved based on our net cost of reinsurance. For a discussion relating to reinsurance costs, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A and Note 7 of the consolidated financial statements.

	# of States		Countrywide(%)(1)		State Specific(%)(2)(3)	
	2008	2007	2008	2007	2008	2007
Allstate brand(4)(5)	35	33	(0.9)	3.6	(1.3)	5.8
Encompass brand(4)	26	26	4.2	2.3	7.0	4.3

(1) Represents the impact in the states where rate changes were approved during 2008 and 2007, respectively, as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2008 and 2007, respectively, as a percentage of total prior year-end premiums written in those states.

(3) Based on historical premiums written in those states, rate changes approved for homeowners totaled $(32) million in 2008 compared to $244 million in 2007.

(4) Includes Washington D.C.

(5) Excluding the impact of a 3.0% rate reduction in Texas and a 28.5% rate reduction in California related to resolutions reached in 2008, the Allstate brand homeowners rate change is 5.8% on a state specific basis and 3.2% on a countrywide basis in 2008.

Underwriting results are shown in the following table.

($ in millions)	2008	2007	2006
Premiums written	$ 26,584	$ 27,183	$ 27,525
Premiums earned	$ 26,967	$ 27,232	$ 27,366
Claims and claims expense	(20,046)	(17,620)	(15,885)
Amortization of DAC	(3,975)	(4,121)	(4,131)
Other costs and expenses	(2,735)	(2,626)	(2,557)
Restructuring and related charges	(22)	(27)	(157)
Underwriting income	$ 189	$ 2,838	$ 4,636
Catastrophe losses	$ 3,342	$ 1,409	$ 810
Underwriting income by line of business			
Standard auto(1)	$ 1,247	$ 1,665	$ 2,320
Non-standard auto	136	264	309
Homeowners	(1,175)	571	1,472
Other personal lines(1)	(19)	338	535
Underwriting income	$ 189	$ 2,838	$ 4,636
Underwriting income by brand			
Allstate brand	$ 220	$ 2,634	$ 4,451
Encompass brand	(31)	204	185
Underwriting income	$ 189	$ 2,838	$ 4,636

(1) During 2008, $45 million of IBNR losses were reclassified from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses.

Allstate Protection experienced underwriting income of $189 million during 2008 compared to $2.84 billion 2007. The decrease was primarily due to increased catastrophe losses, increases in auto severities, increases in homeowners loss frequencies and unfavorable prior year reserve reestimates in the current year compared to favorable prior year reserve reestimates in 2007, partially offset by favorable auto loss frequencies and higher standard auto average premium. Current year claim severity expectations continue to be consistent with relevant indices. For further discussion and quantification of the impact of reserve estimates and assumptions, see the Application of Critical Accounting Estimates and Property-Liability Claims and Claims Expense Reserves sections of the MD&A.

Allstate Protection generated underwriting income of $2.84 billion during 2007 compared to $4.64 billion in 2006. The decrease was primarily due to lower favorable prior year reserve reestimates, higher catastrophe losses, increases in auto and homeowners claim frequency excluding catastrophes, higher current year claim severity and increases in the cost of catastrophe reinsurance.

Catastrophe losses in 2008 were $3.34 billion and include estimates of losses for Hurricanes Ike and Gustav among other events. This compares to catastrophe losses in 2007 of $1.41 billion. Hurricane Ike is expected to be among the top three costliest U.S. hurricanes along with Hurricane Katrina of 2005 and Hurricane Andrew of 1992. Losses from Hurricane Ike were incurred in multiple states. Hurricane Ike losses in Texas were estimated to be $666 million, net of reinsurance, and losses in all other states, which primarily included losses in Ohio and Kentucky, were estimated to be $300 million. Hurricane Gustav is also expected to be among the top 10 costliest U.S. hurricanes. Catastrophe loss estimates include losses for approximately 173 thousand and 81 thousand claims for Hurricanes Ike and Gustav, respectively, on our auto, homeowners, commercial and other insurance products. These estimated claim counts include 129 thousand and 66 thousand for Hurricanes Ike and Gustav, respectively, that have been reported as of January 16, 2009.

Catastrophe losses in 2008 also include assessments totaling $75 million from the Texas Windstorm Insurance Association ("TWIA") for our estimated share of losses for Hurricanes Dolly and Ike. We expect to recover $35 million of the assessment relating to Hurricane Ike through premium tax credits over the next five years, with the remaining $31 million from Ike eligible for cession under our reinsurance program.

We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes, and volcanoes. We are also exposed to man-made catastrophic events, such as certain acts of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be predicted.

The following table presents our 2008 catastrophe losses related to events that occurred by the size of the event.

($ in millions)	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
	2008					
Size of catastrophe						
Greater than $250 million:						
Hurricane Ike (net of recoveries)	1	0.8%	$ 966	28.9%	3.6	$ 966
Hurricane Gustav	1	0.8	342	10.2	1.3	342
$100 million to $250 million	2	1.6	278	8.4	1.0	139
$50 million to $100 million	7	5.7	444	13.3	1.6	63
Less than $50 million	112	91.1	1,187	35.5	4.4	11
Total	123	100.0%	3,217	96.3	11.9	26
Prior year reserve reestimates			125	3.7	0.5	
Total catastrophe losses			$ 3,342	100.0%	12.4	

In the years 1995 through 2008, we incurred catastrophe losses of $21.63 billion related to 912 events. Of these total losses, 41.9% related to 11 events with losses greater than $250 million per event, 8.4% related to 12 events with losses between $100 million and $250 million per event, 11.1% related to 35 events with losses between $50 million and $100 million per event, and 38.6% related to 854 events with losses less than $50 million per event. Catastrophe losses in the period 2003 through 2008 amounted to $15.19 billion or 70.2% of the total losses. Catastrophe losses greater than $50 million in the period 2003 through 2008 amounted to 37 events and $11.25 billion or 52.0% of the total losses. There were no catastrophe losses greater than $100 million incurred in 2006.

The following table presents our catastrophe losses incurred by the type of event.

($ in millions)	2008	Number of events	2007	Number of events	2006	Number of events
Hurricanes/Tropical storms	$ 1,381	5	$ 9	3	$ 36	3
Tornadoes	628	19	258	16	271	9
Wind/Hail	960	81	542	60	702	57
Other events	248	18	473	12	24	5
Prior year reserve reestimates	125		127		(223)	
Total catastrophe losses	$ 3,342	123	$ 1,409	91	$ 810	74

Combined ratio Loss ratios are a measure of profitability. Loss ratios by product, and expense and combined ratios by brand, are shown in the following table. These ratios are defined on page 43.

				Effect of catastrophe losses on the loss ratio			Effect of pre-tax reserves reestimates on the combined ratio		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Allstate brand loss ratio:									
Standard auto	68.1	65.8	61.5	1.5	0.6	0.6	0.1	(1.1)	(3.7)
Non-standard auto	62.3	54.9	56.1	0.9	0.2		(0.1)	(7.1)	(5.5)
Homeowners	96.3	66.5	50.4	46.5	19.5	10.9	2.1	2.2	(4.8)
Other personal lines	69.3	60.4	52.1	10.6	5.0	(0.9)	0.6	(0.9)	(5.7)
Total Allstate brand loss ratio	74.4	64.9	57.8	12.6	5.3	2.8	0.6	(0.7)	(4.3)
Allstate brand expense ratio	24.7	24.7	24.7						
Allstate brand combined ratio	99.1	89.6	82.5						
Encompass brand loss ratio:									
Standard auto[1]	66.3	64.2	60.0	0.9	0.4	(0.3)	(4.2)	(3.4)	(6.0)
Non-standard auto	88.9	75.0	76.5			1.0		(6.6)	(6.1)
Homeowners	76.4	54.6	58.6	27.8	12.0	17.3	0.4	(1.6)	5.8
Other personal lines[1]	112.9	61.8	81.6	8.9	2.2	7.9	33.1		15.8
Total Encompass brand loss ratio	73.0	61.6	62.1	9.1	3.9	5.6	(0.2)	(2.8)	(0.9)
Encompass brand expense ratio	28.8	27.6	28.7						
Encompass brand combined ratio	101.8	89.2	90.8						
Allstate Protection loss ratio	74.3	64.7	58.1	12.4	5.2	3.0	0.6	(0.8)	(4.0)
Allstate Protection expense ratio	25.0	24.9	25.0						
Allstate Protection combined ratio	99.3	89.6	83.1						

(1) During 2008, $45 million of IBNR losses were reclassified from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses.

Standard auto loss ratio for the Allstate brand increased 2.3 points in 2008 compared to 2007 due to increased catastrophe losses, unfavorable reserve reestimates in the current year compared to favorable reserve reestimates in the prior year and higher claim severities, partially offset by lower claim frequencies. Excluding catastrophes, the underlying inflationary increase in severity was in part offset by declines in frequency, reflecting a continuation of a long-term decline in frequency and a decrease in miles driven. Standard auto loss ratio for the

Encompass brand increased 2.1 points in 2008 compared to 2007 primarily driven by higher claim severities and increased catastrophe losses. Standard auto loss ratio for the Allstate brand increased 4.3 points in 2007 compared to 2006 due to lower favorable reserve reestimates related to prior years, and higher claim frequency and claim severity excluding catastrophes, partially offset by higher premiums earned. Standard auto loss ratio for the Encompass brand increased 4.2 points in 2007 compared to 2006 due to lower favorable reserve reestimates related to prior years.

Non-standard auto loss ratio for the Allstate brand increased 7.4 points in 2008 compared to 2007 due to lower favorable reserve reestimates related to prior years, increased catastrophe losses and higher claim severities, partially offset by lower claim frequencies. Non-standard auto loss ratio for the Encompass brand increased 13.9 points in 2008 compared to 2007. Non-standard auto loss ratio for the Allstate brand decreased 1.2 points in 2007 compared to 2006 due to favorable reserve reestimates related to prior years. Non-standard auto loss ratio for the Encompass brand decreased 1.5 points in 2007 compared to 2006 primarily driven by lower claim frequency.

Homeowners loss ratio for the Allstate brand increased 29.8 points to 96.3 in 2008 from 66.5 in 2007 due to higher catastrophe losses. Homeowners loss ratio for the Encompass brand increased 21.8 points to 76.4 in 2008 from 54.6 in 2007 due to higher catastrophe losses. Homeowners loss ratio for the Allstate brand increased 16.1 points in 2007 compared to 2006 due to higher catastrophe losses, the absence of favorable non-catastrophe reserve reestimates related to prior years, higher claim severity, higher ceded earned premium for catastrophe reinsurance, and higher claim frequency excluding catastrophes. Homeowners loss ratio for the Encompass brand decreased 4.0 points in 2007 compared to 2006 primarily due to lower catastrophe losses.

Expense ratio for Allstate Protection increased 0.1 points in 2008 compared to 2007 primarily due to lower earned premiums, increases in the net cost of benefits due to unfavorable investment results, and charges for the write-off of capitalized computer software. Expense ratio for Allstate Protection decreased 0.1 points in 2007 compared to 2006 primarily due to lower restructuring charges offset by increased spending on advertising and investments in marketing and technology for product and service innovations.

The expense ratio for Encompass brand increased 1.2 points in 2008 compared to 2007 primarily due to lower earned premiums as well as increased state fund assessments and cost associated with the discontinuation of a large national broker arrangement.

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

	Allstate brand			Encompass brand			Allstate Protection		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Amortization of DAC	14.4	14.8	14.7	19.9	20.1	19.7	14.7	15.1	15.1
Other costs and expenses	10.2	9.8	9.4	8.9	7.5	8.7	10.2	9.7	9.3
Restructuring and related charges	0.1	0.1	0.6			0.3	0.1	0.1	0.6
Total expense ratio	24.7	24.7	24.7	28.8	27.6	28.7	25.0	24.9	25.0

The expense ratio for the standard auto and homeowners businesses generally approximates the total Allstate Protection expense ratio. The expense ratio for the non-standard auto business generally is lower than the total Allstate Protection expense ratio due to lower agent commission rates and higher average premiums for non-standard auto as compared to standard auto. The Encompass brand DAC amortization is higher on average than Allstate brand DAC amortization due to higher commission rates.

DAC We establish a DAC asset for costs that vary with and are primarily related to acquiring business, principally agents' remuneration, premium taxes, certain underwriting costs and direct mail solicitation expenses. For the Allstate Protection business, DAC is amortized to income over the period in which premiums are earned.

The balance of DAC for each product type at December 31, is included in the following table.

	Allstate brand		Encompass brand		Allstate Protection	
($ in millions)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Standard auto	$ 544	$ 579	$ 87	$ 110	$ 631	$ 689
Non-standard auto	36	42	1	2	37	44
Homeowners	420	454	49	60	469	514
Other personal lines	307	218	9	12	316	230
Total DAC	$ 1,307	$ 1,293	$ 146	$ 184	$ 1,453	$ 1,477

Catastrophe Management

Historical Catastrophe Experience Since the beginning of 1992, the average annual impact of catastrophes on our Property-Liability loss ratio was 7.5 points. However, this average does not reflect the impact of some of the more significant actions we have taken to limit our catastrophe exposure. Consequently, we think it is useful

to consider the impact of catastrophes after excluding losses that are now partially or substantially covered by the California Earthquake Authority ("CEA"), Florida Hurricane Catastrophe Fund ("FHCF") or placed with a third party, such as hurricane coverage in Hawaii. The average annual impact of all catastrophes, excluding losses from Hurricanes Andrew and Iniki and losses from California earthquakes, on our Property-Liability loss ratio was 6.2 points since the beginning of 1992.

Comparatively, the average annual impact of catastrophes on the homeowners loss ratio for the years 1992 through 2008 is shown in the following table.

	Average annual impact of catastrophes on the homeowners loss ratio	**Average annual impact of catastrophes on the homeowners loss ratio excluding losses from hurricanes Andrew and Iniki, and losses from California earthquakes**
Florida	100.8	48.1
Other hurricane exposure states	27.9	27.7
Total hurricane exposure states	34.5	29.6
All other	23.1	17.5
Total	29.2	24.0

Over time, we have limited our aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes. Limitations include our participation in various state facilities, such as the CEA, which provides insurance for California earthquake losses; the FHCF, which provides reimbursements on certain qualifying Florida hurricane losses; and other state facilities, such as wind pools. However, the impact of these actions may be diminished by the growth in insured values, the effect of state insurance laws and regulations. In addition, in various states we are required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of our participation in these and other state facilities such as wind pools, we may be exposed to losses that surpass the capitalization of these facilities and/or to assessments from these facilities.

In 2006 and 2007, both PIF and the renewal ratio were suppressed by our catastrophe management actions such as our decision to discontinue offering coverage by Allstate Floridian Insurance Company and its subsidiaries ("Allstate Floridian") on approximately 226,000 property policies as part of renewal rights and reinsurance arrangements with Royal Palm Insurance Company ("Royal Palm") entered into in 2006 and 2007 ("Royal Palm 1 and 2"). Approximately 81% of the policies involved in Royal Palm 1 and 2 expired in 2007 and therefore negatively influenced the PIF and renewal ratio.

We continue to take actions to maintain an appropriate level of exposure to catastrophic events, including the following:

- We have reduced property PIF in coastal management areas thereby lowering hurricane exposures. This includes Texas and Louisiana where the combination of reduced property PIF and ceded wind coverage in the coastal regions reduced our loss exposures to wind by 43.5% and 34.9%, respectively, below 2006 levels.

- We have increased our utilization of wind storm pools, including in Texas where we are ceding all wind exposure related to insured property located in all wind pool eligible areas along the coast including the Galveston Islands.

- We have ceased writing new homeowners business in California. We will continue to renew current policyholders and have a renewal ratio of approximately 90% in California.

- Encompass Floridian Insurance and Encompass Floridian Indemnity Company filed a formal notification with the Florida Office of Insurance Regulation to discontinue providing property insurance in the State of Florida.

- We ceased offering renewals on certain homeowners insurance policies in New York in certain down-state geographical locations. The level of non-renewals in New York is governed by state statute.

Hurricanes

We consider the greatest areas of potential catastrophe losses due to hurricanes to generally be major metropolitan centers in counties along the eastern and gulf coasts of the United States. Generally, the average premium on a property policy near these coasts is greater than other areas. However, average premiums are not considered commensurate with the inherent risk of loss.

We have addressed our risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for our personal lines property insurance in areas most exposed to hurricanes (for further information on our reinsurance program see the Property-Liability Claims and Claims Expense Reserves section of the MD&A); limiting personal homeowners new business writings in coastal areas in southern and eastern states; not offering continuing coverage on certain policies in coastal counties in certain states; and entering into Royal Palm 1 and 2. Our actions are expected to continue during 2009 in northeastern and certain other hurricane prone states.

Earthquakes

During 2006, we began taking actions countrywide to significantly reduce our exposure to the risk of earthquake losses. These actions included purchasing reinsurance on a countrywide basis and in the state of Kentucky; no longer offering new optional earthquake coverage in most states; removing optional earthquake coverage upon renewal in most states; and entering into arrangements in many states to make earthquake coverage available through other insurers for new and renewal business.

Actions taken to reduce our exposure from optional earthquake coverage are substantially complete. We expect to retain approximately 40,000 PIF due to regulatory and other reasons. We also will continue to have exposure to earthquake risk on certain policies and coverages that do not specifically exclude coverage for earthquake losses, including our auto policies, and to fires following earthquakes. Allstate policyholders in the state of California are offered coverage through the CEA, a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Allstate is subject to assessments from the CEA under certain circumstances as explained in Note 13 of the consolidated financial statements.

Fires Following Earthquakes

Actions taken related to our risk of loss from fires following earthquakes include changing homeowners underwriting requirements in California and purchasing additional reinsurance on a countrywide basis excluding Florida and on a statewide basis in California and Kentucky.

Wildfires

Actions we are taking to reduce our risk of loss from wildfires include changing homeowners underwriting requirements in certain states and including California wildfire losses in our 2008 aggregate excess reinsurance agreement. Catastrophe losses related to the Southern California wildfires that occurred during 2008 and 2007 totaled $166 million and $350 million, respectively.

Reinsurance

We expect to renew expiring coverages including the coverage expiring on programs placed for 2 years (Aggregate excess), 3 years (various state specific) and 1 year (South-East and Florida).

We anticipate purchasing coverage that has similar retentions and limits as our expiring program with either retentions and limits or premiums being subject to re-measurement for exposure differences from estimates initially provided to reinsurers.

Our program will be in place by June 1, 2009. We expect to bind coverage in March 2009, except for certain coverage in Florida which we expect to bind by June 1, 2009. We anticipate reporting the details at that time.

We estimate that the total annualized cost of our catastrophe reinsurance program for the year beginning June 1, 2009, including the new Pennsylvania (up to $100 million limit, $100 million retention) and Texas/Louisiana (up to $150 million limit, $500 million retention) agreements, to be within 10% of our expiring annualized reinsurance contract premiums of $613 million. We continue to attempt to capture our reinsurance cost in premium rates as allowed by state regulatory authorities.

Allstate Protection Outlook

Allstate Protection premiums written in 2009 are anticipated to be lower than 2008 levels due to continued emphasis on preserving auto insurance margins by providing customer-focused products and services. Short-term growth will be limited reflecting a transition to a value-based strategy in the competitive environment as consumers buy fewer autos and choose lower product coverages, and reductions of catastrophe exposure.

We expect that volatility in the level of catastrophes we experience will contribute to variation in our underwriting results; however, this volatility will be somewhat mitigated due to our catastrophe management actions, including purchases of reinsurance.

We plan to continue to study the efficiencies of our operations and cost structure for additional areas where costs may be reduced.

DISCONTINUED LINES AND COVERAGES SEGMENT

Overview The Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. We have assigned management of this segment to a designated group of professionals with expertise in claims handling, policy coverage interpretation, exposure identification and reinsurance collection. As part of its responsibilities, this group is also regularly engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations.

Summarized underwriting results for the years ended December 31, are presented in the following table.

($ in millions)	**2008**	**2007**	**2006**
Premiums written	$	$	$ 1
Premiums earned	$	$ 1	$ 3
Claims and claims expense	(18)	(47)	(132)
Operating costs and expenses	(7)	(8)	(10)
Underwriting loss	$ (25)	$ (54)	$ (139)

Underwriting losses of $25 million in 2008 primarily related to an $8 million unfavorable reestimate of asbestos reserves and a $13 million unfavorable reestimate of other reserves as a result of the annual third quarter 2008 grounds up reserve review, partially offset by a $16 million reduction of our bad debt allowance for future uncollectible reinsurance recoverables. The cost of administering claims settlements totaled $13 million, $14 million and $19 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Underwriting loss of $54 million in 2007 primarily related to a $63 million reestimate of environmental reserves and a $6 million reestimate of asbestos reserves as a result of the annual third quarter 2007 grounds up reserve review, partially offset by a $46 million reduction in the reinsurance recoverable valuation allowance related to Equitas Limited's improved financial position as a result of its reinsurance coverage with National Indemnity Company.

Underwriting loss of $139 million in 2006 primarily related to an $86 million reestimate of asbestos reserves, a $10 million reestimate of environmental reserves and a $26 million increase in the allowance for future uncollectible reinsurance recoverables.

See the Property-Liability Claims and Claims Expense Reserves section of the MD&A for a more detailed discussion.

Discontinued Lines and Coverages Outlook

We may continue to experience asbestos and/or environmental losses in the future. These losses could be due to the potential adverse impact of new information relating to new and additional claims or the impact of resolving unsettled claims based on unanticipated events such as litigation or legislative, judicial and regulatory actions. Environmental losses may also increase as the result of additional funding for environmental site cleanup from the new administration. Because of our annual "grounds up" review, we believe that our reserves are appropriately established based on available information, technology, laws and regulations.

We continue to be encouraged that the pace of industry asbestos claim activity has slowed, perhaps reflecting various state legislative and judicial actions with respect to medical criteria and increased legal scrutiny of the legitimacy of claims.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income decreased 15.1% in 2008 when compared to 2007, after increasing 6.4% in 2007 when compared to 2006. The 2008 decrease was due to decreased partnership income and lower average asset balances reflecting dividends paid by Allstate Insurance Company ("AIC") to its parent, The Allstate Corporation (the "Corporation") and capital contributions to Allstate Life Insurance Company ("ALIC") and reduced portfolio yields. The 2007 increase was principally due to increased partnership income and increased portfolio yields.

Property-Liability net investment income in 2009 is anticipated to be lower than 2008 levels due to lower average asset balances and reduced portfolio yields.

The following table presents the average pre-tax investment yields for the year ended December 31.

	2008(1)(2)	2007(1)(2)	2006(1)(2)
Fixed income securities: tax-exempt	5.1%	5.1%	5.1%
Fixed income securities: tax-exempt equivalent	7.4	7.4	7.4
Fixed income securities: taxable	5.6	5.5	5.3
Equity securities	3.0	2.7	2.7
Mortgage loans	6.1	5.6	5.2
Limited partnership interests(3)	2.3	16.0	17.2
Total portfolio	4.8	5.4	5.2

(1) Pre-tax yield is calculated as investment income (including dividend income in the case of equity securities) divided by the average of the investment balances at the beginning and end of period and interim quarters.

(2) Amortized cost basis is used to calculate the average investment balance for fixed income securities and mortgage loans. Cost is used for equity securities. Cost or the equity method of accounting basis is used for limited partnership interests.

(3) Beginning in the fourth quarter of 2008, income from limited partnerships accounted for on the equity method of accounting ("EMA LP") is reported in realized capital gains and losses and is therefore excluded from the determination of pre-tax investment yields on limited partnership interests. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income and included in the determination of pre-tax investment yields on limited partnership interests.

Net realized capital gains and losses, after-tax were $(1.21) billion of net realized capital losses in 2008 compared to net realized capital gains of $915 million in 2007 and $227 million in 2006. The following table presents the factors driving the net realized capital gains and losses results.

($ in millions)	2008	2007	2006
Sales(1)	$ (635)	$ 1,396	$ 483
Impairment write-downs(2)	(638)	(44)	(26)
Change in intent write-downs(1)(3)	(501)	(54)	(32)
Valuation of derivative instruments	(296)	(15)	43
EMA LP income(4)	(77)		
Settlements of derivative instruments	289	133	(120)
Realized capital gains and losses, pre-tax	(1,858)	1,416	348
Income tax benefit (expense)	649	(501)	(121)
Realized capital gains and losses, after-tax	$ (1,209)	$ 915	$ 227

(1)

To conform to the current period presentation, certain amounts in the prior periods have been reclassified.

(2) Impairment write-downs reflect issue specific other than temporary declines in fair value, including instances where we could not reasonably assert that the recovery period would be temporary.

(3) Change in intent write-downs reflects instances where we cannot assert a positive intent to hold until recovery.

(4) Beginning in the fourth quarter of 2008, income from EMA LP is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income.

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

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Property-Liability underwriting results are significantly influenced by estimates of property-liability claims and claims expense reserves. For a description of our reserve process, see Note 7 of the consolidated financial statements and for a further description of our reserving policies and the potential variability in our reserve estimates, see the Application of Critical Accounting Estimates section of the MD&A. These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR claims, as of the reporting date.

The facts and circumstances leading to our quarterly reestimates of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual losses are likely different than that predicted by the estimated development factors used in prior reserve estimates. At December 31, 2008, the impact of a reserve reestimation corresponding to a one percent increase or decrease in net reserves would be a decrease or increase of approximately $112 million in net income.

The table below shows total net reserves as of December 31, 2008, 2007 and 2006 for Allstate brand, Encompass brand and Discontinued Lines and Coverages lines of business.

($ in millions)	2008	2007	2006
Allstate brand	$ 14,118	$ 13,456	$ 13,220
Encompass brand	1,133	1,129	1,236
Total Allstate Protection	15,251	14,585	14,456
Discontinued Lines and Coverages	1,931	2,075	2,154
Total Property-Liability	$ 17,182	$ 16,660	$ 16,610

The table below shows reserves, net of reinsurance, representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2008, 2007 and 2006, and the effect of reestimates in each year.

	2008		2007		2006	
($ in millions)	Jan 1 reserves	Reserve reestimate(1)	Jan 1 reserves	Reserve reestimate(1)	Jan 1 reserves	Reserve reestimate(1)
Allstate brand	$ 13,456	$ 155	$ 13,220	$ (167)	$ 15,423	$ (1,085)
Encompass brand	1,129	(3)	1,236	(52)	1,331	(18)
Total Allstate Protection	14,585	152	14,456	(219)	16,754	(1,103)
Discontinued Lines and Coverages	2,075	18	2,154	47	2,177	132
Total Property-Liability	$ 16,660	$ 170	$ 16,610	$ (172)	$ 18,931	$ (971)
Reserve reestimates, after-tax		$ 111		$ (112)		$ (631)
Net (loss) income		(1,679)		4,636		4,993
Reserve reestimates as a % of net (loss) income		(6.6)%		2.4%		12.6%

(1) Favorable reserve reestimates are shown in parentheses.

Allstate Protection

The table below shows Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2008, 2007 and 2006, and the effect of reestimates in each year.

($ in millions)	2008 Jan 1 reserves	2008 Reserve reestimate	2007 Jan 1 reserves	2007 Reserve reestimate	2006 Jan 1 reserves	2006 Reserve reestimate
Auto	$ 10,175	$ (27)	$ 9,995	$ (311)	$ 10,460	$ (737)
Homeowners	2,279	124	2,226	115	3,675	(244)
Other personal lines	2,131	55	2,235	(23)	2,619	(122)
Total Allstate Protection	$ 14,585	$ 152	$ 14,456	$ (219)	$ 16,754	$ (1,103)
Underwriting income		189		2,838		4,636
Reserve reestimates as a % of underwriting income		(80.4)%		7.7%		23.8%

Auto reserve reestimates in 2008 were primarily the result of a $45 million reclassification of IBNR losses from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses. Auto reserve reestimates in 2007 were primarily the result of auto severity development that was better than expected. Auto reserve reestimates in 2006 were primarily the result of auto injury severity development that was better than expected and late reported loss development that was better than expected, primarily due to lower frequency trends in recent years.

Unfavorable homeowners reserve reestimates in 2008 were primarily due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina. Unfavorable homeowners reserve reestimates in 2007 were primarily due to catastrophe reserve reestimates attributable to increased claim expense reserves primarily for 2005 events and increased loss reserves including reopened claims arising from litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina. Homeowners reserve reestimates in 2006 were primarily due to favorable catastrophe reestimates attributable to lower loss estimates for additional living expenses and mold for Hurricane Katrina, late reported loss development that was better than expected and injury severity development that was better than expected.

Other personal lines reserve reestimates in 2008 were primarily the result of a $45 million reclassification of IBNR losses from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses. Other personal lines reserve reestimates in 2007 were primarily the result of claim severity development different than anticipated in previous estimates. Other personal lines reserve reestimates in 2006 were primarily due to favorable catastrophe reestimates and the result of claim severity development different than anticipated in previous estimates.

Pending, new and closed claims for Allstate Protection, for the years ended December 31, are summarized in the following table.

Number of claims	2008	2007	2006
Auto			
Pending, beginning of year	551,598	522,544	569,334
New	5,323,072	5,450,438	5,256,600
Total closed	(5,308,276)	(5,421,384)	(5,303,390)
Pending, end of year	566,394	551,598	522,544
Homeowners			
Pending, beginning of year	80,229	72,988	197,326
New	1,242,007	805,461	835,900
Total closed	(1,247,464)	(798,220)	(960,238)
Pending, end of year	74,772	80,229	72,988
Other personal lines			
Pending, beginning of year	39,951	42,254	79,560
New	301,363	270,962	312,546
Total closed	(300,313)	(273,265)	(349,852)
Pending, end of year	41,001	39,951	42,254
Total Allstate Protection			
Pending, beginning of year	671,778	637,786	846,220
New	6,866,442	6,526,861	6,405,046
Total closed	(6,856,053)	(6,492,869)	(6,613,480)
Pending, end of year	682,167	671,778	637,786

We believe the net loss reserves for Allstate Protection exposures are appropriately established based on available facts, technology, laws and regulations.

The following tables reflect the accident years to which the reestimates shown above are applicable for Allstate brand, Encompass brand and Discontinued Lines and Coverages lines of business. Favorable reserve reestimates are shown in these tables in parentheses.

2008 Prior year reserve reestimates

($ in millions)	1998 & Prior	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
Allstate brand	$ 56	$ (7)	$ 9	$ 34	$ 1	$ (5)	$ 13	$ 152	$ (71)	$ (27)	$ 155
Encompass brand	2		2	(1)	2	1	(1)	10	(20)	2	(3)
Total Allstate Protection	58	(7)	11	33	3	(4)	12	162	(91)	(25)	152
Discontinued Lines and Coverages	18										18
Total Property-Liability	$ 76	$ (7)	$ 11	$ 33	$ 3	$ (4)	$ 12	$ 162	$ (91)	$ (25)	$ 170

2007 Prior year reserve reestimates

($ in millions)	1997 & Prior	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Allstate brand	$ 103	$	$ 10	$ 16	$ (5)	$ 15	$ 5	$ (10)	$ (225)	$ (76)	$ (167)
Encompass brand			(1)	(4)		3	6	(4)	(39)	(13)	(52)
Total Allstate Protection	103		9	12	(5)	18	11	(14)	(264)	(89)	(219)
Discontinued Lines and Coverages	47										47
Total Property-Liability	$ 150	$	$ 9	$ 12	$ (5)	$ 18	$ 11	$ (14)	$ (264)	$ (89)	$ (172)

2006 Prior year reserve reestimates

($ in millions)	1996 & Prior	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Allstate brand	$ 18	$ (8)	$ (3)	$ (5)	$ (2)	$ (22)	$ (2)	$ (48)	$ (282)	$ (731)	$ (1,085)
Encompass brand						(6)		(10)	(22)	20	(18)
Total Allstate Protection	18	(8)	(3)	(5)	(2)	(28)	(2)	(58)	(304)	(711)	(1,103)
Discontinued Lines and Coverages	132										132
Total Property-Liability	$ 150	$ (8)	$ (3)	$ (5)	$ (2)	$ (28)	$ (2)	$ (58)	$ (304)	$ (711)	$ (971)

Allstate brand prior year reserve reestimates were $155 million unfavorable in 2008 and $167 million and $1.09 billion favorable in 2007 and 2006, respectively. In 2008, this was primarily due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina. In 2007, this was primarily due to auto severity development that was better than expected, partially offset by unfavorable reserve reestimates of catastrophe losses. In 2006, this was primarily due to auto injury severity development and late reported loss development that was better than expected and changes in reserve reestimates of catastrophe losses which were favorable in 2006.

These trends are primarily responsible for revisions to loss development factors, as previously described, used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Because these trends cause actual losses to differ from those predicted by the estimated development factors used in prior reserve estimates, reserves are revised as actuarial studies validate new trends based on the indications of updated development factor calculations.

The impact of these reestimates on the Allstate brand underwriting income is shown in the table below.

($ in millions)	2008	2007	2006
Reserve reestimates	$ 155	$ (167)	$ (1,085)
Allstate brand underwriting income	220	2,634	4,451
Reserve reestimates as a % of underwriting income	(70.5)%	6.3%	24.4%

Encompass brand Reserve reestimates in 2008, 2007 and 2006 were related to lower than anticipated claim settlement costs.

The impact of these reestimates on the Encompass brand underwriting (loss) income is shown in the table below.

($ in millions)	2008	2007	2006
Reserve reestimates	$ (3)	$ (52)	$ (18)
Encompass brand underwriting (loss) income	(31)	204	185
Reserve reestimates as a % of underwriting (loss) income	9.7%	25.5%	9.7%

Discontinued Lines and Coverages We conduct an annual review in the third quarter of each year to evaluate and establish asbestos, environmental and other discontinued lines reserves. Reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive "grounds up" methodology determines reserves based on assessments of the characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by policyholders.

Reserve reestimates for the Discontinued Lines and Coverages, as shown in the table below, were increased primarily for other discontinued lines in 2008, environmental in 2007 and for asbestos in 2006.

	2008		2007		2006	
($ in millions)	Jan 1 reserves	Reserve reestimate	Jan 1 reserves	Reserve reestimate	Jan 1 reserves	Reserve reestimate
Asbestos Claims	$ 1,302	$ 8	$ 1,375	$ 17	$ 1,373	$ 86
Environmental Claims	232		194	63	205	10
Other Discontinued Lines	541	10	585	(33)	599	36
Total Discontinued Lines and coverages	$ 2,075	$ 18	$ 2,154	$ 47	$ 2,177	$ 132
Underwriting loss		(25)		(54)		(139)
Reserve reestimates as a % of underwriting loss		(72.0)%		(87.0)%		(95.0)%

Reserve additions for asbestos in 2008, 2007 and 2006, totaling $8 million, $17 million and $86 million, respectively, were primarily for products-related coverage. They were essentially a result of a continuing level of increased claim activity being reported by excess and primary insurance policyholders with existing active claims, excess policyholders with new claims, and reestimates of liabilities for increased assumed reinsurance cessions, as ceding companies (other insurance carriers) also experienced increased claim activity. Higher claim activity over prior estimates has also resulted in an increased estimate for future claims reported. These trends are consistent with the trends of other carriers in the industry, which we believe are related to increased publicity and awareness of coverage, ongoing litigation and bankruptcy actions. The 2007 asbestos reserve addition also includes the write-off of uncollectible reinsurance for a single foreign reinsurer.

Normal environmental claim activity resulted in essentially no change in estimated reserves for 2008. The reserve additions for environmental in 2007 were for increased claim activity related to site-specific remediations where the clean-up cost estimates and responsibility for the clean-up have been more fully determined. This increased claim activity over prior estimates has also resulted in an increased estimate for future claims reported. IBNR now represents 63% of total net environmental reserves, 8 points higher than at December 31, 2007.

The table below summarizes reserves and claim activity for asbestos and environmental claims before (Gross) and after (Net) the effects of reinsurance for the past three years.

	2008		2007		2006	
($ in millions, except ratios)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos claims						
Beginning reserves	$2,053	$1,302	$2,198	$1,375	$2,205	$1,373
Incurred claims and claims expense	4	8	12	17	143	86
Claims and claims expense paid	(124)	(82)	(157)	(90)	(150)	(84)
Ending reserves	$1,933	$1,228	$2,053	$1,302	$2,198	$1,375
Annual survival ratio	15.4	15.1	13.1	14.5	14.7	16.4
3-year survival ratio	13.4	14.4	8.5	9.7	9.4	10.5
Environmental claims						
Beginning reserves	$ 340	$ 232	$ 249	$ 194	$ 252	$ 205
Incurred claims and claims expense	(34)		120	63	22	10
Claims and claims expense paid	(56)	(37)	(29)	(25)	(25)	(21)
Ending reserves	$ 250	$ 195	$ 340	$ 232	$ 249	$ 194
Annual survival ratio	4.5	5.2	11.7	9.4	9.8	8.9
3-year survival ratio	6.8	7.0	11.8	9.3	8.1	7.7
Combined environmental and asbestos claims						
Annual survival ratio	12.1	12.0	12.9	13.4	14.0	14.8
3-year survival ratio	12.1	12.6	8.8	9.6	9.3	10.1
Percentage of IBNR in ending reserves		63.8%		63.2%		66.5%

The survival ratio is calculated by taking our ending reserves divided by payments made during the year. This is a commonly used but extremely simplistic and imprecise approach to measuring the adequacy of asbestos and environmental reserve levels. Many factors, such as mix of business, level of coverage provided and settlement procedures have significant impacts on the amount of environmental and asbestos claims and claims expense reserves, claim payments and the resultant ratio. As payments result in corresponding reserve reductions, survival ratios can be expected to vary over time.

In 2008, the asbestos net 3-year survival ratio increased due to lower average annual payments. In 2007, the asbestos net 3-year survival ratio declined due to continuing claim payments. In 2008, the environmental net 3-year survival ratio declined due to continuing claim payments. In 2007, the environmental net 3-year survival ratio increased due to reserve additions.

Our net asbestos reserves by type of exposure and total reserve additions are shown in the following table.

	December 31, 2008			December 31, 2007			December 31, 2006		
($ in millions)	**Active policy-holders**	**Net reserves**	**% of reserves**	**Active policy-holders**	**Net reserves**	**% of reserves**	**Active policy-holders**	**Net reserves**	**% of reserves**
Direct policyholders:									
Primary	54	$ 21	2%	52	$ 23	2%	47	$ 15	1%
Excess	330	216	17	346	222	17	340	214	16
Total	384	237	19%	398	245	19%	387	229	17%
Assumed reinsurance		205	17		216	16		203	15
IBNR		786	64		841	65		943	68

Total net reserves	$	1,228	100%	$	1,302	100%	$	1,375	100%
Total reserve additions	$	8		$	17		$	86	

During the last three years, 72 direct primary and excess policyholders reported new claims, and claims of 67 policyholders were closed, increasing the number of active policyholders by 5 during the period. The 5 increase comprised (9) from 2008, 6 from 2007 and 8 from 2006. The decrease of 9 from 2008 included 15 new policyholders reporting new claims and the closing of 24 policyholders' claims.

IBNR net reserves decreased by $55 million. At December 31, 2008 IBNR represented 64% of total net asbestos reserves, 1 point lower than at December 31, 2007. IBNR provides for reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies.

Pending, new, total closed and closed without payment claims for asbestos and environmental exposures for the years ended December 31, are summarized in the following table.

Number of claims	2008	2007	2006
Asbestos			
Pending, beginning of year	9,256	9,175	8,806
New	601	876	1,220
Total closed	(1,077)	(795)	(851)
Pending, end of year	8,780	9,256	9,175
Closed without payment	800	364	596
Environmental			
Pending, beginning of year	4,747	4,771	4,896
New	291	603	612
Total closed	(435)	(627)	(737)
Pending, end of year	4,603	4,747	4,771
Closed without payment	307	370	513

Property-Liability Reinsurance Ceded For Allstate Protection, we utilize reinsurance to reduce exposure to catastrophe risk and manage capital, and to support the required statutory surplus and the insurance financial strength ratings of certain subsidiaries such as Allstate Floridian Insurance Company and Allstate New Jersey Insurance Company. We purchase significant reinsurance where we believe the greatest benefit may be achieved relative to our aggregate countrywide exposure. The price and terms of reinsurance and the credit quality of the reinsurer are considered in the purchase process, along with whether the price can be appropriately reflected in the costs that are considered in setting future rates charged to policyholders. We also participate in various reinsurance mechanisms, including industry pools and facilities, which are backed by the financial resources of the property-liability insurance company market participants, and have historically purchased reinsurance to mitigate long-tail liability lines, including environmental, asbestos and other discontinued lines exposures. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

The impacts of reinsurance on our reserve for claims and claims expense at December 31 are summarized in the following table, net of allowances we have established for uncollectible amounts.

	Reserve for Property-Liability insurance claims and claims expense		Reinsurance recoverables, net	
($ in millions)	2008	2007	2008	2007
Industry pools and facilities	$ 2,012	$ 1,862	$1,442	$1,275
Asbestos and environmental	2,183	2,393	795	912
Other including allowance for future uncollectible reinsurance recoverables	15,261	14,610	116	117
Total Property-Liability	$19,456	$18,865	$2,353	$2,304

Reinsurance recoverables include an estimate of the amount of property-liability insurance claims and claims expense reserves that may be ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. We calculate our ceded reinsurance estimate based on the terms of each applicable reinsurance agreement, including an estimate of how IBNR losses will ultimately be ceded under the agreement. We also consider other limitations and coverage exclusions under our reinsurance agreements. Accordingly, our estimate of reinsurance recoverables is subject to similar risks and uncertainties as our estimate of reserve for property-liability claims and claims expense. We believe the recoverables are appropriately established; however, as our underlying reserves continue to develop, the amount ultimately recoverable may vary from amounts currently recorded. We regularly evaluate the reinsurers and the respective amounts recoverable, and a provision for uncollectible reinsurance is recorded if needed. The establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in estimates could result in additional changes to the Consolidated Statements of Operations.

The allowance for uncollectible reinsurance relates to Discontinued Lines and Coverages reinsurance recoverables and was $168 million and $185 million at December 31, 2008 and 2007, respectively. These amounts represent 16.9% and 16.4%, respectively of the related reinsurance recoverable balances. The allowance is based upon our ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, and other relevant factors. In addition, in the ordinary course of business, we may become involved in coverage disputes with certain of our reinsurers which may ultimately result in lawsuits and arbitrations brought by or against such reinsurers to determine the parties' rights and obligations under the various reinsurance agreements. We employ dedicated specialists to manage reinsurance collections and disputes. We also consider recent developments in commutation activity between reinsurers and cedants, and recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers in seeking to maximize our reinsurance recoveries. For further discussion on the decrease in the allowance for uncollectible reinsurance, see Note 9 of the consolidated financial statements.

Adverse developments in the insurance industry have led to a decline in the financial strength of some of our reinsurance carriers, causing amounts recoverable from them and future claims ceded to them to be considered a higher risk. There has also been consolidation activity in the industry, which causes reinsurance risk across the industry to be concentrated among fewer companies. In addition, over the last several years the industry has increasingly segregated asbestos, environmental, and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. We are unable to determine the impact, if any, that these developments will have on the collectability of reinsurance recoverables in the future.

The largest reinsurance recoverable balances are shown in the following table at December 31, net of allowances we have established for uncollectible amounts.

($ in millions)	A.M. Best financial strength rating	Reinsurance recoverable on paid and unpaid claims, net 2008	2007
Industry pools and facilities			
Michigan Catastrophic Claim Association ("MCCA")	N/A	$1,108	$1,023
National Flood Insurance Program ("NFIP")	N/A	138	22
New Jersey Unsatisfied Claim and Judgment Fund	N/A	84	105
North Carolina Reinsurance Facility	N/A	63	64
FHCF	N/A	36	47
Other		13	14
Total		1,442	1,275
Asbestos, Environmental and Other			
Lloyd's of London ("Lloyd's")	A	227	240
Westport Insurance Corporation (formerly Employers Reinsurance Corporation)	A+	81	90
Harper Insurance Limited	N/A	56	60
Clearwater Insurance Company	A-	39	44
SCOR U.S. Corporation ("SCOR")	A-	28	28
Other, including allowance for future uncollectible reinsurance recoverables		480	567
Total		911	1,029
Total Property-Liability		$2,353	$2,304

The effects of reinsurance ceded on our property-liability premiums earned and claims and claims expense for the years ended December 31, are summarized in the following table.

($ in millions)	2008	2007	2006
Ceded property-liability premiums earned	$ 1,139	$ 1,356	$ 1,113
Ceded property-liability claims and claims expense			
Industry pool and facilities			
FHCF	$ 28	$ 22	$ 146
NFIP	344	65	32
MCCA	148	60	36
Other	60	72	71
Subtotal industry pools and facilities	580	219	285
Asbestos, Environmental and Other	40	151	129
Ceded property-liability claims and claims expense	$ 620	$ 370	$ 414

For the years ended December 31, 2008 and 2007, ceded property-liability premiums earned decreased $217 million and increased $243 million, respectively, when compared to prior years, primarily as a result of changes in the rates charged on our catastrophe reinsurance program.

Ceded property-liability claims and claims expense increased in 2008 primarily due to amounts ceded to NFIP and MCCA. Ceded property-liability claims and claims expense decreased in 2007 as a result of lower qualifying losses eligible to be ceded to the FHCF, but higher losses eligible to be ceded to NFIP and MCCA. For further discussion, see the Discontinued Lines and Coverages Segment and Property-Liability Claims and Claims Expense Reserves sections of the MD&A.

For a detailed description of the MCCA, FHCF and Lloyd's, see Note 9 of the consolidated financial statements. At December 31, 2008, other than the recoverable balances listed above, no other amount due or estimated to be due from any single Property-Liability reinsurer was in excess of $23 million.

We enter into certain inter-company insurance and reinsurance transactions for the Property-Liability operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant inter-company transactions have been eliminated in consolidation.

An affiliate of the company, Allstate Texas Lloyd's ("ATL"), a syndicate insurance company, cedes 100% of its business net of reinsurance with external parties to AIC. At December 31, 2008, ATL had $66 million of reinsurance recoverable primarily related to losses incurred from Hurricane Ike which occurred in 2008. At December 31, 2007, ATL had $5 million reinsurance recoverable primarily related to losses incurred from Hurricane Rita which occurred in 2005.

Catastrophe Reinsurance

Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program provides reinsurance protection to us for catastrophes including storms named or numbered by the National Weather Service, wildfires, earthquakes and fires following earthquakes.

Our catastrophe reinsurance program which will be effective June 1, 2009 is currently being negotiated. We expect to bind coverage in March 2009, except for certain coverage in Florida which we expect to bind by June 1, 2009. We anticipate reporting the details of our catastrophe reinsurance program renewal upon finalizing coverage. See The Allstate Corporation Annual Report on Form 10-K for 2007 and The Allstate Corporation Form 10-Qs for 2008 for additional details on our current program.

We expect to renew expiring coverages including the coverage expiring on programs placed for 2 years (Aggregate excess), 3 years (various state specific), and 1 year (South-East and Florida). We anticipate purchasing coverage that has similar retentions and limits as our expiring program, with either retentions and limits or premiums being subject to re-measurement for exposure differences from estimates initially provided to reinsurers. In addition, effective June 1, 2009, we are contemplating two new agreements: a Pennsylvania only agreement (up to $100 million limit, $100 million retention) to enhance protection in Pennsylvania, and a Texas/Louisiana agreement (up to $150 million limit, $500 million retention) whereby losses resulting from the same

named or numbered storm but taking place in both Texas and Louisiana may be combined to meet the agreement's per occurrence retention and limit. We also intend to purchase a portion of our annual Florida reinsurance program in the first quarter of 2009, deferring our remaining Florida reinsurance purchase until the FHCF reimbursement program is finalized.

Our reinsurance program, effective June 1, 2008 to May 31, 2009 is comprised of agreements that provide coverage for the occurrence of certain qualifying catastrophes in specific states including New York, New Jersey, Connecticut, Rhode Island and Texas ("multi-peril"); additional coverage for hurricane catastrophe losses in New York, New Jersey and Connecticut ("North-East") in other states along the southern and eastern coasts ("South-East") and in Texas ("Texas"); in California for fires following earthquakes ("California fires following earthquakes"); in Kentucky for earthquakes and fires following earthquakes ("Kentucky"); and four agreements for our exposure in Florida. The Florida component of the reinsurance program, which expires on May 31, 2009, is designed separately from the other components of the program to address the distinct needs of our separately capitalized legal entities in that state. Another reinsurance agreement provides coverage nationwide, excluding Florida, for the aggregate or sum of catastrophe losses in excess of an annual retention associated with storms named or numbered by the National Weather Service, California wildfires, earthquakes and fires following earthquakes ("aggregate excess"). For further discussion on catastrophe reinsurance, see Note 9 to the consolidated financial statements.

The multi-peril agreements have various retentions and limits commensurate with the amount of catastrophe risk, measured on an annual basis, in each covered state. The multi-peril agreement for Connecticut and Rhode Island provides that losses resulting from the same occurrence but taking place in both states may be combined to meet the agreement's per occurrence retention and limit. One-third of the coverage expires each year with each of the three contracts in this agreement.

The North-East agreement was placed with Willow Re Ltd., a Cayman Island insurance company, and covers Allstate Protection personal property and auto excess catastrophe losses. Amounts payable under the reinsurance agreement are based on an index created by applying predetermined percentages representing our market share to insured personal property industry losses in New York, New Jersey and Connecticut as reported by Property Claim Services ("PCS"), a division of Insurance Services Offices, Inc., limited to our actual losses. This agreement covers 38% of $658 million, our estimated share of estimated modified personal property industry catastrophe losses between $9.2 billion and $13.5 billion, or 38% of our catastrophe losses between $1.6 billion (initial trigger) and $2.2 billion (exhaustion point) in the states of New York, New Jersey and Connecticut. The initial trigger and exhaustion points are reset by AIR Worldwide Corporation ("AIR") annually based on changes in the underlying industry exposures and our share of industry exposures. Willow Re Ltd. issued to unrelated investors principal-at-risk variable market rate notes of $250 million to collateralize hurricane catastrophe losses covered by this reinsurance agreement. Willow Re Ltd. entered into a total return swap with Lehman Brothers Special Financing, Inc. ("Lehman") which guaranteed the value of the collateral and a predetermined fixed rate of return to be paid to note holders. Upon the failure of Lehman in the third quarter of 2008, the total return swap was settled and terminated without replacement. Allstate continues to make the required premium payments to Willow Re and the reinsurance remains in place, but the underlying assets have not generated enough interest to meet the quarterly bond interest payment requirement due in February 2009, resulting in a default to note holders. The default does not create any obligations for Allstate and the reinsurance contract remains in place, although the value of the reinsurance provided by Willow Re depends upon the market value of the underlying assets held in collateral for reinsurance trust, with Allstate as the beneficiary. The underlying assets held in collateral are comprised largely of illiquid mortgaged-backed securities and cash with a current market value less than $250 million.

The Texas agreement provides coverage for Allstate Protection personal property excess catastrophe losses in Texas for hurricane catastrophe losses. The agreement was placed with Willow Re Ltd., which completed an offering to unrelated investors for principal at risk, variable market rate notes of $250 million to collateralize hurricane catastrophe losses covered by this agreement. Amounts payable under the reinsurance agreement will be based on an index created by applying predetermined percentages representing our market share to insured personal property industry losses in Texas as reported by PCS limited to our actual losses. The limits on our Texas agreement are designed to replicate as close as possible 100% of $250 million, our estimated market share of estimated modified personal property industry catastrophe losses between $12.5 billion and $15.8 billion, or 100% of our catastrophe losses between $950 million (retention) and $1.2 billion (exhaustion point). The Texas agreement placed with Willow Re is independent of the North-East agreement and is not impacted by the termination of the North-East agreement's total return swap.

The Florida reinsurance program, which will be effective June 1, 2009, should be similar in design to the current program, however containing limits based on reduced underlying exposure, assuming there is no further change in Florida insurance markets. Our current program comprises, four separate agreements entered into by Allstate Floridian for personal property excess catastrophe losses in Florida, effective June 1, 2008 for one year. These agreements coordinate coverage with the Florida Hurricane Catastrophe Fund, including our elected participation in the optional temporary increase in coverage limit ("TICL"), (collectively "FHCF"). We chose not to participate in the optional temporary emergency additional coverage option ("TEACO") that is below the mandatory FHCF coverage. The FHCF provides 90% reimbursement on qualifying Allstate Floridian property losses up to an estimated maximum of $398 million in excess of a $80 million retention, including reimbursement of eligible loss adjustment expenses at 5%, for each of the two largest hurricanes and $27 million for all other hurricanes for the season beginning June 1, 2008. The four agreements are listed and described below.

FHCF Retention provides coverage on $59 million of losses in excess of $40 million and is 100% placed, with one prepaid reinstatement of limit.

FHCF Sliver provides coverage on 10% co-participation of the FHCF payout, or $40 million and is 100% placed, with one prepaid reinstatement of limit.

FHCF Back-up provides coverage after the exhaustion of an amount equivalent to the anticipated FHCF reimbursement protection on $398 million of losses in excess of $80 million and is 90% placed.

FHCF Excess provides coverage on $99 million of losses in excess of the FHCF Retention, FHCF and the FHCF Back-up agreements and is 100% placed, with one prepaid reinstatement of limit.

We are currently evaluating the FHCF's capacity to timely reimburse us in the event of a major catastrophe, and await any changes that might be made by the FL legislature.

We have approximately $175 million or 9% of the Aggregate excess agreement limits for the June 1, 2008 to May 31, 2009 period, $25 million or 5% of the South-East agreement limit, $250 million or 100% of the North-East agreement limit; $250 million or 100% of the Texas agreement, and $2 million or less than 1% of the Florida limit placed with alternative market sources. Alternative market sources refers to a reinsurer that hedge funds, private equity firms, or investment banks substantially or wholly support; retrocedes 100% of its assumed liability to a specific retrocessionaire; provides collateral to us equal to its assumed per occurrence limit; or funding is provided by an unrelated third party issuance of bonds financing the reinsurance limit ("catastrophe bond").

Our total annualized cost for catastrophe reinsurance for the year beginning June 1, 2008 is $613 million (originally $660 million before annual exposure re-measurements). The total cost of our reinsurance program during 2008 was $227 million in the first quarter, $223 million in the second quarter, $164 million in the third quarter and $136 million in the fourth quarter. We estimate that the total annualized cost of our catastrophe reinsurance program for the year beginning June 1, 2009, including the new Pennsylvania and Texas/Louisiana agreements, to be within 10% of our expiring annualized reinsurance contract premiums of $613 million. We continue to attempt to capture our reinsurance cost in premium rates as allowed by state regulatory authorities.

The reinsurance agreements have been placed in the global reinsurance market, with all limits on our current Florida program and the majority of limits on our other programs placed with reinsurers who currently have an A.M. Best insurance financial strength rating of A or better. The remaining limits are placed with reinsurers who currently have an A.M. Best insurance financial strength rating no lower than A-, with three exceptions. Of the three exceptions, one has a Standard & Poor's ("S&P") rating of AA, one has an S&P rating of AA- and we have collateral for the entire contract limit exposure for the reinsurer which is not rated by either rating agency.

ALLSTATE FINANCIAL 2008 HIGHLIGHTS

- Net loss was $1.72 billion in 2008 compared to net income of $465 million in 2007.

- Net realized capital losses totaled $3.13 billion in 2008 compared to $193 million in 2007.

- During 2008, we recorded $397 million in accelerated DAC and deferred sales inducement costs ("DSI") amortization related to deferred annuities and interest-sensitive life insurance due to changes in assumptions (which resulted in changes to total EGP). Additional amortization of DAC totaling $336 million was recorded in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies primarily due to revised annuity mortality assumptions.

- Contractholder fund deposits totaled $10.40 billion for 2008 compared to $8.99 billion for 2007.

- Investments as of December 31, 2008 decreased 17.2% to $61.50 billion from $74.26 billion as of December 31, 2007 and net investment income decreased 11.3% to $3.81 billion in 2008 from $4.30 billion in 2007.

- Continued focus on improving returns and reducing our concentration in spread based products, primarily fixed annuities and institutional markets products.

- Launched an initiative that will result in lower operating expenses in 2009 and 2010, and targeting annual savings of $90 million beginning in 2011.

ALLSTATE FINANCIAL SEGMENT

Overview and Strategy The Allstate Financial segment is a major provider of life insurance, retirement and investment products, and voluntary accident and health insurance to individual and institutional customers. We serve these customers through Allstate exclusive agencies, the Workplace Division and non-proprietary distribution channels. Allstate Financial's strategic vision is to reinvent protection and retirement for the consumer.

To achieve its vision and reach its financial goals, Allstate Financial's primary objectives are to deepen financial services relationships with Allstate customers, dramatically expand the workplace business and restore profitability through operational excellence and portfolio optimization. Sales in non-proprietary channels will be increasingly tactical as we assess market opportunities. In addition to focusing on higher return markets, products, and distribution channels, Allstate Financial will continue to emphasize capital efficiency and enterprise risk and return management strategies and actions.

Allstate Financial's strategy provides a platform to profitably grow its business. Based upon Allstate's strong financial position and brand, our customers seek assistance in meeting their protection and retirement needs through trusted relationships. We have unique access to potential customers through cross-sell opportunities within the Allstate exclusive agencies and employer relationships through our Workplace Division. Our investment expertise, strong operating platform and solid relationships with distribution partners provide a foundation to deliver value to our customers and shareholders.

We plan to offer a more focused suite of products designed for middle market consumers to help everyday Americans meet their financial protection needs and help them better prepare for retirement. Our products include fixed annuities including deferred, immediate and indexed; interest-sensitive, traditional and variable life insurance; voluntary accident and health insurance; and funding agreements backing medium-term notes. Banking products and services are also offered to customers through the Allstate Bank. Our products are sold through a wide range of distribution channels including Allstate exclusive agencies, which include exclusive financial specialists, independent agents (including master brokerage agencies and workplace enrolling agents), financial service firms such as banks and broker-dealers, and specialized structured settlement brokers. Allstate Bank products can also be obtained directly through a toll-free number. Our institutional product line consists primarily of funding agreements sold to unaffiliated trusts that use them to back medium-term notes issued to institutional and individual investors.

Summarized financial data for the years ended December 31 is presented in the following table.

($ in millions)	2008	2007	2006
Revenues			
Life and annuity premiums and contract charges	$ 1,895	$ 1,866	$ 1,964
Net investment income	3,811	4,297	4,173
Realized capital gains and losses	(3,127)	(193)	(77)
Total revenues	2,579	5,970	6,060
Costs and expenses			
Life and annuity contract benefits	(1,612)	(1,589)	(1,570)
Interest credited to contractholder funds	(2,411)	(2,681)	(2,609)
Amortization of DAC	(704)	(583)	(626)
Operating costs and expenses	(520)	(441)	(468)
Restructuring and related charges	(1)	(2)	(24)
Total costs and expenses	(5,248)	(5,296)	(5,297)
Loss on disposition of operations	(6)	(10)	(92)
Income tax benefit (expense)	954	(199)	(207)
Net (loss) income	$ (1,721)	$ 465	$ 464
Investments at December 31	$ 61,499	$ 74,256	$ 75,951

Effective June 1, 2006, Allstate Financial disposed of substantially all of its variable annuity business through reinsurance with Prudential Financial Inc. ("Prudential"). The following table presents the results of operations attributable to our reinsured variable annuity business for the period of 2006 prior to the disposition.

($ in millions)	2006
Life and annuity premiums and contract charges	$ 136
Net investment income	17
Realized capital gains and losses	(8)
Total revenues	145
Life and annuity contract benefits	(13)
Interest credited to contractholder funds	(24)
Amortization of deferred policy acquisition costs	(44)
Operating costs and expenses	(43)
Total costs and expenses	(124)
Loss on disposition of operations	(89)
Income from operations before income tax expense[1]	$ (68)

(1) For 2006, income from operations before income tax expense attributable to the variable annuity business reinsured to Prudential included an investment spread and benefit spread of $(7) million and $13 million, respectively.

Net loss in 2008 of $1.72 billion compared to net income of $465 million and $464 million in 2007 and 2006, respectively. The change in 2008 was primarily the result of the recognition of higher net realized capital losses in the current year compared to the prior year and, to a lesser extent, DAC and DSI amortization acceleration for changes in assumptions and additional amortization of DAC that was recorded in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies due to revised annuity mortality assumptions. Net income in 2007 was comparable to 2006 as lower losses associated with dispositions of operations were almost entirely offset by a decline in total revenues.

Analysis of Revenues Total revenues decreased 56.8% or $3.39 billion in 2008 compared to 2007, due to a $2.93 billion increase in net realized capital losses and a $486 million decrease in net investment income. Total revenues decreased 1.5% or $90 million in 2007 compared to 2006, due to higher net realized capital losses and lower premiums and contract charges, partially offset by higher net investment income.

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life insurance, immediate annuities with life contingencies, and accident, health and other insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive and variable life insurance, fixed annuities and variable annuities for which deposits are classified as contractholder funds or separate accounts liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in contractholder funds are considered in the evaluation of growth and as indicators of future levels of revenues. Subsequent to the close of our reinsurance transaction with Prudential effective June 1, 2006, variable annuity contract charges on the business subject to the transaction are fully reinsured to Prudential and presented net of reinsurance on the Consolidated Statements of Operations (see Note 3 to the consolidated financial statements).

The following table summarizes life and annuity premiums and contract charges by product.

($ in millions)	2008	2007	2006
Premiums			
Traditional life insurance[(1)]	$ 399	$ 286	$ 281
Immediate annuities with life contingencies	132	204	278
Accident, health and other	412	380	340
Total premiums	943	870	899
Contract charges			
Interest-sensitive life insurance[(1)]	896	915	853
Fixed annuities	55	79	73
Variable annuities	1	1	139
Bank and other		1	
Total contract charges[(2)]	952	996	1,065
Life and annuity premiums and contract charges	$ 1,895	$ 1,866	$ 1,964

(1) Beginning in 2008, certain ceded reinsurance premiums previously included as a component of traditional life insurance premiums were reclassified prospectively to be reported as a component of interest-sensitive life insurance contract charges. In 2007 and 2006, these reinsurance premiums were $95 million and $58 million, respectively.

(2) Total contract charges for 2008, 2007 and 2006 include contract charges related to the cost of insurance of $595 million, $652 million and $638 million, respectively.

Total premiums increased 8.4% in 2008 compared to 2007, due to the prospective reporting reclassification for certain ceded reinsurance premiums. Excluding the impact of this reporting reclassification, total premiums decreased 2.3% in 2008 compared to 2007 as higher sales of accident and health insurance and traditional life insurance products were more than offset by lower sales of immediate annuities with life contingencies due to highly competitive market conditions and our continued focus on returns.

Total premiums decreased 3.2% in 2007 compared to 2006 as higher sales of accident and health insurance products sold through the Allstate Workplace Division and traditional life insurance products were more than offset by a decline in sales of life contingent immediate annuities due to market competitiveness.

Total contract charges decreased 4.4% in 2008 compared to 2007 due to the prospective reporting reclassification of certain ceded reinsurance premiums. Excluding the impact of this reclassification, total contract charges increased 5.7% in 2008 due to higher contract charges on interest-sensitive life insurance policies resulting from increased contract charge rates and growth in business in force, partially offset by decreased contract charges on fixed annuities resulting primarily from lower contract surrenders.

Contract charges decreased 6.5% in 2007 compared to 2006 due to the disposal of substantially all of our variable annuity business through reinsurance effective June 1, 2006. Excluding contract charges on variable annuities, substantially all of which are reinsured to Prudential effective June 1, 2006, contract charges increased 7.5% in 2007 compared to 2006. This increase reflects growth in interest-sensitive life insurance policies in force and, to a lesser extent, higher contract charges on fixed annuities. The increase in contract charges on fixed annuities was mostly attributable to higher contract surrenders.

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

($ in millions)	**2008**	**2007**	**2006**
Contractholder funds, beginning balance	$ 61,975	$ 62,031	$ 60,040
Deposits			
Fixed annuities	3,802	3,636	6,007
Institutional products (funding agreements)	4,158	3,000	2,100
Interest-sensitive life insurance	1,404	1,402	1,416
Variable annuity and life deposits allocated to fixed accounts	2	1	99
Bank and other deposits	1,036	952	856
Total deposits	10,402	8,991	10,478
Interest credited	2,405	2,689	2,666
Maturities, benefits, withdrawals and other adjustments			
Maturities and retirements of institutional products	(8,599)	(3,165)	(2,726)
Benefits	(1,710)	(1,668)	(1,517)
Surrenders and partial withdrawals	(5,313)	(5,872)	(5,945)
Contract charges	(870)	(801)	(749)
Net transfers from (to) separate accounts	19	13	(145)
Fair value hedge adjustments for institutional products	(56)	34	38
Other adjustments(1)	160	(277)	(109)
Total maturities, benefits, withdrawals and other adjustments	(16,369)	(11,736)	(11,153)
Contractholder funds, ending balance	$ 58,413	$ 61,975	$ 62,031

(1) The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Consolidated Statements of Financial Position. The table above is intended to supplement our discussion and analysis of revenues, which are presented net of reinsurance on the Consolidated Statements of Operations. As a result, the net change in contractholder funds associated with products reinsured to third parties is reflected as a component of the other adjustments line. This includes, but is not limited to, the net change in contractholder funds associated with the reinsured variable annuity business subsequent to the effective date of our reinsurance agreements with Prudential (see Note 3 to the consolidated financial statements).

Contractholder funds decreased 5.8% and 0.1% in 2008 and 2007, respectively, and increased 3.3% in 2006. Average contractholder funds decreased 2.9% in 2008 compared to 2007, and increased 1.6% in 2007 compared to 2006.

Contractholder deposits increased 15.7% in 2008 compared to 2007 due primarily to higher deposits on institutional products, and to a lesser extent, higher deposits on fixed annuities and Allstate Bank products. Sales of our institutional products vary from period to period based on management's assessment of market conditions, investor demand and operational priorities. Deposits on fixed annuities increased 4.6% in 2008 compared to 2007 due primarily to increased consumer demand as the attractiveness of fixed annuities relative to competing products improved, partially offset by pricing decisions aimed to increase new business returns.

Contractholder deposits decreased 14.2% in 2007 compared to 2006. This decline was primarily due to lower deposits on fixed annuities partially offset by higher deposits on institutional products. The decline of 39.5% in fixed annuity deposits in 2007 compared to 2006 was due to our strategy to raise new business returns for these products combined with lower industry-wide fixed annuity sales. Deposits on institutional products increased 42.9% in 2007 compared to 2006.

Maturities and retirements of institutional products increased $5.43 billion in 2008 compared to 2007. During 2008, we retired $5.36 billion of extendible institutional market obligations for which investors had elected to non-extend their maturity date through a combination of maturities, calls, and acquisitions in the secondary market. All of our outstanding extendible institutional market contracts, which totaled $1.45 billion as of December 31, 2008, have non-extended and become due by October 31, 2009. We have accumulated, and expect to maintain, short-term and other maturing investments to fund the retirement of these obligations.

Surrenders and partial withdrawals decreased 9.5% to $5.31 billion in 2008 from $5.87 billion in 2007 due to lower surrenders and partial withdrawals on market value adjusted annuities and traditional fixed annuities, partially offset by higher surrenders and partial withdrawals on interest-sensitive life insurance products and, to a lesser extent, increased withdrawals on Allstate Bank products. The surrender and partial withdrawal rate on deferred fixed annuities, interest-sensitive life insurance products and Allstate Bank products, based on the beginning of period contractholder funds, was 12.2% in 2008 compared to 13.3% in 2007.

Surrenders and partial withdrawals decreased 1.2% in 2007 compared to 2006. This decline was due to lower surrenders and partial withdrawals on interest-sensitive life insurance policies and the classification of the net change in variable annuity contractholder funds as "other adjustments" subsequent to the effective date of our reinsurance agreements with Prudential. These declines were partially offset by an 11.2% increase in surrenders and partial withdrawals on fixed annuities. The surrenders and partial withdrawals line in the table above, for 2006 includes $120 million related to the reinsured variable annuity business. The surrender and partial withdrawal rate on deferred fixed annuities, interest-sensitive life insurance products and Allstate Bank products, based on the beginning of period contractholder funds, was 13.3% in 2007 compared to 13.9% in 2006. The improvement in the surrender and partial withdrawal rate in 2007 compared to 2006 was primarily due to a block of corporate owned life insurance policies that terminated in 2006 due to the bankruptcy of the policyholder.

Net investment income decreased 11.3% in 2008 compared to 2007 and increased 3.0% in 2007 compared to 2006. The decline in 2008 was primarily due to lower investment yields on floating rate securities, increased short-term investment balances reflecting liquidity management activities, lower average investment balances and lower income from limited partnership interests. The increase in 2007 was primarily due to higher average portfolio balances, increased portfolio yields and higher income from limited partnership interests.

Net realized capital gains and losses are reflected in the following table for the years ended December 31.

($ in millions)	**2008**	**2007**	**2006**
Sales[1]	$ 178	$ 75	$ (27)
Impairment write-downs[2]	(1,256)	(118)	(21)
Change in intent write-downs[1][3]	(1,247)	(93)	(60)
Valuation of derivative instruments	(985)	(63)	(17)
EMA LP income[4]	(14)		
Settlements of derivative instruments	197	6	48
Realized capital gains and losses, pre-tax	(3,127)	(193)	(77)
Income tax benefit	1,093	68	27
Realized capital gains and losses, after-tax	$ (2,034)	$ (125)	$ (50)

(1) To conform to the current period presentation, certain amounts in the prior periods have been reclassified.

(2) Impairment write-downs reflect issue specific other than temporary declines in fair value, including instances where we could not reasonably assert that the recovery period would be temporary.

(3) Change in intent write-downs reflect instances where we cannot assert a positive intent to hold until recovery.

(4) Beginning in the fourth quarter of 2008, income from EMA LP is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income.

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

Analysis of Costs and Expenses Total costs and expenses decreased 0.9% or $48 million in 2008 compared to 2007 due to lower interest credited to contractholder funds, partially offset by higher amortization of DAC, contract benefits and operating costs and expenses. Total costs and expenses in 2007 were consistent with 2006 as increased interest credited to contractholder funds and life and annuity contract benefits were offset by lower amortization of DAC, operating costs and expenses, and restructuring and related charges.

Life and annuity contract benefits increased 1.5% or $23 million in 2008 compared to 2007 due primarily to higher contract benefits on life insurance products, partially offset by lower contract benefits on annuities. The increase in contract benefits on life insurance products was primarily due to unfavorable mortality experience, partially offset by the recognition in the prior year period of litigation related costs in the form of additional policy benefits. The decline in contract benefits on annuities was due to the impact of lower sales of immediate annuities with life contingencies, partially offset by unfavorable mortality experience.

Life and annuity contract benefits increased 1.2% or $19 million in 2007 compared to 2006 due to increased contract benefits on life insurance products, partially offset by lower contract benefits on annuities. Increased contract benefits on life insurance products in 2007 were primarily due to unfavorable mortality experience, litigation related costs recognized in 2007 in the form of additional policy benefits on certain universal life policies written prior to 1992, and higher contract benefits associated with the Workplace Division. The decline in contract benefits on annuities was mostly attributable to favorable mortality experience on immediate annuities with life contingencies and the absence in 2007 of contract benefits on the reinsured variable annuity business, partially offset by an increase in the implied interest on immediate annuities with life contingencies.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $552 million, $547 million and $539 million in 2008, 2007 and 2006, respectively. The benefit spread by product group is disclosed in the following table.

($ in millions)	**2008**	**2007**	**2006**
Life insurance	$ 540	$ 515	$ 549
Annuities	(62)	(35)	(43)
Total benefit spread	$ 478	$ 480	$ 506

Interest credited to contractholder funds decreased 10.1% or $270 million in 2008 compared to 2007 and increased 2.8% or $72 million in 2007 compared to 2006. The decrease in 2008 compared to 2007 was due primarily to a decline in average contractholder funds, decreased weighted average interest crediting rates on institutional products resulting from a decline in market interest rates on floating rate obligations, and a favorable change in amortization of DSI relating to realized capital gains and losses, partially offset by the acceleration of amortization of DSI due to changes in assumptions. The acceleration of amortization of DSI due to changes in assumptions increased interest credited to contractholder funds by $70 million in 2008 compared to amortization deceleration which decreased interest credited to contractholder funds by $5 million in 2007.

The increase in interest credited to contractholder funds in 2007 compared to 2006 was due primarily to growth in average contractholder funds and, to a lesser extent, higher weighted average interest crediting rates on institutional products, which are detailed in the table of investment yields, crediting rates and investment spreads by product below. The increase was partially offset by the impact of the reinsured variable annuity business. Excluding the impact of the reinsured variable annuity business, interest credited to contractholder funds increased 3.7% in 2007 compared to 2006.

In order to analyze the impact of net investment income and interest credited to contractholders on net income, we monitor the difference between net investment income and the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of life and annuity contract benefits on the Consolidated Statements of Operations ("investment spread").

The investment spread by product group is shown in the following table.

($ in millions)	**2008**	**2007**	**2006**
Annuities	$ 389	$ 505	$ 481
Life insurance	60	63	60
Institutional products	71	87	88
Bank	22	18	16
Net investment income on investments supporting capital	306	396	380
Total investment spread	$ 848	$ 1,069	$ 1,025

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads for 2008, 2007 and 2006.

	Weighted average investment yield			**Weighted average interest crediting rate**			**Weighted average investment spreads**		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Interest-sensitive life insurance	6.0%	6.2%	6.2%	4.6%	4.6%	4.7%	1.4%	1.6%	1.5%
Deferred fixed annuities	5.5	5.8	5.7	3.7	3.7	3.7	1.8	2.1	2.0
Immediate fixed annuities with and without life contingencies	6.8	7.1	7.2	6.5	6.5	6.6	0.3	0.6	0.6
Institutional products	4.2	6.1	6.0	3.5	5.2	5.0	0.7	0.9	1.0
Investments supporting capital, traditional life and other products	5.3	6.1	5.7	N/A	N/A	N/A	N/A	N/A	N/A

The following table summarizes our product liabilities as of December 31 and indicates the account value of those contracts and policies in which an investment spread is generated.

($ in millions)	**2008**	**2007**	**2006**
Immediate fixed annuities with life contingencies	$ 8,355	$ 8,294	$ 8,144
Other life contingent contracts and other	4,526	4,918	4,642
Reserve for life-contingent contract benefits	$12,881	$13,212	$12,786
Interest-sensitive life insurance	$ 9,957	$ 9,539	$ 9,050
Deferred fixed annuities	33,766	34,214	35,533
Immediate fixed annuities without life contingencies	3,894	3,921	3,783
Institutional products	8,974	12,983	12,467
Allstate Bank	949	832	773
Market value adjustments related to fair value hedges and other	873	486	425
Contractholder funds	$58,413	$61,975	$62,031

Amortization of DAC increased 20.8% in 2008 compared to 2007 and decreased 6.9% in 2007 compared to 2006. The components of amortization of DAC are summarized in the following table.

($ in millions)	**2008**	**2007**	**2006**
Amortization of DAC before amortization relating to realized capital gains and losses, changes in assumptions and premium deficiency(1)	$(556)	$(614)	$(674)
Accretion relating to realized capital gains and losses(2)	515	17	50
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking")	(327)	14	(2)
Amortization charge relating to premium deficiency	(336)		
Total amortization of DAC(3)	$(704)	$(583)	$(626)

(1) Amortization of DAC before accretion relating to realized capital gains and losses and changes in assumptions for 2006 includes $(72) million relating to the reinsured variable annuity business.

(2) Amortization relating to realized capital gains and losses for 2006 includes $28 million relating to the reinsured variable annuity business.

(3) Total amortization of DAC for 2006 includes $44 million relating to the reinsured variable annuity business.

The increase of $121 million in 2008 was due primarily to amortization acceleration relating to changes in assumptions and additional amortization recorded in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies, partially offset by higher accretion of DAC relating to net realized capital losses. The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

In 2008, DAC amortization acceleration for changes in assumptions, recorded in connection with comprehensive reviews of the DAC balances and assumptions for interest-sensitive life insurance, annuities and other investment contracts, resulted in an increase to amortization of DAC of $327 million. The evaluations covered assumptions for investment returns, including capital gains and losses, interest crediting rates to policyholders, the effect of any hedges, persistency, mortality and expenses in all product lines. The principle assumption impacting the amortization acceleration in 2008 was the level of realized capital losses impacting actual gross profits in 2008 and the impact of realized capital losses on EGP in 2009. During the fourth quarter of 2008, our assumptions for EGP were impacted by a view of further anticipated impairments in our investment portfolio. In 2007, DAC amortization deceleration for changes in assumptions (credit to income) was $14 million.

During 2008, indicators emerged that suggested a study of mortality experience for our immediate annuities with life contingences was warranted. At the same time, the underlying profitability of the traditional life business deteriorated due to lower investment returns and growth. For traditional life insurance and immediate annuities with life contingencies, an aggregate premium deficiency of $336 million, pre-tax, resulted primarily from the experience study indicating that the annuitants on certain life contingent contracts are projected to live longer than we anticipated when the contracts were issued and, to a lesser degree, a reduction in the related investment portfolio yield. The deficiency was recorded through a reduction in DAC. There was no similar charge to income recorded in 2007 or 2006.

The decrease in amortization of DAC in 2007 compared to 2006 was due to the absence in 2007 of amortization on the reinsured variable annuity business. Excluding amortization relating to the reinsured variable annuity business, amortization of DAC in 2007 was consistent with 2006 as increased amortization related to higher gross profits on fixed annuities and a decline in the credit to income for amortization relating to realized capital gains and losses were partially offset by lower amortization related to interest-sensitive life insurance contracts and a favorable impact relating to DAC unlocking. The decline in amortization related to interest-sensitive life insurance contracts was the result of a write-down in 2006 totaling $27 million for the present value of future profits related to a block of corporate owned life insurance policies that terminated due to the bankruptcy of the policyholder.

The changes in the DAC asset are detailed in the following tables.

($ in millions)	Beginning balance December 31, 2007	Acquisition costs deferred	Amortization before adjustments(1)(2)	Accretion relating to realized capital gains and losses(2)	Amortization (acceleration) deceleration (charged) credited to income(2)(3)	Effect of unrealized capital gains and losses(4)	Ending balance December 31, 2008
Traditional life and other	$ 882	$ 160	$ (111)	$	$ (336)	$	$ 595
Interest-sensitive life	1,911	304	(178)	141	(75)	346	2,449
Fixed annuities	1,489	212	(258)	374	(252)	2,472	4,037
Variable annuities	2		(2)				
Other	7	8	(7)				8
Total	$ 4,291	$ 684	$ (556)	$ 515	$ (663)	$ 2,818	$ 7,089

($ in millions)	Beginning balance December 31, 2006	Impact of adoption of SOP 05-1(5)	Acquisition costs deferred	Amortization before adjustments(1)(2)	Accretion relating to realized capital gains and losses(2)	Amortization (acceleration) deceleration (charged) credited to income(2)	Effect of unrealized capital gains and losses(4)	Ending balance December 31, 2007
Traditional life and other	$ 841	$	$ 149	$ (108)	$	$	$	$ 882
Interest-sensitive life	1,774		264	(187)	12	18	30	1,911
Fixed annuities	1,219	(11)	220	(312)	5	(4)	372	1,489
Variable annuities	4			(2)				2
Other	10		2	(5)				7
Total	$ 3,848	$ (11)	$ 635	$ (614)	$ 17	$ 14	$ 402	$ 4,291

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(1) Amortization before adjustments reflects total DAC amortization before accretion relating to realized capital gains and losses and amortization (acceleration) deceleration (charged) credited to income.

(2)

Included as a component of amortization of DAC on the Consolidated Statements of Operations.

(3)

The $(336) million in the traditional life and other line was recorded in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies and was primarily due to revised annuity mortality assumptions.

(4)

The effect of unrealized capital gains and losses represents the amount by which the amortization of DAC would increase or decrease if the unrealized capital gains and losses in the respective product portfolios were realized. Recapitalization of DAC is limited to the originally deferred policy acquisition costs plus interest.

(5)

The adoption of Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"), resulted in an adjustment to unamortized DAC related to the impact on future estimated gross profits from the changes in accounting for certain costs associated with contract continuations that no longer qualify for deferral under SOP 05-1. The adjustment was recorded as a $7 million reduction of retained income at January 1, 2007 and a reduction of the DAC balance of $11 million, pre-tax.

Operating costs and expenses increased 17.9% in 2008 compared to 2007 and decreased 5.8% in 2007 compared to 2006. The following table summarizes operating costs and expenses.

(in millions)	2008	2007	2006
Non-deferrable acquisition costs	$153	$167	$175
Other operating costs and expenses	367	274	293
Total operating costs and expenses	$520	$441	$468
Restructuring and related charges	$ 1	$ 2	$ 24

Non-deferrable acquisition costs decreased 8.4% or $14 million in 2008 compared to 2007 primarily due to lower non-deferrable commissions. Other operating costs and expenses increased 33.9% or $93 million in 2008 compared to 2007 due primarily to increased spending on consumer research, product development, marketing and technology related to the effort to reinvent protection and retirement for consumers as well as increases in the net cost of benefits due to unfavorable investment results. In addition, the prior years benefitted to a greater degree from a servicing fee paid by Prudential for our servicing of the variable annuity business that we ceded to them during a transition period beginning in 2006 which ended in May 2008.

Non-deferrable acquisition costs and other operating costs and expenses declined in 2007 compared to 2006 due to expenses in 2006 related to the reinsured variable annuity business. Non-deferrable acquisition costs and other operating costs and expenses for 2006 included $19 million and $24 million, respectively, related to the reinsured variable annuity business for the period of 2006 prior to the effective date of the reinsurance agreement. Excluding expenses associated with the impact of the reinsured variable annuity business in the period of 2006 prior to the effective date of the reinsurance agreement, non-deferrable acquisition expenses increased 7.1% in 2007 compared to 2006 due to higher non-deferrable commissions on certain Workplace Division products and other operating costs and expenses increased 1.9% due to higher investment in technology.

Loss on disposition of operations for 2008, 2007 and 2006 totaled $6 million, $10 million and $92 million, respectively. In both 2008 and 2007, the net loss was primarily comprised of losses associated with the previously anticipated disposition of our direct response long-term care business, partially offset by amortization of the deferred reinsurance gain associated with our reinsured variable annuity business. The net loss in 2006 was almost entirely attributable to the reinsured variable annuity business.

Income tax benefit of $954 million was recognized for 2008 compared to income tax expense of $199 million in 2007. The change reflects the shift from net pre-tax income in 2007 to a net pre-tax loss in 2008. Income tax expense decreased by 3.9% or $8 million in 2007 compared to 2006 due to lower income from operations before income tax expense and an energy tax credit that reduced income tax expense.

Reinsurance Ceded We enter into reinsurance agreements with unaffiliated reinsurers to limit our risk of mortality and morbidity losses. In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

As of December 31, 2008 and 2007, 47% and 48%, respectively, of our face amount of life insurance in force was reinsured. As of December 31, 2008 and 2007, for certain term life insurance policies, we ceded up to 90% of the mortality risk depending on the year of policy issuance. Additionally, we ceded substantially all of the risk associated with our variable annuity business and we cede 100% of the morbidity risk on substantially all of our long-term care contracts. Beginning in July 2007, for new life insurance contracts, we ceded the mortality risk associated with coverage in excess of $3 million per life for contracts issued to individuals age 70 and over, and we ceded the mortality risk associated with coverage in excess of $5 million per life for most other contracts. Also beginning in July 2007, for certain large contracts that meet specific criteria, our retention limit was increased to $10 million per life. In the period prior to July 2007, but subsequent to August 1998, we ceded the mortality risk associated with coverage in excess of $2 million per life, except in 2006 for certain instances when specific criteria were met, we ceded the mortality risk associated with coverage in excess of $5 million per life. For business sold prior to October 1998, we ceded mortality risk in excess of specific amounts up to $1 million per individual life.

Amounts recoverable from reinsurers by type of policy or contract at December 31, are summarized in the following table.

($ in millions)	Reinsurance recoverable on paid and unpaid benefits 2008	2007
Annuities[1]	$1,734	$1,423
Life insurance	1,475	1,373
Long-term care	746	619
Other	96	97
Total Allstate Financial	$4,051	$3,512

(1) Reinsurance recoverables as of December 31, 2008 and 2007 include $1.57 billion and $1.26 billion, respectively, for general account reserves related to reinsured variable annuities.

The estimation of reinsurance recoverables is impacted by the uncertainties involved in the establishment of reserves.

Our reinsurance recoverables, summarized by reinsurer as of December 31, are shown in the following table.

($ in millions)	S&P Financial Strength Rating	Reinsurance recoverable on paid and unpaid benefits 2008	2007
Prudential Insurance Company of America	AA	$ 1,569	$ 1,261
Employers Reassurance Corporation	A+	644	541
RGA Reinsurance Company	AA-	342	327
Transamerica Life Group	AA	341	288
Swiss Re Life and Health America, Inc.	AA-	192	173
Paul Revere Life Insurance Company	A-	151	147
Scottish Re Group[1]	CCC+	135	111
Munich American Reassurance	AA-	113	103
Mutual of Omaha Insurance	AA-	100	80
Security Life of Denver	AA	86	86
Manulife Insurance Company	AAA	74	78
Triton Insurance Company	NR	66	73
Lincoln National Life Insurance	AA	63	63
American Health & Life Insurance Co.	NR	53	57
Other[2]		122	124
Total		$ 4,051	$ 3,512

(1) The reinsurance recoverable on paid and unpaid benefits related to the Scottish Re Group of $135 million as of December 31, 2008 is comprised of $73 million related to Scottish Re Life Corporation and $62 million related to Scottish Re (U.S.), Inc.

(2) As of December 31, 2008 and 2007, the other category includes $100 million and $84 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from S&P.

During 2008, the financial strength rating of the Scottish Re Group was downgraded by S&P to CCC+ from BB+ as of December 31, 2007 due to the deterioration of the Scottish Re Group's financial position and liquidity. The Scottish Re Group's financial strength rating was further downgraded by S&P in January 2009 to CCC. The financial strength ratings of the other of Allstate Financial's reinsurers remain stable.

Although a significant impact has not been observed, the unprecedented deterioration in the global financial markets in 2008 could impact the financial condition of reinsurers in a variety of ways, including the decline in value of assets held as capital resources or to meet technical provisions, increases in risk-based economic or regulatory capital requirements and shortage of available capital in the event that recapitalization is required following a major claim. We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2008.

We enter into certain inter-company reinsurance transactions for the Allstate Financial operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant inter-company transactions have been eliminated in consolidation.

Allstate Financial Outlook

- We will continue to focus on improving returns and reducing our concentration in spread based products, primarily fixed annuities and institutional markets products, resulting in lower premiums and deposits and reductions in net contractholder obligations.

- We plan to improve efficiency and narrow the focus of product offerings to better serve the needs of everyday Americans. We are targeting savings at 20% of certain operating expenses, excluding acquisition costs, and expect to yield estimated annual savings of $90 million beginning in 2011. We anticipate a reduction of approximately 1,000 workforce positions, through a combination of attrition and position elimination over the next two years.

- Maintaining high liquidity in our investment portfolio will result in lower net investment income but will ensure our ability to meet contractholder obligations. We will target sales of our spread based products at levels that allow us to avoid sales of investments with significant unrealized losses into distressed or illiquid markets.

- We expect continued investment spread compression due to credit losses, reduced contractholder funds and maintenance of liquidity.

INVESTMENTS

Overview and Strategy An important component of our financial results is the return on our investment portfolios. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. While taking into consideration the investment portfolio in aggregate, we manage the underlying portfolios based upon the nature of each respective business and its corresponding liability structure.

The global economy is under significant stress and financial markets continue to experience extreme levels of volatility. Our strategy in 2009 will focus primarily upon mitigating the risks from a potential increase in risk-free interest rates, reducing exposure to certain investment sectors, and maintaining sufficient liquidity and capital. In order to achieve this, we expect to use a combination of reinvestment of the portfolio's significant cash flows, derivatives and other portfolio actions.

The Property-Liability portfolio's investment strategy emphasizes safety of principal and consistent income generation, within a total return framework. This approach, which has produced competitive returns over the long term, is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. We employ a strategic asset allocation approach, which uses models that consider the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which we invest. The recommended asset allocation is informed by our economic and market outlook, as well as other inputs and constraints, including duration, liquidity and capital considerations.

The Allstate Financial portfolio's investment strategy focuses on the total return of assets needed to support the underlying liabilities to achieve return on capital and profitable growth. The portfolio management process begins with a strategic asset allocation model which considers the nature and risk tolerances of the liabilities and risk tolerances, as well as the risk and return parameters, of the various asset classes in which we invest. This approach is informed by our economic and market outlook, as well as other inputs and constraints including duration, liquidity and capital preservation. Within the ranges set by the strategic asset allocation model, tactical investment decisions are made in consideration of prevailing market conditions.

The Corporate and Other portfolio's investment strategy balances the pursuit of competitive returns with the unique liquidity needs of the portfolio relative to the overall corporate capital structure. The portfolio is primarily invested in high quality, liquid fixed income and short-term securities with additional investments in less liquid holdings in order to enhance overall returns.

As a result of decisions in managing each of the portfolios, we may sell securities during a period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. For more information, see the Net Realized Capital Gains and Losses section of the MD&A.

During 2008, we developed risk mitigation and return optimization programs as our outlook on the economy changed significantly as conditions deteriorated throughout the year. The risk mitigation and return optimization programs augment earlier actions to reduce investments in real estate and other market sectors as well as to mitigate exposures to risk-free interest rate spikes. At the end of the second quarter of 2008, we had an outlook for continued weakness in the global financial markets and economy including continued volatility in the financial markets, reduced liquidity in certain asset classes and unfavorable economic trends. During the third quarter of 2008, we significantly modified our outlook to a more severe and prolonged downturn. We continue to expect extreme levels of volatility in the financial markets, suppressed liquidity in certain asset classes and further unfavorable global economic conditions. In addition, the potential for market supply and demand imbalances has remained above normal due to the deteriorating credit strength of financial institutions and eroding investor confidence.

Among our risk mitigation and return optimization activities, we have taken the following actions:

- Developed and maintained a tactical positioning in liquid assets and assets that we can sell without generating significant additional realized capital losses.

- Continued to reduce exposure in assets other than those for which we have asserted an intent to hold until recovery where we have credit concerns or where there has been a significant change in facts and circumstances.

- Decreased exposure to financial-related market sectors to $7.69 billion as of December 31, 2008 from $14.45 billion as of December 31, 2007, primarily as a result of targeted sales and declines in fair value. Also reduced our short-term investing in financial institutions.

- Decreased exposure to residential and commercial real estate market sectors to $22.00 billion as of December 31, 2008 from $31.54 billion as of December 31, 2007 as a result of targeted sales, principal payments and declines in fair value.

- Reduced overall counterparty exposure replacing over-the-counter ("OTC") derivatives transactions used as stock market hedges with exchange-traded instruments where available.

- In the second half of 2008, we sold $1.67 billion of government securities and recognized realized capital gains of $241 million.

- Generated losses as part of tax planning strategy primarily within our equity portfolios that are effectively carried on a lower of cost or fair value basis to realize capital loss carryback benefits.

Investments for which we had changed our intent to hold to recovery as of June 30, 2008 totaled $6.39 billion and included $3.31 billion as part of the risk mitigation and return optimization programs, $2.39 billion of securities as part of our enterprise-wide asset allocation program and $688 million related to individual securities. A risk mitigation and return optimization program, approved as of the end of the second quarter of 2008, was designed to reduce our exposure to residential and commercial real estate and the financial-related market sector by approximately $4 billion of amortized cost, prior to change in intent write-downs. A comprehensive review identified specific investments that could be significantly impacted by continued deterioration in the economy that may be sold. This included a portion of our residential and commercial real estate securities including securities collateralized by residential and commercial mortgage loans, mortgage loans and securities issued by financial institutions.

During the third and fourth quarters of 2008, we sold $2.94 billion of these securities. On October 1, 2008, it was determined that, due to the financial markets experiencing additional severe deterioration and disruptions, we would be unable to sell certain of the investments identified as part of the programs at a value equal to or greater than our view of their intrinsic values. Approximately $2.59 billion of these investments were re-designated as intent to hold to recovery. Investments for which we had changed our intent to hold to recovery totaled $996 million as of December 31, 2008. For a more detailed discussion on securities written down due to a change in intent, see the Net Realized Capital Gains and Losses section of the MD&A.

As part of the risk mitigation and return optimization programs, hedges were implemented to mitigate portfolio interest rate risk, credit spread risk, and equity market valuation declines. The equity hedge was designed to protect the equity portfolio from significant equity market valuation declines below targeted levels. The strategy employed equity indexed options which generated realized gains in the third and fourth quarters of 2008. At December 31, 2008, we had $2.32 billion of notional protection with an average strike price that was 11% below equity market levels. The interest rate component was put in place to protect a certain portion of fixed income securities if interest rates increase above a targeted maximum level. Interest rate spike protection for our fixed income portfolio in the amount of $18.50 billion of notional principal protection was in place at December 31, 2008. Of this total, $14.50 billion was executed in early 2008 and $4.00 billion executed in December 2008. The $14.50 billion of protection was initially struck at 150 basis points out of the money, but, due to declining interest rates, at December 31, 2008 is struck over 300 basis points out of the money. The $4.00 billion of protection executed in December was initially struck at approximately 100 basis points out of the money. Other aspects of the hedging program have been designed to mitigate municipal bond interest rate risk and credit spread risk. The effectiveness of these hedges may be reduced due to the basis risk associated with these strategies.

We continue to monitor the progress of these actions as market and economic conditions develop and will adapt our strategies as appropriate. Our continuing focus is to manage our risks and to position our portfolio to take advantage of market opportunities while attempting to mitigate further adverse effects.

Investments outlook

Continuing risk mitigation efforts will focus on shortening duration of the fixed income portfolio, reducing exposures to real estate and certain other market sectors, and managing excess market volatility through our macro hedging programs.

Net investment income will decline due to lower asset balances and yields, and the costs of maintaining high liquidity and the risk mitigation programs.

Our portfolio continues to generate significant cash flow from maturities, principal and interest receipts which will be available to manage liabilities and take advantage of market opportunities.

Portfolio Composition The composition of the investment portfolios at December 31, 2008 is presented in the table below. Also see Notes 2 and 5 of the consolidated financial statements for investment accounting policies and additional information.

($ in millions)	Property-Liability	Percent to total	Allstate Financial(5)	Percent to total	Corporate and Other(5)	Percent to total	Total	Percent to total
Fixed income securities(1)	$ 24,094	78.1%	$ 43,725	71.1%	$ 789	21.6%	$ 68,608	71.5%
Equity securities(2)	2,723	8.8	82	0.1			2,805	2.9
Mortgage loans	104	0.4	10,125	16.5			10,229	10.7
Limited partnership interests(3)	1,552	5.0	1,191	1.9	48	1.3	2,791	2.9
Short-term(4)	2,152	7.0	3,930	6.4	2,824	77.1	8,906	9.3
Other	212	0.7	2,446	4.0	1		2,659	2.7
Total	$ 30,837	100.0%	$ 61,499	100.0%	$ 3,662	100.0%	$ 95,998	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $25.83 billion, $50.52 billion and $751 million for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was $3.03 billion and $107 million for Property-Liability and Allstate Financial, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling $805 million, $1.08 billion and $8 million for Property-Liability, Allstate Financial and Corporate and Other, respectively, at December 31, 2008.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $2.15 billion, $3.93 billion and $2.82 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively, at December 31, 2008.

(5) Balances reflect the elimination of related party investments between Property-Liability and Allstate Financial and Allstate Financial and Corporate and Other.

Total investments decreased to $96.00 billion at December 31, 2008, from $118.98 billion at December 31, 2007, due primarily to a $10.73 billion increase in unrealized net capital losses and net reductions in both contractholder obligations of $5.50 billion and securities lending balances of $2.98 billion.

The Property-Liability investment portfolio decreased to $30.84 billion at December 31, 2008, from $40.91 billion at December 31, 2007, due to unrealized net capital losses, dividends paid by AIC to the Corporation and capital contributions from AIC to ALIC, lower funds associated with collateral received in conjunction with securities lending and net realized capital losses.

The Allstate Financial investment portfolio decreased to $61.50 billion at December 31, 2008, from $74.25 billion at December 31, 2007, due to unrealized net capital losses, net reductions in contractholder funds, net realized capital losses, and lower funds associated with collateral received in conjunction with securities lending, partially offset by capital contributions from AIC.

The Corporate and Other investment portfolio decreased to $3.66 billion at December 31, 2008, from $3.82 billion at December 31, 2007, primarily due to cash flows used in financing activities and a $1.00 billion capital contribution to AIC.

Total investments at amortized cost related to collateral received in connection with securities lending business activities and collateral posted by counterparties related to derivative transactions decreased to $340 million at December 31, 2008, from $3.46 billion at December 31, 2007. As of December 31, 2008, these investments are included as a component of short-term investments. At December 31, 2007, these investments were carried at fair value and $2.85 billion were classified in fixed income securities and $549 million were classified in short-term investments.

Securities lending activities are primarily used as an investment yield enhancement, and are conducted with third parties such as brokerage firms. We obtain collateral, typically in the form of cash, in an amount generally equal to 102% to 105% of the fair value of domestic and foreign securities, respectively, and monitor the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. The cash we receive is invested in short-term and fixed income investments, and an offsetting liability to return the collateral is recorded in other liabilities and accrued expenses.

We obtain fair values of our fixed income and equity securities and exchange traded and non-exchange traded derivative contracts from several sources and methods. For a discussion of these sources and methods, see the Application of Critical Accounting Estimates section of the MD&A.

We may utilize derivative financial instruments to help manage the exposure to interest rate risk, and to a lesser extent currency and credit risks, from the fixed income securities portfolio as well as exposure to equity price risk from the equity securities portfolio. For a more detailed discussion of interest rate, currency, credit and equity price risks and our use of derivative financial instruments, see the Net realized capital gains and losses and Market Risk sections of the MD&A and Note 6 of the consolidated financial statements.

Fixed income securities See Note 5 of the consolidated financial statements for a table showing the amortized cost, unrealized gains, unrealized losses and fair value for each type of fixed income security for the years ended December 31, 2008 and 2007.

The following table shows fixed income securities by type.

($ in millions)	Fair value at December 31, 2008	% to Total Investments	Fair value at December 31, 2007	% to Total Investments
U.S. government and agencies	$ 4,234	4.4%	$ 4,421	3.7%
Municipal	21,848	22.8	25,307	21.3
Corporate	27,627	28.8	38,467	32.3
Foreign government	2,675	2.8	2,936	2.5
Mortgage-backed securities ("MBS")	4,492	4.7	6,959	5.8
CMBS	3,846	4.0	7,617	6.4
ABS	3,860	4.0	8,679	7.3
Redeemable preferred stock	26		65	0.1
Total fixed income securities	$ 68,608	71.5%	$ 94,451	79.4%

At December 31, 2008, 95.2% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating from the NAIC of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P's, Fitch or Dominion or a rating of aaa, aa, a, or bbb from

A.M. Best; or a comparable internal rating if an externally provided rating is not available. The following table summarizes the credit quality of the fixed income securities portfolio at December 31, 2008.

(in millions)		Property-Liability		Allstate Financial		Corporate and Other		Total	
NAIC Rating	Moody's Equivalent	Fair Value	Percent to total	Fair Value	Percent to total	Fair Value	Percent to total	Fair Value	Percent to total
1	Aaa/Aa/A	$ 18,818	78.1%	$ 29,286	67.0%	$ 762	96.6%	$ 48,866	71.2%
2	Baa	3,747	15.6	12,690	29.0	21	2.6	16,458	24.0
	Investment grade	22,565	93.7	41,976	96.0	783	99.2	65,324	95.2
3	Ba	687	2.8	1,275	2.9			1,962	2.9
4	B	496	2.1	317	0.7	3	0.4	816	1.2
5	Caa or lower	301	1.2	131	0.3	3	0.4	435	0.6
6	In or near default	45	0.2	26	0.1			71	0.1
	Below investment grade	1,529	6.3	1,749	4.0	6	0.8	3,284	4.8
	Total	$ 24,094	100.0%	$ 43,725	100.0%	$ 789	100.0%	$ 68,608	100.0%

The table above includes 67 securities with a fair value totaling $317 million that have not yet received an NAIC rating, for which we have assigned a comparable internal rating. Due to lags between the funding of an investment, execution of final legal documents, filing with the Securities Valuation Office ("SVO") of the NAIC, and rating by the SVO, we generally have a small number of securities that have a pending NAIC rating.

Municipal Bonds, including tax-exempt and taxable securities, totaled $21.85 billion at December 31, 2008. The following table summarizes the municipal bond portfolio by Moody's equivalent rating as of December 31, 2008.

	Tax exempt				
(in millions)	Par value	Amortized cost	Fair value	Unrealized gain/loss	Fair value as a percent of amortized cost
Non-zero-coupon:					
Rating(2)					
Aaa	$ 1,456	$ 1,451	$ 1,493	$ 42	102.9%
Aa	5,894	5,902	5,779	(123)	97.9
A	4,918	4,928	4,727	(201)	95.9
Baa	3,827	3,766	3,417	(349)	90.7
Ba or lower	977	930	698	(232)	75.1
Total	17,072	16,977	16,114	(863)	94.9
Zero-coupon:					
Rating(2)					
Aaa	1,050	358	369	11	103.1
Aa	642	328	337	9	102.7
A	538	227	223	(4)	98.2
Baa	1,883	375	311	(64)	82.9
Total	4,113	1,288	1,240	(48)	96.3
Total tax exempt	$ 21,185	$ 18,265	$ 17,354	$ (911)	95.0

	Taxable				
(in millions)	**Par value**	**Amortized cost**	**Fair value**	**Unrealized gain/loss**	**Fair value as a percent of amortized cost**
Non-zero-coupon:					
Rating[2]					
Aaa	$ 42	$ 45	$ 52	$ 7	115.6%
Aa	746	744	684	(60)	91.9
A	553	553	529	(24)	95.7
Baa	486	488	438	(50)	89.8
Ba or lower	178	177	146	(31)	82.5
Total	2,005	2,007	1,849	(158)	92.1

	Taxable				
(in millions)	Par value	Amortized cost	Fair value	Unrealized gain/loss	Fair value as a percent of amortized cost
Zero-coupon:					
Rating[2]					
Aaa	147	42	39	(3)	92.9
Aa	1,014	440	308	(132)	70.0
A	771	331	228	(103)	68.9
Baa	3,610	573	337	(236)	58.8
Total	5,542	1,386	912	(474)	65.8
Total taxable	$ 7,547	$ 3,393	$ 2,761	$ (632)	81.4

	Total				
(in millions)	Par value	Amortized cost	Fair value	Unrealized gain/loss	Fair value as a percent of amortized cost
Rating[2]					
Aaa	$ 4,455	$ 3,655	$ 3,552	$ (103)	97.2%
Aa	8,373	7,491	7,181	(310)	95.9
A	6,850	6,109	5,769	(340)	94.4
Baa	9,807	5,202	4,501	(701)	86.5
Ba or lower	1,155	1,108	845	(263)	76.3
Total[1]	$ 30,640	$ 23,565	$ 21,848	$ (1,717)	92.7

(1) Includes ARS securities with par value of $1.91 billion, amortized cost of $1.91 billion, fair value of $1.73 billion and unrealized gains/losses of $(176) million.

(2) Moody's equivalent rating will not necessarily tie to ratings distributions from the NAIC due to potential timing differences between the various rating suppliers and the number of external rating agencies used in the determination.

The unrealized net capital loss of $1.72 billion at December 31, 2008 in our municipal bond portfolio was mainly caused by widening credit spreads that affected three main areas in this portfolio: tax exempt A and Baa rated holdings contributing $550 million of the unrealized losses and taxable zero-coupon holdings contributing $474 million of the unrealized losses, but particularly our less liquid zero-coupon and longer dated securities; high yield municipal bond portfolio contributing $263 million of the unrealized losses; and student loan ARS contributing $176 million of the unrealized losses.

Included in our municipal bond portfolio at December 31, 2008 are $1.73 billion of ARS that have long-term stated maturities, with the interest rate reset based on auctions that generally occur every 7, 28 or 35 days depending on the specific security. This is compared to a balance of ARS at December 31, 2007 of $2.56 billion, with the decline primarily representing redemptions from calls or refunding proceeds since December 31, 2007. Our holdings primarily have a Moody's equivalent rating of Aaa. Approximately $1.69 billion of our holdings are pools of student loans for which at least 85% of the collateral was insured by the U.S. Department of Education at the time we purchased the security. As of December 31, 2008, $1.11 billion of our ARS backed by student loans was 100% insured by the U.S. Department of Education, $335 million was 90% to 99% insured and $165 million was 80% to 89% insured. All of our student loan ARS holdings are experiencing failed auctions and we receive the failed auction rate or, for those which contain maximum reset rate formulas, we received the contractual maximum rate. We anticipate that failed auctions may persist and most of our holdings will continue to pay the failed auction rate or, for those that contain maximum rate reset formulas, the maximum rate, as described below. Auctions continue to be conducted as scheduled for each of the securities.

We estimate that approximately one third of our student loan backed ARS include maximum rate reset formulas with a look back feature whereby if the failed auction rate exceeds an annual contractual maximum rate over a preceding stipulated period, the coupon interest rate is temporarily reset to the maximum rate, which can vary between zero and the failed auction rate. This maximum rate formula causes the reset interest rate on these securities to be lower than the failed auction rate in order to reduce the annual interest rate so that it does not exceed the annual contractual maximum rate. Generally, the annual contractual maximum rate is higher than the historical rates paid on these securities. At December 31, 2008, interest on $118 million of our ARS has reset using the maximum rate reset formula.

Also included in our municipal bond holdings at December 31, 2008 are $949 million of municipal securities which are not rated by third party credit rating agencies, but are rated by the NAIC and also internally rated by us. These holdings mainly comprise the high yield portion of our overall municipal bond portfolio and provide the opportunity to achieve incremental returns and enhanced diversification of our overall investments portfolio. Our initial investment decisions and ongoing monitoring procedures for these securities are based on a thorough due diligence process that includes, among other things, an assessment of the credit, structure, and liquidity risks of the issue and issuer.

Corporate bonds totaled $27.63 billion at December 31, 2008. As of December 31, 2008, $13.01 billion, or 47.1% of the portfolio consisted of privately placed securities compared to $17.34 billion or 45.1% at December 31, 2007. Privately placed securities primarily consist of corporate issued senior debt securities that are in unregistered form and are directly negotiated with the borrower. All privately placed corporate securities are rated by the NAIC based on information provided to them and are also internally rated. Additionally, approximately 40.7% of the privately placed corporate securities in our portfolio are rated by an independent rating agency.

The following table summarizes the corporate fixed income portfolio by Moody's equivalent rating as of December 31, 2008.

($ in millions)	**Corporate-Public**					
	Non-hybrid		**Hybrid**		**Total**	
Rating[(1)]	**Fair value**	**Unrealized gain/loss**	**Fair value**	**Unrealized gain/loss**	**Fair value**	**Unrealized gain/loss**
Aaa	$ 255	$ (30)	$	$	$ 255	$ (30)
Aa	1,264	13	94	6	1,358	19
A	4,900	(159)	364	(186)	5,264	(345)
Baa	6,379	(671)	168	(167)	6,547	(838)
Ba or lower	1,178	(323)	16	(19)	1,194	(342)
Total	$ 13,976	$ (1,170)	$ 642	$ (366)	$ 14,618	$ (1,536)

($ in millions)	**Corporate-Private**					
	Non-hybrid		**Hybrid**		**Total**	
Rating[(1)]	**Fair value**	**Unrealized gain/loss**	**Fair value**	**Unrealized gain/loss**	**Fair value**	**Unrealized gain/loss**
Aaa	$ 542	$ 26	$	$	$ 542	$ 26
Aa	1,118	(38)	74	(28)	1,192	(66)
A	3,296	(190)	577	(449)	3,873	(639)
Baa	6,274	(774)	87	(99)	6,361	(873)
Ba or lower	1,023	(305)	18	(20)	1,041	(325)
Total	$ 12,253	$ (1,281)	$ 756	$ (596)	$ 13,009	$ (1,877)

($ in millions)	**Total Corporate**					
	Non-hybrid		**Hybrid**		**Total**	
Rating[(1)]	**Fair value**	**Unrealized gain/loss**	**Fair value**	**Unrealized gain/loss**	**Fair value**	**Unrealized gain/loss**
Aaa	$ 797	$ (4)	$	$	$ 797	$ (4)
Aa	2,382	(25)	168	(22)	2,550	(47)
A	8,196	(349)	941	(635)	9,137	(984)
Baa	12,653	(1,445)	255	(266)	12,908	(1,711)
Ba or lower	2,201	(628)	34	(39)	2,235	(667)
Total	$ 26,229	$ (2,451)	$ 1,398	$ (962)	$ 27,627	$ (3,413)

(1) Moody's equivalent rating will not necessarily tie to ratings distributions from the NAIC due to potential timing differences between the various rating suppliers and the number of external rating agencies used in the determination.

The unrealized net capital loss of $3.41 billion at December 31, 2008 is driven primarily by significantly widening credit spreads resulting from deteriorating macro economic conditions and continued credit market deterioration. Credit spread widening particularly affected our non-hybrid Baa and lower rated corporate bond holdings, contributing to approximately $2.07 billion of the unrealized net capital loss. The other significant driver of unrealized net capital losses in our corporate bond portfolio is from hybrid securities, contributing $962 million of the unrealized loss. While these securities are generally issued by highly rated financial institutions, they have structural features which make them more sensitive to credit market deterioration. Specifically, features allowing coupon deferral and the extension of call dates have severely impacted prices as the global financial system undergoes significant stress.

The following table shows additional details of our hybrid securities reported in corporate fixed income securities.

	United Kingdom		Europe (non-UK)		Asia/Australia		North America		Total	
($ in millions)	Fair value	Unrealized gain/loss	Fair value	Unrealized gain/loss	Fair value	Unrealized gain/loss	Fair value	Unrealized gain/loss	Fair value	Unrealized gain/loss
Tier 1:										
Public	$ 84	$ (64)	$ 74	$ (78)	$ 18	$ (8)	$ 248	$ (217)	$ 424	$ (367)
Private	65	(97)	233	(248)	168	(112)	127	(117)	593	(574)
	149	(161)	307	(326)	186	(120)	375	(334)	1,017	(941)
Tier 2:										
Public	63	(4)	113	10	32	(2)	10	(3)	218	1
Private	8	(3)	52	(6)	103	(13)			163	(22)
	71	(7)	165	4	135	(15)	10	(3)	381	(21)
Total hybrids										
Public	147	(68)	187	(68)	50	(10)	258	(220)	642	(366)
Private	73	(100)	285	(254)	271	(125)	127	(117)	756	(596)
Total	$ 220	$ (168)	$ 472	$ (322)	$ 321	$ (135)	$ 385	$ (337)	$ 1,398	$ (962)

Allstate's portfolio of privately placed securities are broadly diversified by issuer, industry sector, and by country. The portfolio is made up of approximately 620 issues with an average security value of approximately $21 million. Privately placed corporate obligations generally benefit from increased yields and structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made after extensive due diligence of the issuer, typically including direct discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue is internally rated with a formal rating affirmation approximately once a year.

Foreign government securities totaled $2.68 billion, with 95.7% rated investment grade, at December 31, 2008.

Certain collateralized securities are detailed in the following table by Moody's equivalent rating as of December 31, 2008.

($ in millions)	Fair value at December 31, 2008	% to Total investments	Aaa	Aa	A	Baa	Ba or lower
MBS							
U.S. Agency	$ 3,284	3.4%	100.0%				
Prime	621	0.7	89.5	6.0%	2.6%	1.9%	
Alt-A	582	0.6	75.9	5.1	0.9	2.1	16.0%
Other	5			100.0			
Total MBS	$ 4,492	4.7%					
CMBS							
CMBS	$ 3,819	4.0%	90.3	7.7	0.9	1.0	0.1
Commercial real estate collateralized debt obligations ("CRE CDO")	27			29.6	37.1	29.6	3.7
Total CMBS	$ 3,846	4.0%					
ABS							
ABS RMBS non-insured	$ 1,641	1.7%	45.8	29.4	10.2	6.7	7.9
ABS RMBS insured	426	0.4	0.9	13.8	1.9	49.8	33.6
Total ABS RMBS	2,067	2.1	36.5	26.2	8.5	15.5	13.3
Asset-backed collateralized debt obligations ("ABS CDO")	6						100.0
Total asset-backed securities collateralized by sub-prime residential mortgage loans	2,073	2.1					
Other collateralized debt obligations:							
Cash flow CLO	501	0.5	50.6	21.0	19.4	6.0	3.0
Synthetic CDO	47	0.1	6.4	34.0		46.8	12.8
Trust preferred CDO	74	0.1	2.7	75.6	14.9	4.1	2.7
Market value CDO	28			28.6	10.7	7.1	53.6
Project finance CDO	44			25.0	56.8	18.2	
CDOs that invest in other CDOs ("CDO squared")	10				60.0	40.0	
Collateralized bond obligations	24				16.7	45.8	37.5
Other CLO	50	0.1	100.0				
Total other collateralized debt obligations	778	0.8	39.7	25.2	18.8	10.3	6.0
Other asset-backed securities	1,009	1.1	42.0	10.8	22.3	19.2	5.7
Total ABS	$ 3,860	4.0%					

During 2008, certain financial markets continued to experience price declines due to market and liquidity disruptions. We experienced this illiquidity and disruption in certain of our MBS, CMBS and ABS fixed income securities, particularly in our Prime residential mortgage-backed securities ("Prime"), Alt-A, CMBS, CRE CDO, ABS RMBS, ABS CDO and other collateralized debt obligations ("other CDO") portfolios. These portfolios totaled $7.90 billion, or approximately 8% of our total investments at December 31, 2008. Other securities markets, including certain other asset-backed and real estate-backed securities markets, also experienced illiquidity, but to a lesser degree.

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

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The following table summarizes our illiquid portfolios as of December 31, 2008.

($ in millions)	Par value[2]	Amortized cost[1][2]	Amortized cost as a percentage of par value	Fair value	Fair value as a percentage of par value	Unrealized gain/loss
MBS						
Prime	$ 840	$ 826	98.3%	$ 621	73.9%	$ (205)
Alt-A	1,098	780	71.0	582	53.0	(198)
CMBS						
CMBS	5,915	5,815	98.4	3,819	64.6	(1,996)
CRE CDO	201	25	12.4	27	13.4	2
ABS						
ABS RMBS	3,681	3,174	86.2	2,067	56.2	(1,107)
ABS CDO	137	10	7.3	6	4.4	(4)
Other CDO	2,296	1,894	82.5	778	33.9	(1,116)
Total	$ 14,168	$ 12,524	88.4	$ 7,900	55.8	$ (4,624)

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

(2) The difference between par value and amortized cost of $1.64 billion is primarily attributable to write-downs. Par value has been reduced by principal payments.

The following table presents realized capital gains and losses and principal transactions relating to our illiquid portfolios for the year ended December 31, 2008.

($ in millions)	Realized capital gains and losses Sales	Impairment write-downs	Change in intent write-downs	Principal transactions Sold	Principal received	Acquired
MBS						
Prime	$ (25)	$ (9)	$ (20)	$ 340	$ 103	$ 21
Alt-A	(37)	(206)	(138)	130	130	
CMBS						
CMBS	(15)		(226)	2,319	177	1,294
CRE CDO	(44)	(45)	(331)	280	5	
ABS						
ABS RMBS	(33)	(224)	(282)	142	623	
ABS CDO		(63)		3	1	
Other CDO	3	(335)		31	18	11
Total	$ (151)	$ (882)	$ (997)	$ 3,245	$ 1,057	$ 1,326

Securities included in our illiquid portfolios with a fair value less than 70% of amortized cost as of December 31, 2008 are shown in the following table.

($ in millions)	Fair value	Unrealized gain/loss
MBS		
Prime	$ 113	$ (113)
Alt-A	146	(122)
CMBS		
CMBS	858	(1,625)
CRE CDO		
ABS		
ABS RMBS	781	(878)
ABS CDO	4	(3)
Other CDO	459	(1,054)
Total	$ 2,361	$ (3,795)

We continue to believe that the unrealized losses on these securities are not predictive of the ultimate performance of the underlying collateral. In the absence of further deterioration in the collateral relative to our positions in the securities' respective capital structures, which could be other than temporary, the unrealized losses should reverse over the remaining lives of the securities.

The cash flows of the underlying mortgages or collateral for MBS, CMBS (including CRE CDO) and ABS are generally applied in a pre-determined order and are designed so that each security issued qualifies for a specific original rating. The security issue is typically referred to as the "class". For example, the "senior" portion or "top" of the capital structure which would originally qualify for a rating of Aaa is referred to as the "Aaa class" and typically has priority in receiving the principal repayments on the underlying mortgages. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Although the various Aaa classes may receive principal sequentially, they may share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings or what may be referred to as more "junior" or "subordinate" securities in the capital structure. The underlying mortgages have fixed interest rates, variable interest rates (such as adjustable rate mortgages ("ARM")) or are hybrid, meaning that they contain features of both fixed and variable rate mortgages.

MBS totaled $4.49 billion, with 97.9% rated investment grade, at December 31, 2008. The MBS portfolio is subject to interest rate risk since price volatility and the ultimate realized yield are affected by the rate of prepayment of the underlying mortgages. The credit risk associated with our MBS is mitigated due to the fact that

73.1% of the portfolio consists of securities that were issued by, or have underlying collateral that is guaranteed by U.S. government agencies or U.S. government sponsored entities ("U.S. Agency").

Prime are collateralized by residential mortgage loans issued to prime borrowers. The following table shows our Prime portfolio as of December 31, 2008 by vintage year, based upon our participation in the capital structure.

($ in millions)							
	Vintage year						
Capital structure classification[2]	2007	2006	2005	Pre-2005	Fair value	Amortized cost[1]	Unrealized gain/loss
Aaa Fixed rate	$ 100	$ 46	$ 90	$ 260	$ 496	$ 611	$ (115)
Aaa Hybrid	9	2	54	50	115	199	(84)
Aa Fixed rate				7	7	8	(1)
A Hybrid			3		3	8	(5)
Total	$ 109	$ 48	$ 147	$ 317	$ 621	$ 826	$ (205)

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

(2) May not be consistent with current ratings due to downgrades.

Alt-A can be issued by trusts backed by pools of residential mortgages with either fixed or variable interest rates. The mortgage pools can include residential mortgage loans issued to borrowers with stronger credit profiles than sub-prime borrowers, but who do not qualify for prime financing terms due to high loan-to-value ratios or limited supporting documentation. The following table presents information about the collateral in our Alt-A holdings at December 31, 2008.

($ in millions)	Fair Value	% to Total Investments
Alt-A		
Fixed rate	$ 442	0.5%
Variable rate	140	0.1
Total Alt-A	$ 582	0.6%

The following table shows our Alt-A portfolio at December 31, 2008 by vintage year, based upon our participation in the capital structure.

($ in millions)	Vintage year						
Capital structure classification[2]	2007	2006	2005	Pre-2005	Fair value	Amortized cost[1]	Unrealized gain/loss
Aaa Fixed rate	$ 44	$ 119	$ 105	$ 151	$ 419	$ 537	$ (118)
Aaa Hybrid		2	8	13	23	45	(22)
Aaa Option adjustable rate mortgage	34	25	13	1	73	101	(28)
Aa Fixed rate		7	16		23	25	(2)
Aa Option adjustable rate mortgage			2	9	11	14	(3)
A and lower	4	20	9		33	58	(25)
Total	$ 82	$ 173	$ 153	$ 174	$ 582	$ 780	$ (198)

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

(2) May not be consistent with current ratings due to downgrades.

CMBS totaled $3.85 billion, with 99.9% rated investment grade, at December 31, 2008. The CMBS portfolio is subject to credit risk, but unlike other structured securities, is generally not subject to prepayment risk due to protections within the underlying commercial mortgages whereby borrowers are effectively restricted from prepaying their mortgages due to changes in interest rates. Approximately 91.0% of the CMBS investments are structured securities collateralized by pools of commercial mortgages, broadly diversified across property types and geographical area.

The following table shows our CMBS portfolio, excluding CRE CDO, at December 31, 2008 by vintage year, based upon our participation in the capital structure.

($ in millions) Capital structure classification[2]	Par value	Amortized cost[1]	Fair value	Unrealized gain/loss
Aaa				
2007:				
Super senior[3]	$ 383	$ 378	$ 263	$ (115)
Mezzanine senior[4]	130	122	58	(64)
Subordinated senior[5]	596	569	166	(403)
Other[6]	21	22	9	(13)
	1,130	1,091	496	(595)
2006:				
Super senior[3]	121	121	79	(42)
Mezzanine senior[4]	81	77	41	(36)
Subordinated senior[5]	314	300	94	(206)
Other[6]	63	64	45	(19)
	579	562	259	(303)
2005:				
Super senior[3]	326	329	260	(69)
Mezzanine senior[4]	22	22	13	(9)
Subordinated senior[5]	108	115	48	(67)
Other[6]	95	95	70	(25)
	551	561	391	(170)
Pre-2005[7]				
	2,126	2,154	1,936	(218)
Aaa total	4,386	4,368	3,082	(1,286)
Aa				
	1,111	1,179	522	(657)
A	350	225	172	(53)
Baa	64	39	39	
Ba or lower	4	4	4	
Total CMBS	$ 5,915	$ 5,815	$ 3,819	$ (1,996)

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

(2) May not be consistent with current ratings due to upgrades and downgrades.

(3) Most senior of the Aaa rated tranches, typically has a high level of credit enhancement of approximately 30%, meaning actual losses in the deal have to reach 30% before incurring a first dollar loss.

(4) Middle Aaa rated tranche, typically having credit enhancement of approximately 20%, are subordinate only to the Super senior bonds.

(5) Lowest Aaa rated tranche, typically with credit enhancement in the low teens. This bond is subordinate to the Super senior and Mezzanine senior tranches, but still senior to all tranches rated below Aaa.

(6) Includes Aaa bonds that were originated in 2005 through 2007 that do not fall into the categories above. These are non-traditional CMBS bonds (large loan pools, single borrower transactions) that did not have a Aaa Senior type breakdown.

(7)

Prior to 2005, the Aaa bonds in a transaction were generally not divided into Super senior, Mezzanine senior, or Subordinated senior (with the exception of a few deals structured very late in 2004); therefore all 2004 and prior Aaa-rated securities are grouped into this category.

The unrealized net capital loss of $2.00 billion at December 31, 2008 on our CMBS portfolio was a result of significant widening of credit spreads due to deteriorating macro economic conditions and continued credit market deterioration. Credit spread widening occurred in all rating classes but was particularly evident in our subordinated senior Aaa, Pre-2005 Aaa-rated and lower rated securities. These holdings accounted for $1.66 billion, or approximately 83% of the unrealized net capital loss. Our analysis suggests that the vast majority of our CMBS portfolio is well insulated from a severe rise in commercial mortgage default rates. Credit protections in the portfolio, including those on subordinated senior Aaa and Aa-rated securities, are multiples of historic high commercial mortgage loss experience and well in excess of our current loss expectations.

CRE CDO are structured securities secured primarily by CMBS and other commercial mortgage debt obligations. These securities are generally less liquid and have a higher risk profile than other CMBS. The following table shows our CRE CDO portfolio at December 31, 2008 by vintage year, based upon our participation in the capital structure.

($ in millions) Capital structure classification(2)	Vintage year 2007	2006	2005	Fair value	Amortized cost(1)	Unrealized gain/loss
Aa	$ 1	$ 14	$ 1	$ 16	$ 14	$ 2
A	3	1	4	8	8	
Baa	1	1	1	3	3	
Total	$ 5	$ 16	$ 6	$ 27	$ 25	$ 2

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

(2) May not be consistent with current ratings due to downgrades.

ABS totaled $3.86 billion, with 92.0% rated investment grade, at December 31, 2008. Credit risk is managed by monitoring the performance of the collateral. In addition, many of the securities in the ABS portfolio are credit enhanced with features such as over-collateralization, subordinated structures, reserve funds, guarantees and/or insurance. A portion of the ABS portfolio is also subject to interest rate risk since ultimate realized yields are affected by the rate of prepayment of the underlying assets.

ABS RMBS includes securities that are collateralized by mortgage loans issued to borrowers that cannot qualify for Prime or Alt-A financing terms due in part to weak or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit history. $1.66 billion or 80.2% of the ABS RMBS portfolio consisted of securities that were issued during 2005, 2006 and 2007. At December 31, 2008, 41.0% of securities issued during 2005, 2006 and 2007 were rated Aaa, 20.1% rated Aa, 5.5% rated A, 17.5% rated Baa and 15.9% rated Ba or lower.

The following table presents additional information about our ABS RMBS portfolio including a summary by first and second lien collateral at December 31, 2008.

($ in millions)	Fair Value	% to Total investments
ABS RMBS		
First lien:		
Fixed rate(1)	$ 594	0.6%
Variable rate(1)	1,085	1.1
Total first lien(2)	1,679	1.7
Second lien:		
Insured	295	0.3
Other	93	0.1
Total second lien(3)	388	0.4
Total ABS RMBS	$ 2,067	2.1%

(1) Fixed rate and variable rate refer to the primary interest rate characteristics of the underlying mortgages at the time of issuance.

(2)

The credit ratings of the first lien ABS RMBS were 41.8% Aaa, 30.3% Aa, 10.0% A, 9.2% Baa and 8.7% Ba or lower at December 31, 2008.

(3) The credit ratings of the second lien ABS RMBS were 13.7% Aaa, 8.2% Aa, 1.8% A, 43.3% Baa and 33.0% Ba or lower at December 31, 2008.

The following table includes first lien non-insured ABS RMBS by vintage year and the interest rate characteristics of the underlying mortgage product.

($ in millions)	Variable rate	Fixed rate	Fair value	Amortized cost[(1)]	Unrealized gain/loss
Total first lien non-insured ABS RMBS					
2007	$ 124	$ 187	$ 311	$ 546	$ (235)
2006	420	143	563	762	(199)
2005	226	112	338	496	(158)
Pre-2005	268	68	336	472	(136)
Total	$ 1,038	$ 510	$ 1,548	$ 2,276	$ (728)

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

We also own approximately $93 million of second lien ABS RMBS non-insured securities, representing 80.2% of amortized cost. Approximately $39 million, or 41.9%, of this portfolio are 2006 and 2007 vintage years. Together with the first lien non-insured ABS RMBS in the table above, this comprises our $1.64 billion of non-insured ABS RMBS.

At December 31, 2008, $426 million or 20.6% of the total ABS RMBS securities are insured by 6 bond insurers and 66.4% of these insured securities were rated investment grade. The following table shows our insured ABS RMBS portfolio at December 31, 2008 by vintage year for the first lien and second lien collateral.

	Vintage year						
($ in millions)	2007	2006	2005	Pre-2005	Fair value	Amortized cost[(1)]	Unrealized gain/loss
First lien:	$ 35	$ 15	$ 70	$ 11	$ 131	$ 194	$ (63)
Second lien:	112	110	50	23	295	588	(293)
Total insured ABS RMBS	$ 147	$ 125	$ 120	$ 34	$ 426	$ 782	$ (356)

(1) Amortized cost includes other-than-temporary impairment charges, as applicable.

Other CDO totaled $778 million, with 94.0% rated investment grade, at December 31, 2008. Other CDO consist primarily of obligations secured by high yield and investment grade corporate credits including cash flow CLO, synthetic CDO, trust preferred CDO, market value CDO, project finance CDO, CDO squared, collateralized bond obligations and other CLO.

The following table presents realized and unrealized capital gains and losses and principal transactions on our other CDO portfolio for the years ended December 31, 2008.

	Realized capital gains and losses[(1)]			Principal transactions		
($ in millions)	Sales	Impairment write-downs	Unrealized gain/loss	Sold	Principal received	Acquired
Other CDO						
Cash flow CLO	$	$ (65)	$ (690)	$ 9	$ 6	$ 11
Synthetic CDO		(186)	(160)	2		
Trust preferred CDO		(28)	(91)		11	
Market value CDO	2	(38)	(65)	2		
Project finance CDO			(36)			
CDO squared			(67)			
Collateralized bond obligations			(7)	1	1	
Other CLO	1	(18)		17		

Total	$ 3	$ (335)	$ (1,116)	$ 31	$ 18	$ 11

(1) For the year ended December 31, 2008, there were no change in intent write-downs.

Cash flow CLO are structures where the underlying assets are primarily comprised of below investment grade senior secured corporate loans. The collateral is actively managed by external managers that monitor the collateral performance. The underlying investments are well diversified across industries and among issuers and there have been no downgrades in the portfolio. Cash flow CLO issues differ by seniority. A transaction will typically issue notes with various capital structure class (i.e. Aaa, Aa, A, etc.) as well as equity. The following table shows our cash flow CLO portfolio at December 31, 2008 by vintage year, based upon our participation in the capital structure.

($ in millions)

	Vintage year							
Capital structure classification[(1)]	**2008**	**2007**	**2006**	**2005**	**Pre-2005**	**Fair value**	**Amortized cost[(2)]**	**Unrealized gain/loss**
Aaa	$	$	$ 58	$ 52	$ 144	$ 254	$ 350	$ (96)
Aa	2	39	48	7	10	106	296	(190)
A	1	22	24	16	34	97	454	(357)
Baa			5	8	25	38	78	(40)
Ba or below		4	2			6	13	(7)
Total	$ 3	$ 65	$ 137	$ 83	$ 213	$ 501	$ 1,191	$ (690)

(1) May not be consistent with current ratings due to downgrades.

(2) Amortized cost includes other-than-temporary impairment charges, as applicable.

Synthetic CDO primarily consist of a portfolio of corporate credit default swaps ("CDS") which are collateralized by Aaa rated LIBOR-based securities (i.e. "fully funded" synthetic CDO). Our synthetic CDO collateral primarily is actively managed by an external manager monitoring the CDS selection and performance. The following table shows our synthetic CDO at December 31, 2008 by vintage year, based upon our participation in the capital structure.

($ in millions)

	Vintage year				
Capital structure classification[(1)]	**2007**	**2006**	**Fair value**	**Amortized cost[(2)]**	**Unrealized gain/loss**
Aaa	$ 25	$	$ 25	$ 85	$ (60)
Aa	6	16	22	122	(100)
Total	$ 31	$ 16	$ 47	$ 207	$ (160)

(1) May not be consistent with current ratings due to downgrades.

(2) Amortized cost includes other-than-temporary impairment charges, as applicable.

Trust preferred CDO underlying assets are primarily comprised of portfolios of preferred securities issued by a diversified portfolio of domestic banks and other financial institutions. The underlying collateral for our trust preferred CDO portfolio is not actively managed and is diversified by issuer, predominately regional banks, with a small percentage of insurance companies.

Market value CDO are structurally similar to cash flow CLO. The primary difference is that the market value of the underlying assets is managed in order to enhance returns and the structure is governed by market value based tests. The managers are also offered more flexibility to purchase other asset types including secured leveraged loans, public and private high yield bonds, structured products, mezzanine investments, and equities.

Project finance CDO underlying assets are primarily below investment grade senior secured project finance loans and energy finance investments.

CDO squared transactions are CDOs where the underlying assets are primarily other cash flow CLO tranches, typically with an average rating of Baa.

Other asset-backed securities totaled $1.01 billion at December 31, 2008 and consist primarily of investments secured by portfolios of credit card loans, auto loans, student loans and other consumer and corporate obligations. As of December 31, 2008, the net unrealized losses on these securities were $232 million. Additionally, 24.3% of the other asset-backed securities that are rated Aaa, Aa, A and Baa were insured by five bond insurers. During 2008, we sold $229 million of these securities recognizing a loss of $1 million. In addition, we acquired

$46 million of securities during 2008. We also collected $177 million of principal repayments consistent with the expected cash flows during 2008.

Insured Investments As of December 31, 2008, we hold $12.29 billion of fixed income securities that are insured by bond insurers, including approximately $11.58 billion or 53.0% of our municipal bond portfolio, $426 million of our ABS RMBS and $252 million of our other asset-backed securities. Additionally, we hold $4 million of corporate bonds and $(13) million in credit default swaps that were directly issued by these bond insurers. 53.0% of our municipal bond portfolio is insured by nine bond insurers and 38.4% of these securities have a Moody's equivalent rating of Aaa or Aa. Our practices for acquiring and monitoring municipal bonds primarily are based on the quality of the primary obligor. As of December 31, 2008, we believe the valuations already reflected a decline in the value of the insurance, and further related declines if any, are not expected to be material. While the valuation of these holdings may be temporarily impacted by negative and rapidly changing market developments, we continue to have the intent and ability to hold the bonds and expect to receive all of the contractual cash flows. As of December 31, 2008, 48.2% of our insured municipal bond portfolio was insured by MBIA, Inc., 24.7% by Ambac Financial Group, Inc., 19.8% by Financial Security Assurance Inc. and 2.7% by Financial Guarantee Insurance Company.

Credit ratings without the insurance guarantee are not available in certain cases where the issuer does not solicit the rating agency to provide the rating without the insurance guarantee and, as a result, the rating agency does not disclose it. The ratings of our holdings with insurance guarantee generally follow the rating of the bond insurer. In cases where the rating of the bond insurer is lower than that of the underlying security, the rating without insurance guarantee could be higher than that with the guarantee.

The following table shows our insured investments by Moody's equivalent rating with and without the impact to the rating from the insurance guarantee, where it is available, as of December 31, 2008.

($ in millions)

Rating with Insurance Guarantee			Rating without Insurance Guarantee		
Rating	**Fair value**	**Percent to total**	**Rating**	**Fair value**	**Percent to total**
Municipal bonds					
Aaa	$ 250	2.2%	Aaa	$ 20	0.2%
Aa	4,193	36.2	Aa	2,408	20.8
A	3,946	34.1	A	5,909	51.0
Baa	3,145	27.2	Baa	1,705	14.7
Ba	3		Ba	90	0.8
B	38	0.3	B	61	0.5
Caa or lower			Caa or lower	7	0.1
Rating without Insurance Guarantee not provided ("NA")			NA	1,375	11.9
Total municipal bonds	$ 11,575	100.0%		$ 11,575	100.0%
ABS RMBS					
Aaa	$ 4	0.9%	Aaa	$ 20	4.7%
Aa	59	13.8	Aa	48	11.3
A	8	1.9	A	59	13.8
Baa	212	49.8	Baa	28	6.6
Ba	52	12.2	Ba	20	4.7
B	31	7.3	B	25	5.9
Caa or lower	60	14.1	Caa or lower	23	5.4
NA			NA	203	47.6
Total ABS RMBS	$ 426	100.0%		$ 426	100.0%
Other asset-backed securities					
Aaa	$ 20	7.9%	Aaa	$	%
Aa	24	9.5	Aa		
A	73	29.0	A	8	3.2
Baa	128	50.8	Baa	134	53.2
Ba or lower	7	2.8	Ba or lower		
NA			NA	110	43.6
Total other asset-backed securities	$ 252	100.0%		$ 252	100.0%

Equity securities Equity securities include common stocks, real estate investment trust equity investments and non-redeemable preferred stocks. The equity securities portfolio was $2.81 billion at December 31, 2008 compared to $5.26 billion at December 31, 2007. The decrease is primarily attributable to sales of equity securities with realized gains of $751 million and realized losses of $1.45 billion. Gross unrealized gains totaled $112 million at December 31, 2008 compared to $1.10 billion at December 31, 2007. Gross unrealized losses totaled $444 million at December 31, 2008 compared to $106 million at December 31, 2007.

At December 31, 2008, equity securities included $917 million effectively carried on a lower of cost or fair value basis due to the nature of the investment management style employed. There were no equity securities effectively carried on a lower of cost or fair value as of December 31, 2007.

Mortgage loans Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, was $10.23 billion and $10.83 billion at December 31, 2008 and 2007, respectively, and comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage our exposure. The portfolio is diversified across several property types. Our largest exposure to any metropolitan area is also highly diversified, with the largest exposure not exceeding

10% of the portfolio. The average debt service coverage ratio represents the amount of cash flows available by the borrower to meet its principal and interest payment obligations. The average debt service coverage ratio of the portfolio as of December 31, 2008 was approximately 2.0, and only approximately 3.1% of the mortgage loan portfolio had a debt service coverage ratio under 1.0.

We closely monitor our commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risks, are reviewed at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status as necessary. The underlying collateral values are based upon either discounted property cash flow projections or a commonly used valuation method that utilizes a one-year projection of expected annual income divided by a market based expected rate of return. We had $4 million of realized capital losses related to valuation allowances on mortgage loans for the year ended December 31, 2008 and had no realized capital losses related to valuation allowances on mortgage loans for the year ended December 31, 2007. Additionally, realized capital losses due to changes in intent to hold mortgage loans to maturity totaled $74 million and $30 million for the years ended December 31, 2008 and 2007, respectively. For further detail, see Note 5 to the consolidated financial statements.

Limited partnership interests consist of investments in private equity/debt funds, real estate funds and hedge funds. The overall limited partnership interests portfolio is well diversified across a number of metrics including fund sponsors, vintage years, strategies, geography (including international), and company/property types.

The following table presents information about our limited partnership interests as of December 31, 2008.

($ in millions)	Private equity/debt funds	Real estate funds	Hedge funds	Total
Cost method of accounting ("Cost")	$ 733	$ 398	$ 97	$ 1,228
Equity method of accounting	654	431	478	1,563
Total	$ 1,387	$ 829	$ 575	$ 2,791
Number of sponsors	86	39	13	
Number of individual funds	138	76	80	
Largest exposure to single fund	$ 43	$ 48	$ 43	

Our aggregate limited partnership exposure represented 2.9% and 2.1% of total invested assets as of December 31, 2008 and December 31, 2007, respectively.

The following table shows the income from our limited partnership interests by fund type and accounting classification for the years ended December 31.

	2008			2007		
($ in millions)	Cost	Equity method of accounting(1)	Total	Cost	Equity method of accounting	Total
Private equity/debt funds	$ 28	$ 87	$ 115	$ 58	$ 55	$ 113
Real estate funds	8	(35)	(27)	36	79	115
Hedge funds	1	(124)	(123)	1	64	65
Total	$ 37	$ (72)	$ (35)	$ 95	$ 198	$ 293

(1) Beginning in the fourth quarter of 2008, income from EMA LP is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income.

Loss from limited partnership interests was $35 million for 2008 versus income of $293 million for 2007. The loss from limited partnership interests in 2008 compared to income in 2007 is primarily related to losses from partnerships accounted for under equity method of accounting resulting from reduced valuations on the net asset value of the partnerships. Further, income on EMA LP is recognized on a delay due to the availability of the related financial statements. The recognition of income on hedge funds is primarily on a one-month delay and the income recognition on private equity/debt funds and real estate funds are generally on a three-month delay as of December 31, 2008. As such, the income recognized through December 31, 2008 for EMA LP may not include the full impact for calendar year investment market changes as they will ultimately impact the valuation of the underlying assets or liabilities within the partnerships. Limited partnership interests accounted for under the cost method of accounting recognize income only upon cash distributions by the partnership.

Short-term investments Our short-term investment portfolio was $8.91 billion and $3.06 billion at December 31, 2008 and 2007, respectively. The increase in short-term investments was primarily due to liquidity management actions. We invest available cash balances primarily in taxable short-term securities having a final maturity date or redemption date of less than one year.

Other investments Our other investments as of December 31, 2008 are comprised primarily of $1.04 billion of bank loans, $1.14 billion of policy loans and $301 million of certain derivatives, including credit default swaps. Bank loans are comprised primarily of senior secured corporate loans and are carried at amortized cost. Policy loans are carried at the unpaid principal balances.

Credit default swaps ("CDS") are utilized for both buying and selling credit protection against a specified credit event. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. We are not selling protection to acquire revenues as a business activity. When buying protection, the objective is to mitigate credit risk on fixed income holdings in our portfolio. Credit risk includes both default risk and market value exposure due to spread widening. CDS typically have a five-year term. The following table shows the CDS notional amounts and fair value of protection bought or sold as of December 31, 2008.

	Notional amounts				Fair value
($ in millions)	**Property-Liability**	**Allstate Financial**	**Total**	**Fair value(1)**	**to notional amount**
Buying protection (recoverable)					
Single name	$ 436	$ 422	$ 858	$ 37	4.3%
Index	638	723	1,361	37	2.7
Total buying protection	$ 1,074	$ 1,145	$ 2,219	$ 74	3.3
Selling protection (payable)					
Single name	$ 200	$ 272	$ 472	$ (50)	(10.6)
First-to-default		245	245	(48)	(19.6)
Index	339		339	(16)	(4.7)
Total selling protection	$ 539	$ 517	$ 1,056	$ (114)	(10.8)

(1) Included as a component of other investments and other liabilities and accrued expenses on the Consolidated Statements of Financial Position.

In buying and selling protection CDS, we buy or sell credit protection on an identified single name, a basket of names in a first-to-default ("FTD") structure or credit derivative index ("CDX") that is generally investment grade, and in return pay or receive periodic premiums through expiration or termination of the agreement. With single name CDS, the premium or credit spread generally corresponds to the difference between the yield on the referenced name's public fixed maturity cash instruments and swap rates, at the time the agreement is executed. With FTD baskets, because of the additional credit risk inherent in a basket of named credits, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and correlation between the names. CDX index is utilized to take a position on multiple (generally 125) credit entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference credit. If a credit event occurs, we settle with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the seller of protection, in exchange for cash payment at par, while in a cash settlement, the seller pays the difference between par and the prescribed value of the reference asset. When such an event occurs in a single name or FTD basket (for FTD, the first such event occurring for any one name in the basket), the contract terminates at time of settlement. For CDX index, the reference entity's name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. For all CDS, once a credit event and settlement has occurred, there may be subsequent recoveries. Recovery amounts, if any, vary and they may reduce the ultimate amount of net gain or loss.

Unrealized net capital losses See Note 5 of the consolidated financial statements for further disclosures regarding unrealized losses on fixed income and equity securities and factors considered in determining whether securities are other-than-temporarily impaired. The unrealized net capital losses totaled $8.81 billion as of December 31, 2008, compared to unrealized net capital gains of $1.91 billion at December 31, 2007 as a result of significantly widening credit spreads and declining equity markets.

The following table presents unrealized net capital gains and losses, pre-tax and after-tax at December 31.

($ in millions)	2008	2007
U.S. government and agencies	$ 962	$ 918
Municipal	(1,717)	720
Corporate	(3,413)	90
Foreign government	469	394
MBS	(334)	(43)
CMBS	(1,994)	(308)
ABS	(2,459)	(816)
Redeemable preferred stock	(10)	1
Fixed income securities	(8,496)	956
Equity securities	(332)	990
Short-term investments	3	
Derivatives	11	(33)
Unrealized net capital gains and losses, pre-tax	(8,814)	1,913
Amounts recognized for:		
Insurance reserves(1)	(378)	(1,059)
DAC and DSI(2)	3,500	512
Amounts recognized	3,122	(547)
Deferred income taxes	1,954	(478)
Unrealized net capital gains and losses, after-tax	$ (3,738)	$ 888

(1) The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. Although we evaluate premium deficiencies on the combined performance of our life insurance and immediate annuities with life contingencies, the adjustment primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

(2) The DAC and DSI adjustment represents the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized gains or losses in the respective product portfolios were realized. Recapitalization of the DAC and DSI balances is limited to the originally deferred costs plus interest.

The net unrealized loss for the fixed income portfolio totaled $8.50 billion, comprised of $2.54 billion of gross unrealized gains and $11.04 billion of gross unrealized losses at December 31, 2008. This is compared to a net unrealized gain for the fixed income portfolio totaling $956 million at December 31, 2007, comprised of $3.15 billion of gross unrealized gains and $2.20 billion of gross unrealized losses.

Gross unrealized gains and losses on fixed income securities by type and sector are provided in the table below.

($ in millions)	Par value(1)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value	Amortized cost as a percent of par value	Fair value as a percent of par value
At December 31, 2008							
Corporate:							
Banking	$ 4,752	$ 4,378	$ 93	$ (943)	$ 3,528	92.1%	74.2%
Financial services	4,654	3,604	23	(571)	3,056	77.4	65.7
Consumer goods (cyclical and non-cyclical)	5,135	5,072	54	(486)	4,640	98.8	90.4
Utilities	5,422	5,383	132	(434)	5,081	99.3	93.7
Capital goods	3,091	3,048	43	(299)	2,792	98.6	90.3
Communications	2,011	1,918	19	(188)	1,749	95.4	87.0
Basic industry	1,658	1,661	6	(183)	1,484	100.2	89.5
Transportation	1,696	1,706	26	(179)	1,553	100.6	91.6
Energy	1,672	1,652	15	(145)	1,522	98.8	91.0
Technology	1,028	1,006	18	(105)	919	97.9	89.4
Other	1,921	1,612	34	(343)	1,303	83.9	67.8
Total corporate fixed income portfolio	33,040	31,040	463	(3,876)	27,627	93.9	83.6
ABS	7,494	6,319	13	(2,472)	3,860	84.3	51.5
Municipal	30,640	23,565	467	(2,184)	21,848	76.9	71.3
CMBS	6,116	5,840	10	(2,004)	3,846	95.5	62.9
MBS	5,183	4,826	85	(419)	4,492	93.1	86.7
Foreign government	3,152	2,206	544	(75)	2,675	70.0	84.9
Redeemable preferred stock	40	36		(10)	26	90.0	65.0
U.S. government and agencies	5,277	3,272	963	(1)	4,234	62.0	80.2
Total fixed income securities	$ 90,942	$ 77,104	$ 2,545	$ (11,041)	$ 68,608	84.8	75.4

(1) Included in par value are zero-coupon securities that are generally purchased at a deep discount to the par value that is received at maturity.

The banking, financial services, consumer goods, and utilities sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio at December 31, 2008. The gross unrealized losses in these sectors were primarily the result of significantly widening credit spreads. As of December 31, 2008, $3.18 billion or 82.0% of the gross unrealized losses in the corporate fixed income portfolio and $6.60 billion or 92.1% of the gross unrealized losses in the remaining fixed income securities related to securities rated investment grade. Credit spreads are the additional yield on fixed income securities above the risk-free rate (typically defined as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks for fixed income securities with consistent terms. Credit spreads vary with the market's perception of risk and liquidity in a specific issuer or specific sectors. Credit spreads can widen (increase) or tighten (decrease) and may offset or add to the effects of risk-free interest rate changes in the valuation of fixed income securities from period to period.

All securities in an unrealized loss position at December 31, 2008 were included in our portfolio monitoring process for determining whether declines in value are other than temporary.

The following tables show the composition by credit quality using Moody's equivalent rating of the fixed income securities with gross unrealized losses at December 31, 2008.

	Rating[(1)]									
($ in millions)	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa or lower**	**In or near default**	**Total unrealized loss**	**Fair value**
At December 31, 2008										
Corporate:										
Banking	$	$ (47)	$ (673)	$ (198)	$ (22)	$ (3)	$	$	$ (943)	$ 2,459
Financial services	(46)	(43)	(209)	(231)	(39)	(1)	(2)		(571)	2,503
Consumer goods (cyclical and non-cyclical)		(4)	(58)	(232)	(137)	(40)	(13)	(2)	(486)	3,080
Utilities		(7)	(58)	(308)	(51)	(3)	(7)		(434)	3,359
Capital goods		(1)	(40)	(165)	(51)	(39)	(3)		(299)	1,897
Communications			(6)	(103)	(50)	(26)	(3)		(188)	1,289
Basic industry		(4)	(15)	(101)	(27)	(36)			(183)	1,208
Transportation			(42)	(78)	(56)	(2)	(1)		(179)	928
Energy		(3)	(6)	(107)	(18)	(11)			(145)	1,080
Technology	(1)	(3)	(17)	(53)	(14)	(16)	(1)		(105)	663
Other		(1)	(71)	(260)	(11)				(343)	864
Total corporate fixed income portfolio	(47)	(113)	(1,195)	(1,836)	(476)	(177)	(30)	(2)	(3,876)	19,330
ABS	(372)	(641)	(622)	(561)	(103)	(79)	(68)	(26)	(2,472)	3,595
Municipal	(226)	(468)	(443)	(780)	(114)	(142)	(11)		(2,184)	12,578
CMBS	(1,322)	(642)	(25)	(15)					(2,004)	3,628
MBS	(301)	(37)	(13)	(29)	(14)	(25)			(419)	1,608
Foreign government	(1)		(5)	(27)	(19)	(23)			(75)	364
Redeemable preferred stock				(9)	(1)				(10)	18
U.S. government and agencies	(1)								(1)	230
Total fixed income securities	$ (2,270)	$ (1,901)	$ (2,303)	$ (3,257)	$ (727)	$ (446)	$ (109)	$ (28)	$ (11,041)	$ 41,351
Rating % to total unrealized loss										

(1) Moody's equivalent rating will not necessarily tie to ratings distributions from the NAIC due to potential timing differences between the various rating suppliers and the number of external rating agencies used in the determination.

The scheduled maturity dates for fixed income securities in an unrealized loss position at December 31, 2008 are shown below. Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

($ in millions)	**Unrealized loss**	**Percent to total**	**Fair value**	**Percent to total**
Due in one year or less	$ (26)	0.2%	$ 963	2.3%
Due after one year through five years	(924)	8.4	8,218	19.9
Due after five years through ten years	(1,423)	12.9	7,291	17.6
Due after ten years	(5,777)	52.3	19,676	47.6
MBS and ABS[(1)]	(2,891)	26.2	5,203	12.6
Total	$ (11,041)	100.0%	$ 41,351	100.0%

(1) Because of the potential for prepayment, these securities are not categorized based on their contractual maturities.

For fixed income securities, 60.4% of the gross unrealized losses at December 31, 2008 were from $5.83 billion of securities with a fair value below 70% of amortized cost, or 8.5% of our fixed income portfolio, at December 31, 2008. The percentage of fair value to amortized cost for fixed income securities with gross unrealized losses at December 31, 2008 are shown in the following table.

($ in millions)	Par value[1]	Unrealized (loss) gain	Fair value	% to Total fixed income securities
> 80% of amortized cost	$ 34,334	$ (2,671)	$ 30,242	44.1%
70% to 80% of amortized cost	7,708	(1,703)	5,283	7.7
< 70% of amortized cost[2]	17,404	(6,667)	5,826	8.5
Gross unrealized losses on fixed income securities	59,446	(11,041)	41,351	60.3
Gross unrealized gains on fixed income securities	31,496	2,545	27,257	39.7
Net unrealized gains and losses on fixed income securities	$ 90,942	$ (8,496)[3]	$ 68,608[3]	100.0%

(1) Included in par value are $9.66 billion of zero-coupon securities that are generally purchased at a deep discount to the par value that is received at maturity.

(2) Illiquid portfolios represent $3.80 billion of net unrealized losses and $2.36 billion of fair value.

(3) Illiquid portfolios represent $4.62 billion of net unrealized losses and $7.90 billion of fair value.

The following table presents gross unrealized losses by type of fixed income security with a fair value below 70% of amortized cost.

($ in millions)	Fair value	Gross unrealized losses
U.S. government and agencies	$	$
Municipal	867	(745)
Corporate	2,397	(1,983)
Foreign government	29	(28)
MBS	259	(235)
CMBS	858	(1,625)
ABS	1,403	(2,042)
Redeemable preferred stock	13	(9)
Total fixed income securities	$ 5,826	$ (6,667)

We continue to believe that the unrealized losses on these securities are not predictive of the ultimate performance. The unrealized losses should reverse over the remaining lives of the securities. As of December 31, 2008, we have the intent and ability to hold these securities to recovery. Our ability to do so is substantially enhanced by our liquidity position, which cushions us from the need to liquidate securities with significant unrealized losses to meet cash obligations. During 2008, our fixed income securities portfolio provided approximately $8.61 billion in principal and interest cash flows, of which substantially all have been received in accordance with the contractual terms.

The equity portfolio is comprised of securities in the following sectors.

(in millions)		Gross unrealized		
At December 31, 2008	Cost	Gains	Losses	Fair value
Consumer goods (cyclical and non-cyclical)	$ 548	$ 27	$ (68)	$ 507
Banking	194	6	(52)	148
Financial services	210	4	(41)	173
Energy	240	45	(32)	253
Basic industry	75	5	(21)	59
Utilities	87	3	(17)	73
Real estate	122	4	(11)	115
Technology	79	5	(10)	74
Capital goods	96	3	(9)	90
Communications	111	3	(5)	109
Transportation	31	4	(4)	31
Other[(1)]	1,344	3	(174)	1,173
Total equity securities	$3,137	$ 112	$ (444)	$ 2,805

(1) Other consists primarily of index-based securities.

The net unrealized loss for the equity portfolio totaled $332 million, comprised of $112 million of unrealized gains and $444 million of unrealized losses at December 31, 2008. This is compared to a net unrealized gain for the equity portfolio totaling $990 million at December 31, 2007, comprised of $1.10 billion of unrealized gains and $106 million of unrealized losses. Within the equity portfolio, the losses were primarily concentrated in the consumer goods, banking, financial services, energy, basic industry, utilities, real estate and technology sectors. The unrealized losses in these sectors were company and sector specific. All securities in an unrealized loss position at December 31, 2008 were included in our portfolio monitoring process for determining whether declines in value are other than temporary.

Portfolio Monitoring We have a comprehensive portfolio monitoring process to identify and evaluate, on a case-by-case basis, fixed income and equity securities whose carrying value may be other-than-temporarily impaired. The process includes a quarterly review of all securities using a screening process to identify situations where the fair value, compared to amortized cost for fixed income securities and cost for equity securities, is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings, ratings downgrades or payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated based on facts and circumstances for inclusion on our watch-list. All investments in an unrealized loss position at December 31, 2008 were included in our portfolio monitoring process for determining whether declines in value were other than temporary.

We also conduct a portfolio review to recognize impairment on securities in an unrealized loss position for which we do not have the intent and ability to hold until recovery as a result of approved programs involving the disposition of investments for reasons such as negative developments that would change the view of long term investors and their intent to continue to hold the investment, subsequent credit deterioration of an issuer or holding, subsequent further deterioration of capital markets (i.e. debt and equity) and of economic conditions, subsequent further deterioration in the financial services and real estate industries, changes in duration, revisions to strategic asset allocations, liquidity needs, unanticipated federal income tax situations involving capital gains and capital loss carrybacks and carryforwards with specific expiration dates, investment risk mitigation actions, and other new facts and circumstances that would cause a change in our previous intent to hold a security to recovery or maturity.

The following table summarizes fixed income and equity securities in a gross unrealized loss position according to significance, aging and investment grade classification.

	December 31, 2008				December 31, 2007			
	Fixed income				Fixed income			
($ in millions except number of issues)	Investment grade	Below investment grade	Equity	Total	Investment grade	Below investment grade	Equity	Total
Category (I): Unrealized loss less than 20% of cost(1)								
Number of issues	4,303	275	112	4,690	4,058	379	322	4,759
Fair value	$ 29,070	$ 1,172	$ 1,269	$ 31,511	$ 31,489	$ 2,446	$ 884	$ 34,819
Unrealized	$ (2,523)	$ (147)	$ (74)	$ (2,744)	$ (1,391)	$ (146)	$ (66)	$ (1,603)
Category (II): Unrealized loss greater than or equal to 20% of cost for a period of less than 6 consecutive months(1)								
Number of issues	1,216	356	221	1,793	176	21	192	389
Fair value	$ 8,445	$ 1,555	$ 676	$ 10,676	$ 1,096	$ 134	$ 102	$ 1,332
Unrealized	$ (5,365)	$ (902)	$ (365)	$ (6,632)	$ (578)	$ (80)	$ (38)	$ (696)
Category (III): Unrealized loss greater than or equal to 20% of cost for a period of 6 or more consecutive months, but less than 12 consecutive months(1)								
Number of issues	208	29	1	238			5	5
Fair value	$ 878	$ 136	$ 2	$ 1,016	$	$	$ 1	$ 1
Unrealized	$ (1,686)	$ (197)	$ (1)	$ (1,884)	$	$	$ (2)	$ (2)
Category (IV): Unrealized loss greater than or equal to 20% of cost for 12 or more consecutive months(1)								
Number of issues	41	5	1	47				
Fair value	$ 79	$ 16	$ 3	$ 98	$	$	$	$
Unrealized	$ (200)	$ (21)	$ (4)	$ (225)	$	$	$	$
Total number of issues	5,768	665	335	6,768	4,234	400	519	5,153
Total fair value(2)	$ 38,472	$ 2,879	$ 1,950	$ 43,301	$ 32,585	$ 2,580	$ 987	$ 36,152
Total unrealized losses	$ (9,774)	$ (1,267)	$ (444)	$ (11,485)	$ (1,969)	$ (226)	$ (106)	$ (2,301)

(1) For fixed income securities, cost represents amortized cost.

(2) At December 31, 2008, 93.0% of the fixed income securities portfolio was rated investment grade compared to 92.7% at December 31, 2007.

The largest individual unrealized loss was $17 million for category (I), $105 million for category (II), $38 million for category (III) and $27 million for category (IV) as of December 31, 2008.

Categories (I) and (II) have generally been adversely affected by overall economic conditions including interest rate increases and the market's evaluation of certain sectors. The degree to which and/or length of time that the securities have been in an unrealized loss position does not suggest that these securities pose a high risk of being other-than-temporarily impaired.

Categories (III) and (IV) have primarily been historically adversely affected by industry and issue specific, or issuer specific conditions.

At December 31, 2008, Category (III) for fixed income was comprised primarily of fair values of $361 million of ABS RMBS, $133 million of cash flow CLO, $130 million of corporate private and $94 million of CMBS, for a total of $718 million with unrealized losses of $444 million, $420 million, $139 million and $408 million, respectively, for a total of $1.41 billion unrealized losses. No other security type individually represents more than $56 million of fair value within this category.

Of the unrealized losses on below investment grade securities, 17.2% were in significant unrealized loss positions (greater than or equal to 20% of amortized cost) for six or more consecutive months prior to December 31, 2008. Included among the securities rated below investment grade are high-yield bonds and securities that were investment grade when originally acquired. We mitigate the credit risk of investing in below investment grade fixed income securities by limiting the percentage of our fixed income portfolio invested in such securities, through diversification of the portfolio, active credit monitoring and portfolio management activities. We continue to believe that the unrealized losses on these securities are not predictive of the ultimate performance.

Whenever our initial analysis indicates that a fixed income security's unrealized loss of 20% or more for at least 36 months or any equity security's unrealized loss of 20% or more for at least 12 months is temporary, additional evaluations and management approvals are required to substantiate that a write-down is not appropriate. As of December 31, 2008, one equity security with an unrealized loss of $4 million met these criteria.

The following table contains the individual securities with the largest unrealized losses as of December 31, 2008. No other fixed income or equity security had an unrealized loss greater than $33 million or 0.3% of the total unrealized loss on fixed income and equity securities.

($ in millions)	Unrealized loss	Fair value	NAIC rating	Unrealized loss category	Fair value hierarchy level
Exchange traded fund International equity exposure	$ (105)	$ 194		II	1
Municipal	(61)	13	2	II	2
Other CMBS	(44)	18	1	II	2
CMBS Subordinated	(38)	7	1	III	3
Municipal	(38)	40	2	II	2
Diversified banking institution	(37)	33	2	II	2
Municipal	(37)	11	2	II	2
Home equity	(36)	15	1	III	3
Total	$ (396)	$ 331			

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

The following table summarizes problem, restructured and potential problem fixed income securities and bank loans, which are reported in other investments, at December 31.

	2008					
($ in millions)	Par value[1]	Amortized cost[1]	Amortized cost as a percent of par value	Fair value	Fair value as a percent of par value	Percent of total fixed income and bank loan portfolios
Restructured	$ 101	$ 86	85.2%	$ 76	75.3%	0.1%
Problem	1,027	228	22.2	186	18.1	0.3
Potential problem	1,896	707	37.3	517	27.3	0.7
Total net carrying value	$ 3,024	$ 1,021	33.8	$ 779	25.8	1.1%
Cumulative write-downs recognized[2]		$ 1,673				

	2007					
($ in millions)	Par value	Amortized cost	Amortized cost as a percent of par value	Fair value	Fair value as a percent of par value	Percent of total fixed income and bank loan portfolios
Restructured	$ 38	$ 35	92.1%	$ 35	92.1%	%
Problem	363	35	9.6	43	11.8	0.1
Potential problem	319	245	76.8	198	62.1	0.2

Total net carrying value	$ 720	$ 315	43.8	$ 276	38.3	0.3%
Cumulative write-downs recognized[2]		$ 358				

(1) The difference between par value and amortized cost of $2.00 billion at December 31, 2008 is primarily attributable to write-downs. Par value has been reduced by principal payments.

(2) Cumulative write-downs recognized only reflects impairment write-downs related to investments within the problem, potential problem and restructured categories.

At December 31, 2008, amortized cost for the problem category was $228 million and was comprised of $83 million of corporates (primarily privately placed), $49 million of financial sector-related holdings, $25 million of municipal bonds, $19 million of real estate investment trusts and $15 million of bank loans. Also included were $21 million of market value CDO, $10 million of ABS CDO, $5 million of ABS RMBS, and $1 million of Alt-A. The increase over December 31, 2007 is attributable to the addition of fixed income and bank loan holdings that either are in default with respect to principal or interest and/or are investments issued by companies that went into bankruptcy during the period. The amortized cost of problem investments with a fair value less than 70% of amortized cost totaled $74 million, with unrealized losses of $34 million and fair value of $40 million.

At December 31, 2008, amortized cost for the potential problem category was $707 million and was comprised of $218 million of Alt-A, $132 million of other CDO, $74 million of ABS RMBS, $13 million of Other ABS and $6 million of CRE CDO. Also included were $86 million of municipal bonds, $80 million of corporates (primarily privately placed home builders and suppliers), $47 million of financial sector-related holdings, $37 million of foreign government holdings and $14 million of bank loans. The increase over December 31, 2007 is primarily attributable to the additions of certain real estate-related holdings, including securities collateralized by residential and commercial mortgage loans, as well as market value, cash flow and synthetic CDO. Also contributing to the increase were financial sector-related holdings and corporates, primarily privately placed. The amortized cost of potential problem investments with a fair value less than 70% of amortized cost totaled $269 million, with unrealized losses of $161 million and fair value of $108 million.

We evaluated each of these investments through our portfolio monitoring process at December 31, 2008 and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these investments were temporary in nature and that we have the intent and ability to hold the securities until recovery.

Net Investment Income The following table presents net investment income for the years ended December 31.

($ in millions)	2008	2007	2006
Fixed income securities	$ 4,783	$ 5,459	$ 5,329
Equity securities	120	114	117
Mortgage loans	618	600	545
Limited partnership interests	62	293	187
Other	249	412	404
Investment income, before expense	5,832	6,878	6,582
Investment expense	(210)	(443)	(405)
Net investment income(1)	$ 5,622	$ 6,435	$ 6,177

(1) Beginning in the fourth quarter of 2008, income from EMA LP is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income. The amount of EMA LP income included in net investment income was $24 million in 2008, $198 million in 2007 and $91 million in 2006. The amount of EMA LP loss included in realized capital gains and losses was $97 million in 2008.

Total investment expenses decreased $233 million in 2008 compared to 2007, after increasing $38 million in 2007 compared to 2006. The 2008 decrease was primarily due to lower expenses associated with a lower amount of collateral received in connection with securities lending transactions. The average amount of collateral held in connection with securities lending was approximately $2.46 billion in 2008 compared to approximately $4.55 billion in 2007, as a result of actions to reduce our securities lending balances.

Net Realized Capital Gains and Losses The following table presents the components of realized capital gains and losses and the related tax effect for the years ended December 31.

($ in millions)	2008	2007	2006
Sales[(1)]	$ (464)	$ 1,483	$ 491
Impairment write-downs[(2)]	(1,983)	(163)	(47)
Change in intent write-downs[(1)(3)]	(1,752)	(147)	(112)
Valuation of derivative instruments	(1,280)	(77)	26
EMA LP income[(4)]	(97)		
Settlement of derivative instruments	486	139	(72)
Realized capital gains and losses, pre-tax	(5,090)	1,235	286
Income tax benefit (expense)	1,779	(437)	(100)
Realized capital gains and losses, after-tax	$ (3,311)	$ 798	$ 186

(1) To conform to the current period presentation, certain amounts in the prior periods have been reclassified.

(2) Impairment write-downs reflect issue specific other-than-temporary declines in fair value, including instances where we could not reasonably assert that the recovery period would be temporary.

(3) Change in intent write-downs reflect instances where we cannot assert a positive intent to hold until recovery.

(4) Beginning in the fourth quarter of 2008, income from EMA LP is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income.

Sales net realized losses in 2008 were due to net realized losses on equity securities of $701 million comprised of gross losses of $1.45 billion and gross gains of $751 million. The gross losses primarily resulted from the execution of tax planning strategies primarily within our equity portfolios that are effectively carried on a lower of cost or fair value basis to realize capital loss carryback benefits. The net realized gains on sales in 2007 were primarily due to net realized gains on equity securities of $1.14 billion comprised of gross gains of $1.39 billion and gross losses of $252 million. The gross gains were attributable to our continuing tactical reallocation of equity securities in the Property-Liability portfolio.

The ten largest losses from sales of individual securities for the year ended December 31, 2008 totaled $239 million and ranged from $12 million to $46 million. Five securities totaling $54 million were in an unrealized loss position greater than or equal to 20% of amortized cost for fixed income securities or cost for equity securities for a period of less than six consecutive months. One security totaling $13 million was in an unrealized loss position greater than or equal to 20% of amortized cost for fixed income securities or cost for equity securities for a period of more than six but less than twelve consecutive months.

Our largest aggregate loss on sales and write-downs are shown in the following table by issuer and its affiliates. No other issuer together with its affiliates had an aggregated loss on sales and write-downs greater than 0.8% of the total gross loss on sales and write-downs on fixed income and equity securities.

($ in millions)	Fair value at sales ("proceeds")	Gain/ loss on Sales	Write-downs	December 31, 2008 holdings[(1)]	Net unrealized gain (loss)
Finance company	$ 173	$ (12)	$ (109)	$ 7	$ (1)
Savings and loan	22	(3)	(87)		
MBS Alt-A			(71)	23	(6)
Large international insurer	102	(3)	(59)	54	(6)
Brokerage	164	(7)	(53)	121	(3)
Synthetic CDO			(50)	14	(10)
Exchange traded funds Dow Jones Financial Index	150	(33)	(16)		
Exchange traded funds International exposure	24	(12)	(34)	764	(17)

Bank	100	5	(51)	206	(14)
Finance company			(45)		
Mortgage association	386	10	(55)	231	10
Total	$ 1,121	$ (55)	$ (630)	$ 1,420	$ (47)

(1) Holdings include fixed income securities at amortized cost or equity securities at cost.

The circumstances of the above losses are considered to be security or issue specific and are not expected to have a material effect on other holdings in our portfolios.

We may sell or change our intent to hold a security until recovery for impaired fixed income or equity securities that were in an unrealized loss position at the previous reporting date, or other investments where the fair value has declined below the amortized cost or cost, in situations where significant unanticipated new facts and circumstances emerge or existing facts and circumstances increase in significance and are anticipated to adversely impact a security's future valuations more than previously expected; including negative developments that would change the view of long term investors and their intent to continue to hold the investment, subsequent credit deterioration of an issuer or holding, subsequent further deterioration in capital markets (i.e. debt and equity) and of economic conditions, subsequent further deterioration in the financial services and real estate industries, liquidity needs, unanticipated federal income tax situations involving capital gains and capital loss carrybacks and carryforwards with specific expiration dates, investment risk mitigation actions, and other new facts and circumstances that would cause a change in our previous intent to hold a security to recovery or maturity.

Upon approval of programs involving the expected disposition of investments, portfolio managers identify a population of suitable investments, typically larger than needed to accomplish the objective, from which specific securities are selected to sell. Due to our change in intent to hold until recovery, we recognize impairments on investments within the population that are in an unrealized loss position. Further unrealized loss positions that develop subsequent to the original write-down are recognized in the reporting period in which they occur through the date the program is closed. The program is closed when the objectives of the program are accomplished or a decision is made not to fully complete it, at which time an evaluation is performed of any remaining securities and where appropriate they are redesignated as having the intent to hold to recovery. Reasons resulting in a decision not to complete an approved program include matters such as the mitigation of concerns that led to the initial decision, changes in priorities or new complications that emerge from significant unanticipated developments, such as subsequent significant deterioration which we view to be temporary in nature, to the point at which securities could only be sold at prices below our view of their intrinsic values, or subsequent favorable developments that support a return to having the intent to hold to recovery. Subsequent other-than-temporary impairment evaluations utilize the amortized cost or cost basis that reflect the write-downs. Fixed income securities subject to change in intent write-downs, including those redesignated as intent to hold, continue to earn investment income and any discount or premium from the amortized cost basis that reflects the write-downs is recognized using the effective yield method over the expected life of the security.

As previously described above, it is not possible to reliably identify a reasonably likely circumstance that would result in a change in intent to hold securities to recovery leading to the reporting of additional realized capital losses, since they result from significant unanticipated changes. Our fixed income securities and equity securities have gross unrealized losses of $11.04 billion and $444 million, respectively, at December 31, 2008 that we concluded were temporary in nature and we have the intent and ability to hold the securities until recovery.

Impairment write-downs for the years ended December 31 are presented in the following table.

($ in millions)	**2008**	**2007**	**2006**
Fixed income securities	$ (1,507)	$ (109)	$ (16)
Equity securities	(328)	(25)	(13)
Limited partnership interests	(112)	(25)	(13)
Short-term investments		(1)	(3)
Other investments	(36)	(3)	(2)
Total impairment write-downs	$ (1,983)	$ (163)	$ (47)

$1.02 billion, or 67.9% of the fixed income security write-downs in 2008 related to impaired securities that were performing in line with anticipated or contractual cash flows, but which were written down primarily because of expected deterioration in the performance of the underlying collateral or our assessment of the probability of future default. As of December 31, 2008, for these securities, there have been no defaults or defaults impacting classes lower in the capital structure. $194 million of the fixed income security write-downs in 2008 primarily related to securities experiencing a significant departure from anticipated cash flows; however, we believe they retain economic value and $126 million related to securities for which future cash flows are very uncertain. Equity securities were written down primarily due to the length of time and extent fair value was below cost, considering our assessment of the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends.

Impairment write-downs and cash received, inclusive of sales, on these investments for the year ended December 31, 2008 are presented in the following table. Notwithstanding our intent and ability to hold these securities with impairment write-downs, we concluded that we could not reasonably assert that the recovery period would be temporary.

($ in millions)	December 31, 2008	
	Impairment write-downs	**Cash received[3]**
Performing in accordance with anticipated or contractual cash flows		
Alt A	$	$
No defaults in underlying collateral	(85)	41
Defaults lower in capital structure	(115)	27
	(200)	68
ABS RMBS	(183)	25
ABS CDO	(63)	5
CMBS and CRE CDO	(46)	6
Other CDO	(94)	18
Synthetic CDO	(186)	8
Corporate		
Automotive	(3)	5
Bond reinsurer convertible to perpetual security	(22)	1
Financials	(68)	19
Gaming	(3)	
Home construction	(71)	9
Oil and gas	(2)	4
Publishing	(4)	
Real estate and Real Estate Investment Trust	(44)	3
Telecommunications	(15)	5
Other	(3)	
Subtotal	(235)	46
Other	(17)	13
Subtotal[1]	**(1,024)**	**189**
Departure from anticipated or contractual cash flows		
Future cash flows expected		
ABS RMBS	(35)	9
Municipal bonds	(7)	1
Corporate		
Broadcasting	(23)	
Residual interest trust security	(82)	
Equity structured note	(30)	
Financials	(17)	12
Subtotal[2]	**(194)**	**22**
Future cash flows very uncertain-		
Other CDO	(38)	2
ABS RMBS	(6)	1
Corporate		
Bond insurer	(10)	
Financials	(71)	25
Other	(1)	
Subtotal	**(126)**	**28**
Investments disposed	(163)	159
Total fixed income securities[4]	**$ (1,507)**	**$ 398**
Total equity securities	**$ (328)**	**$ 1,159**

Total limited partnership interests	**$ (112)**	**$ 30**
Total other investments	**$ (36)**	**$ 7**

(1) Written down primarily because of expected deterioration in the performance of the underlying collateral or our assessment of the probability of future default. As of December 31, 2008, for the securities with direct interest in the lender, there have been no defaults. For securities supported by collateral, there have been no defaults or defaults have occurred in classes lower in the capital structure.

(2) Experienced a significant departure from anticipated residual cash flows. While these fixed income security write-downs were valued at a significant discount to cost, we believe these securities retain economic value.

(3) Cash received includes both income and principal collected during the period and proceeds upon sale.

(4) Impairment write-downs on our illiquid portfolios were $882 million.

Change in intent write-downs totaling $1.75 billion in 2008 included $1.56 billion for fixed income securities, $120 million for equity securities, $74 million for mortgage loans and $3 million for other investments compared to $84 million for fixed income securities, $32 million for equity securities, $30 million for mortgage loans and $1 million for other investments in 2007. The change in intent write-downs in 2008 were a result of our risk mitigation and return optimization programs, enterprise asset allocations and ongoing comprehensive reviews of our portfolios.

Change in intent write-downs for year ended December 31, 2008 are presented in the table below.

($ in millions) Criteria	Security type	SFAS No. 157 level	Fair value of outstanding change in intent assets	Net realized capital loss[3]
Risk mitigation				
Targeted reductions[1] in commercial real estate exposure where it is anticipated that future downside risk remains. Considerations included position held in the capital structure, vintage year, illiquidity and deteriorating fundamentals.	CRE CDO	3	$ 27	$ (331)
	CMBS	2		(22)
		3	29	(203)
	Mortgage loans	3	127	(73)
Targeted reductions[1] in residential real estate where management believes there is a risk of future material declines in price in the event of continued deterioration in the economy. Considerations included position held in the capital structure, projected performance of the collateral, and expected internal rates of return.	Prime	2		(9)
		3		(11)
	Alt-A	3	34	(138)
	ABS RMBS	3	51	(281)
Targeted reductions[1] in financial sector exposure included securities issued by certain regional banks and certain large financial institutions.	Financial sector	2	14	(178)
		3		(33)
	Other	2	4	(18)
Total risk mitigation			286	(1,297)
Individual identification			705	(283)
Enterprise-wide asset allocation			5	(164)
Other				(8)
Total			$ 996	$ (1,752)[2]

(1) Targeted reductions are made from identified specific investments.

(2) Change in intent write-downs on our illiquid portfolios were $997 million.

(3) Change in intent write-downs are related to the risk mitigation targeted reduction for this security type for the year and not for the outstanding change in intent assets at December 31, 2008.

Investments for which we had changed our intent to hold to recovery as of June 30, 2008 totaled $6.39 billion and included $3.31 billion as part of the risk mitigation and return optimization programs, $2.39 billion of securities as part of our enterprise-wide asset allocation program and $688 million related to individual securities. The following table summarizes the activity related to investments for which we had changed our intent to hold.

($ in millions)	
Carrying value as of June 30, 2008	$ 6,385
Re-designated as intent to hold to recovery as of October 1, 2008[(1)]	(2,589)
Sales:	
Risk mitigation and return optimization program[(2)]	(1,237)
Enterprise asset allocation and other programs	(1,705)
Net realized capital gains and losses on sales:	
Risk mitigation and return optimization program[(2)]	(104)
Enterprise asset allocation and other programs	46
Additional change in intent designations[(3)]	1,119
Write-downs[(4)]	(831)
Other	(88)
Carrying value as of December 31, 2008	$ 996

(1) Net unrealized capital losses on these re-designated investments were $289 million as of December 31, 2008.

(2) Net proceeds from the sales of risk mitigation and return optimization actions totaled $1.24 billion with an additional loss of $104 million or 92% of fair values reported at June 30, 2008.

(3) Comprised $865 million and $254 million for which we changed our intent to hold in the third and fourth quarter of 2008, respectively, due to unanticipated changes in facts and circumstances.

(4) Includes change in intent write-downs of $453 million and $241 million in the third and fourth quarter of 2008, respectively, and impairment write-downs of $122 million and $15 million in the third and fourth quarter of 2008, respectively.

Our original objective in our June 30, 2008 risk mitigation and return optimization program was to reduce our exposure to the identified investments in an orderly fashion prior to additional significant negative impacts. Though we were able to complete a considerable portion of the reduction, approximately $1.24 billion of this program, during the third and fourth quarters of 2008 the financial markets experienced additional and severe dislocation. A series of events, which includes the effects of failures of large financial institutions and intermediaries and various intervention by the government, significantly increased the level of uncertainty in the market. These conditions drove significant volatility in the levels of liquidity and put additional and immediate downward pressures on prices of certain of these investments in respect to our estimated intrinsic values. As a result of these market conditions, which have worsened, we determined that we would not be able to sell certain of these investments at our view of their intrinsic values.

Investments re-designated at October 1, 2008 as having the intent to hold to recovery due to our inability to dispose of them for values equal to or greater than our view of their intrinsic value are presented in the following table.

($ in millions)	**Fair value at October 1, 2008**	**Amortized cost at October 1, 2008**	**Fair value at December 31, 2008**	**Amortized cost at December 31, 2008**
Corporate	$ 618	$ 616	$ 578	$ 592
Finance sector[(1)]	607	603	469	537
ABS RMBS	591	589	462	610
Municipal	482	482	493	479
Alt-A	126	126	89	121
Prime	53	59	40	55
Corporate privately placed securities	40	40	24	27
Other	79	74	55	78

Total	$ 2,596	$ 2,589	$ 2,210	$ 2,499

(1) Includes corporate, corporate privately placed securities and equity securities with financial sector exposure.

For the year ended December 31, 2007, we recognized $147 million of losses related to a change in our intent to hold certain investments with unrealized losses in the Property-Liability and Allstate Financial segments until they recover in value. The change in our intent was primarily related to strategic asset allocation decisions and ongoing comprehensive reviews of our portfolios as well as a liquidity strategy in the Property-Liability portfolio. At December 31, 2007, the fair value of securities for which we did not have the intent to hold until recovery totaled $1.68 billion.

Valuation and settlement of derivative instruments net realized capital losses totaling $794 million for the year ended December 31, 2008 included $1.28 billion losses on valuation of derivative instruments, including $510 million of losses for the accounting valuation of embedded options in equity indexed notes and convertible fixed income securities, partially offset by $486 million of gains on the settlement of derivative instruments. For the year ended December 31, 2007, net realized capital gains on the valuation and settlement of derivative instruments totaled $62 million.

At December 31, 2008, our securities with embedded options totaled $1.46 billion and decreased in fair value from December 31, 2007 by $934 million, comprised of realized capital losses on valuation of $510 million, net sales activity of $350 million, and unrealized net capital losses reported in other comprehensive income ("OCI") of $74 million for the host securities. Net unrealized capital losses were further increased by $7 million due to amortization and impairment write-downs on the host securities. The change in fair value of embedded options is bifurcated from the host securities, separately valued and reported in realized capital gains and losses, while the change in value of the host securities is reported in OCI. Total amortized cost exceeded total fair value by $22 million at December 31, 2008. Valuation gains and losses are converted into cash for securities with embedded options upon our election to sell these securities. In the event the economic value of the options is not realized, we will recover the par value if held to maturity unless the issuer of the note defaults. Total par value exceeded fair value by $346 million at December 31, 2008.

Losses on derivatives used for interest rate risk management but which have not been designated as accounting hedges, primarily in our duration management programs, were related to changing interest rates and, to a lesser extent, widening credit spreads.

Gains from the risk reduction programs, primarily in our equity hedge program, were related to declines in the fair value of S&P related securities and losses were experienced in our income generation programs and from the valuation changes of embedded options in fixed income securities.

A changing interest rate environment will drive changes in our portfolio duration targets at a tactical level. A duration target and range is established with an economic view of liabilities relative to a long-term investment portfolio view. Tactical duration management is accomplished through both cash market transactions including new purchases and derivative activities that generate realized gains and losses. As a component of our approach to managing portfolio duration, realized gains and losses on certain derivative instruments are most appropriately considered in conjunction with the unrealized gains and losses on the fixed income portfolio. This approach mitigates the impacts of general interest rate changes to the overall financial condition of the Company.

The table below presents the realized capital gains and losses (pre-tax) on the valuation and settlement of derivative instruments shown by underlying exposure and derivative strategy for the years ended December 31.

	2008			2007	2006	2008 Explanations
($ in millions)	Valuation	Settlements	Total	Total	Total	
Risk reduction						
Property Liability						
Portfolio duration management	$ 38	$ (48)	$ (10)	$ (50)	$ (1)	Net short interest rate futures and municipal interest rate swaps are used to offset the effects of changing interest rates on a portion of the Property-Liability fixed income portfolio that is reported in unrealized net capital gains or losses in OCI. The short interest rate future contracts are exchange traded, daily cash settled and can be exited at any time for minimal additional cost. The 2008 year-to-date ("YTD") settlement loss on futures resulted from decreases in risk free interest rates. Unrealized gains on the fixed income portfolio caused by decreasing interest rates did not offset settlement losses due to widening credit spreads. The municipal interest rate swaps can be terminated at any time for minimal additional cost. Periodic settlements occur quarterly. The 2008 YTD valuation gain represents the changing value of expected future settlements and resulted from increases in the municipal interest rates. Unrealized losses on the municipal fixed income portfolio, caused by widening credit spreads, more than offset the valuation gains on the derivative.
Interest rate spike exposure	(81)	(16)	(97)	(20)		Interest rate swaption contracts, with approximately one-year terms, and exchange traded options on treasury futures provide an offset to declining fixed income market values resulting from potential rising interest rates. The existing swaption contracts at December 31, 2008 protect $14.50 billion of notional principal by limiting the decline in value to approximately $1.50 billion for an increase in risk-free rates greater than approximately 150 basis points above those in effect at inception of the contracts. During 2008, $12.00 billion notional of interest rate swaption contracts, executed in the second half of 2007, expired. Additionally, $9.50 billion notional were replaced at a lower strike price and resulted in a settlement loss being recognized. Exchange traded options on treasury futures were utilized in fourth quarter of 2008 to supplement the protection provided by swaption contracts without increasing the counterparty risk associated with OTC contracts. The options on futures contracts at December 31, 2008 protect $4.00 billion of notional principal by limiting the decline in value to approximately $1.50 billion for an increase in risk-free rates greater than approximately 100 basis points above those in effect at inception of the contracts. The 2008 YTD valuation loss resulted from a decrease in interest rates during the year. Interest rate swaption contracts and exchange traded options can expire, terminate early at minimal additional cost, or the option can be exercised. If interest rates do not increase above the strike rate, the maximum remaining potential loss in 2009 is limited to the remaining unrecognized premium cost of $11 million at December 31, 2008.
Hedging unrealized gains on equity securities	(53)	473	420	61	(13)	Short S&P futures were primarily used to protect unrealized gains on our equity securities portfolio reported in unrealized net capital gains or losses in accumulated OCI. The futures contracts are exchange traded, daily cash settled and can be exited at any time for minimal additional cost. The 2008 YTD settlement gains on futures offset the decline in our unrealized gains on equity securities as equity markets declined. Exchange traded put options provide an offset to significant declines in equity market values below a targeted level. Options can expire, terminate early or the option can be exercised. If the equity index does not fall below the put's strike price, the maximum loss on purchased puts is limited to the amount of the premium paid. The exchange traded put options purchased during third and fourth quarter were replaced at the end of December at lower strikes and resulted in $114 million settlement gain. OTC collars, comprised of purchased puts and written calls were terminated and resulted in $228 million settlement gain. The 2008 YTD valuation loss on options offset the increase in our unrealized gains on equity portfolios as equity markets increased during the last few days of the year.
Foreign currency contracts	(25)	(2)	(27)	6		
Credit risk reduction	48		48	8		Valuation gain is the result of widening credit spreads on referenced credit entities.

Allstate Financial Duration gap management	(543)	40	(503)	(27)	(51)	Interest rate caps, floors and swaps are used by Allstate Financial to align interest-rate sensitivities of its assets and liabilities. The contracts settle based on differences between current market rates and a contractually specified fixed rate through expiration. The contracts can be terminated and settled at anytime with a minimal additional cost. The maximum loss on caps and floors would be limited to the amount of premium paid for the protection. The change in valuation reflects the changing value of expected future settlements from changing interest rates, which may vary over the period of the contracts. The 2008 YTD losses, resulting from decreasing interest rates, are offset in unrealized gains in OCI to the extent it relates to changes in risk-free rates; however, the impact of widening credit spreads more than offset this benefit.
Anticipatory hedging	(1)	154	153	(30)	17	Futures are used to protect investment spread from interest rate changes during mismatches in the timing of cash flows between product sales and the related investment activity. The futures contracts are exchange traded, daily cash settled and can be exited at any time for minimal additional cost. If the cash flow mismatches are such that a positive net investment position is being hedged, there is an offset for the related investments unrealized loss in OCI. The 2008 YTD amounts reflect decreases in risk-free interest rates on a net long position as liability issuances exceeded asset acquisitions.
Hedging of interest rate exposure in annuity contracts	(22)	(7)	(29)	(22)	1	Value of expected future settlements and the associated value of future credited interest, which is reportable in future periods when incurred, decreased due to declining interest rates.
Hedging unrealized gains on equity indexed notes		7	7	1		
Hedge ineffectiveness	(2)	(2)	(4)	(13)	(7)	The hedge ineffectiveness of ($2 million) includes $416 million in realized capital losses on swaps that were offset by $414 million in realized capital gains on the hedged risk.

($ in millions)	2008 Valuation	2008 Settlements	2008 Total	2007 Total	2006 Total	2008 Explanations
Foreign currency contracts		(1)	(1)	(13)	(5)	
Credit risk reduction	20	(3)	17			Valuation gain is the results of widening credit spreads on referenced credit entities.
Other	(27)		(27)	(16)		
Total Risk reduction	$ (648)	$ 595	$ (53)	$ (115)	$ (59)	
Income generation						
Asset replication credit exposure						Credit default swaps are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. The credit default swaps typically have five year term for which we receive periodic premiums through expiration. The 2008 YTD changes in valuation are due to the widening credit spreads, and would only be converted to cash upon disposition which can be done at any time, or if the credit event specified in the contract occurs. The maximum exposure is equal to the notional amount of the credit derivative. When the credit event specified in the contract occurs, we are obligated to pay the counterparty the notional amount of the contract and receive in return the referenced defaulted security or similar security. As of December 31, 2008, we had $1.06 billion of notional outstanding.
Property Liability	$ (50)	$ 9	$ (41)	$ (12)	$ 2	
Allstate Financial	(71)	9	(62)	(18)	4	
Total	(121)	18	(103)	(30)	6	
Asset replication equity exposure						
Property Liability		(84)	(84)	16		Settlement loss was a result of the decline in equity markets.
Commodity derivatives						
Property Liability	(1)	(43)	(44)	106	(111)	The settlement losses are the result of decreasing returns on the underlying commodity index. There were no open positions as of December 31, 2008.
Total Income generation	$ (122)	$ (109)	$ (231)	$ 92	$ (105)	
Accounting						
Equity indexed notes Allstate Financial	$ (290)	$	$ (290)	$ 38	$ 35	Equity-indexed notes are fixed income securities that contain embedded options. The changes in valuation of the embedded equity indexed call options are reported in realized capital gains and losses. The results generally track the performance of underlying equity indices. During 2008, one of the embedded options was valued at $0 due to the counterparty's bankruptcy. As a result, an additional $21 million of losses was reported in realized capital gains and losses. Valuation gains and losses are converted into cash upon sale or maturity. In the event the economic value of the options is not realized, we will recover the par value of the host fixed income security if held to maturity unless the issuer of the note defaults. Par value exceeded fair value by $167 million at December 31, 2008. Equity-indexed notes are subject to our comprehensive portfolio monitoring and watchlist processes to identify and evaluate when the carrying value may be other-than-temporarily impaired. As a result of this process, one issue was written-down during 2008 due to the issuer's bankruptcy. The following table compares the December 31, 2008 and December 31, 2007 holdings respectively.

($ in millions)	December 31, 2008	Change	December 31, 2007
Par value	$ 800	$	$ 800
Amortized cost of host contract	$ 486	$ (11)	$ 497
Fair value of equity			

indexed call option		132	(290)	422
Total amortized cost	$	618	$ (301)	$ 919
Total Fair value	$	633	$ (291)	$ 924
Unrealized gain/loss	$	15	$ 10	$ 5

Conversion options in fixed income securities						
Property Liability	(143)			(143)	19	46
Allstate Financial	(77)			(77)	28	37
Total	(220)			(220)	47	83
Total Accounting	$ (510)	$		$ (510)	$ 85	$ 118
Total	$ (1,280)	$	486	$ (794)	$ 62	$ (46)

Convertible bonds are fixed income securities that contain embedded options. Changes in valuation of the embedded option are reported in realized capital gains and losses. The results generally track the performance of underlying equities. Valuation gains and losses are converted into cash upon our election to sell these securities. In the event the economic value of the options is not realized, we will recover the par value of the host fixed income security if held to maturity unless the issuer of the note defaults. Par value exceeded fair value by $179 million at December 31, 2008. Convertible bonds are subject to our comprehensive portfolio monitoring and watchlist processes to identify and evaluate when the carrying value may be other-than-temporarily impaired. As a result of this process, four issues were written-down during 2008. The following table compares the December 31, 2008 and December 31, 2007 holdings respectively.

($ in millions)	**December 31, 2008**	**Change in Fair Value**	**Change due to Net Sale Activity**	**December 31, 2007**
Par value	$ 1,005	$	$ (411)	$ 1,416
Amortized cost of host contract	$ 662	$ 18	$ (345)	$ 989
Fair value of conversion option	201	(220)	(40)	461
Total amortized cost	$ 863	$ (202)	$ (385)	$ 1,450
Total Fair value	$ 826	$ (293)	$ (350)	$ 1,469
Unrealized gain/loss	$ (37)	$ (91)	$ 35	$ 19

Included in the table above are net realized capital gains on the valuation and settlement of derivative instruments related to our risk mitigation and return optimization programs initiated in 2008 totaling $256 million for the year ended December 31, 2008. These realized capital gains and losses are detailed in the following table for the year ended December 31, 2008.

($ in millions)	Valuation	Settlement	Total
Portfolio duration management	$ 38	$ 1	$ 39
Interest rate spike exposure	(81)	(16)	(97)
Hedging unrealized gains on equity securities	(48)	342	294
Credit risk hedging	25	(5)	20
Total	$ (66)	$ 322	$ 256

The following table presents the breakout by operating segment for net realized capital gains on the valuation and settlements of derivatives for the years ended December 31:

($ in millions)	2008	2007	2006
Property-Liability	$ (7)	$ 118	$ (77)
Allstate Financial	(788)	(57)	31
Corporate and Other	1	1	
Total	$ (794)	$ 62	$ (46)

Fair Value of Financial Assets and Financial Liabilities

The following table provides additional details regarding Level 1, 2 and 3 financial assets and financial liabilities by their classification in the Consolidated Statement of Financial Position at December 31, 2008. For further discussion of Level 1, 2 and 3 financial assets and financial liabilities, see Note 2 of the consolidated financial statements and the Application of Critical Accounting Estimates section of the MD&A.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Other valuations and netting	Balance as of December 31, 2008
Financial assets					
Fixed income securities:					
Corporate	$	$ 14,132	$ 486		$ 14,618
Corporate privately placed securities		3,300	9,709		13,009
Municipal		19,323	793		20,116
Municipal ARS		62	1,670		1,732
U.S. government and agencies	662	3,572			4,234
ABS RMBS			2,067		2,067
Alt-A			582		582
Other CDO			778		778
Other ABS			526		526
ABS CDO			6		6
CRE CDO			27		27
CMBS		3,389	430		3,819
Preferred stock		24	2		26
MBS		3,577	333		3,910
Foreign government		2,675			2,675
ABS Credit card, auto and student loans		73	410		483
Total fixed income securities	662	50,127	17,819		68,608
Equity securities:					
U.S. equities	2,260	1	37		2,298
International equities	217	96	29		342
Other		157	8		165
Total equity securities	2,477	254	74		2,805
Short-term investments:					
Commercial paper and other		8,343			8,343
Money market funds	563				563
Total short term investments	563	8, 343			8,906
Other investments:					
Free standing derivatives		812	13		825
Total other investments		812	13		825
Total recurring basis assets	**3,702**	**59,536**	**17,906**		**81,144**
Non recurring basis			301		301
Valued at cost, amortized cost or using the equity method				$ 15,078	15,078
Counterparty and cash collateral netting[(1)]				(525)	(525)
Total investments	**3,702**	**59,536**	**18,207**	**14,553**	**95,998**
Separate account assets	8,239				8,239
Other assets			1		1
Total financial assets	**$ 11,941**	**$ 59,536**	**$ 18,208**	**$ 14,553**	**$ 104,238**
% of total financial assets	11.4%	57.1%	17.5%	14.0%	100.0%
Financial liabilities					
Contractholder funds:					

Derivatives embedded in annuity contracts	$	$ (37)	$ (265)		$ (302)
Other liabilities:					
Free standing derivatives		(1,177)	(114)		(1,291)
Non recurring basis					
Counterparty and cash collateral netting[1]				$ 505	505
Total financial liabilities	**$**	**$ (1,214)**	**$ (379)**	**$ 505**	**$ (1,088)**
% of total financial liabilities	%	111.6%	34.8%	(46.4)%	100.0%

(1) In accordance with Financial Accounting Standards Board ("FASB") Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No. 39*, we net all fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral executed with the same counterparty under a master netting agreement. At December 31, 2008, the right to reclaim cash collateral was offset by securities held, and the obligation to return collateral was $20 million.

The following table provides a summary of changes in fair value during the year ended December 31, 2008 of Level 3 financial assets and financial liabilities held at fair value on a recurring basis at December 31, 2008.

($ in millions)	Balance as of January 1, 2008	Total realized and unrealized gains (losses) included in: Net income[(1)]	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/ or (out) of Level 3	Balance as of December 31, 2008	Total gain (losses) included in Net Income for instruments still held at December 31, 2008[(4)]
Financial assets							
Fixed income securities:							
Corporate	$ 810	$ (100)	$ (59)	$ (380)	$ 215	$ 486	$ (102)
Corporate privately placed securities	12,058	(326)	(1,343)	(991)	311	9,709	(277)
Municipal	991	3	(255)	(5)	59	793	(5)
Municipal ARS	486		(130)	(200)	1,514	1,670	
ABS RMBS	3,926	(526)	(566)	(767)		2,067	(444)
Alt A	1,347	(384)	(121)	(260)		582	(201)
Other CDO	2,010	(288)	(889)	(35)	(20)	778	(290)
Other ABS	1,339	(15)	(159)	(660)	21	526	(10)
ABS CDO	36	(63)	38	(5)		6	(63)
CRE CDO	568	(438)	184	(287)		27	(182)
CMBS	265	(41)	(475)	(96)	777	430	(20)
Preferred stock	1	1				2	
MBS	96	2	(82)	(26)	343	333	
Foreign government	19	1		(6)	(14)		
ABS Credit card, auto and student loans	420	(13)	(58)	(158)	219	410	
Total fixed income securities	24,372	(2,187)	(3,915)	(3,876)	3,425	17,819	(1,594)
Equity securities	129	(102)	5	20	22	74	(5)
Other investments:							
Free-standing derivatives, net	10	(235)		124		(101)(2)	(106)
Total investments	24,511	(2,524)	(3,910)	(3,732)	3,447	17,792(3)	(1,705)
Other assets	2	(1)				1	(1)
Total recurring Level 3 financial assets	$ 24,513	$ (2,525)	$ (3,910)	$ (3,732)	$ 3,447	$ 17,793	$ (1,706)
Financial liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ 4	$ (270)	$	$ 1	$	$ (265)	$ (270)
Total recurring Level 3 financial liabilities	$ 4	$ (270)	$	$ 1	$	$ (265)	$ (270)

(1) The effect to net income of financial assets and financial liabilities totals $(2.79) billion and is reported in the Consolidated Statements of Operations as follows: $(2.65) billion in realized capital gains and losses; $134 million in net investment income; $(6) million in interest credited to contractholder funds; and $(270) million in life and annuity contract benefits.

(2) Comprises $13 million of financial assets and $(114) million of financial liabilities.

(3) Comprises $17.91 billion of investments and $(114) million of free standing derivatives included in financial liabilities.

(4)

The amounts represent gains and losses included in net income for the period of time that the financial asset or financial liability was determined to be in Level 3. These gains and losses total $(1.98) billion and are reported in the Consolidated Statements of Operations as follows: $(1.81) billion in realized capital gains and losses; $103 million in net investment income; $(1) million in interest credited to contractholder funds; and $(270) million in life and annuity contract benefits.

Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market, all ABS RMBS, Alt-A, ARS backed by student loans and certain ABS and certain CMBS are categorized as Level 3. Transfers into and out of Level 3 during the twelve months ended December 31, 2008 are attributable to a change in the availability of market observable information for individual securities within the respective categories. Due to the continued lack of liquidity for the segment of the ARS market backed by student loans, certain market observable data utilized for valuation purposes became unavailable during 2008, resulting in the transfer of securities to Level 3. As of December 31, 2008, $1.69 billion or 97.3% of our total ARS holdings were thus valued using a discounted cash flow model. Certain inputs to the valuation model that are significant to the overall valuation and not market observable included: estimates of future coupon rates if auction failures continue, maturity assumptions, and illiquidity premium. These same securities were classified as Level 2 measurements as of January 1, 2008. Our ARS holdings that are not backed by student loans have a fair value equal to their corresponding par value based on market observable inputs and, therefore, continue to have a Level 2 classification. As a result of a significant decline in market liquidity during the fourth quarter of 2008, securities in our Prime 2005 through 2007 vintages, ABS auto Aaa-rated, and our below Aaa-rated CMBS were transferred to Level 3. For further discussion of transfers into and out of Level 3, see Note 6 of the consolidated financial statements.

The following table presents fair value as a percent of amortized cost for Level 3 investments at December 31, 2008.

($ in millions)	**Fair value**	**Fair value as a percentage of par value**	**Fair value as a percentage of amortized cost**
Fixed income securities:			
Corporate	$ 486	70.4%	91.2%
Corporate privately placed securities	9,709	81.9	91.1
Municipal	793	76.3	79.5
Municipal ARS	1,670	90.5	90.5
ABS RMBS	2,067	56.2	65.1
Alt-A	582	53.0	74.6
Other CDO	778	34.1	41.1
Other ABS	526	66.2	78.3
ABS CDO	6	4.4	60.0
CRE CDO	27	13.4	108.0
CMBS	430	33.2	35.8
Preferred stock	2	100.0	100.0
MBS	333	68.5	70.0
ABS Credit card, auto and student loans	410	81.3	83.8
Total fixed income securities	17,819	68.8	78.3
Equity securities:			
U.S. equities	37	N/A	105.7
International equities	29	N/A	90.6
Other	8	N/A	100.0
Total equity securities	74	N/A	98.7
Other investments:			
Free-standing derivatives	13	N/A	N/A
Total other investments	13	N/A	N/A
Sub-total recurring Level 3 investments	17,906	69.1	78.4
Non-recurring basis	301	N/A	100.0
Total Level 3 investments	$ 18,207	70.2	78.7

Non-recurring investments include certain mortgage loans, limited partnership interests and other investments remeasured at fair value due to our change in intent write-downs and other-than-temporary impairments at December 31, 2008.

MARKET RISK

Market risk is the risk that we will incur losses due to adverse changes in equity, interest, credit spreads, commodity, or currency exchange rates and prices. Adverse changes to these rates and prices may occur due to changes in the liquidity of a market or market segment, insolvency or financial distress of key market makers or participants or changes in market perceptions of credit worthiness and/or risk tolerance. Our primary market risk exposures are to changes in interest rates, credit spreads and equity prices, although we also have a smaller exposure to changes in foreign currency exchange rates and commodity prices.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the character of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 6 of the consolidated financial statements.

Overview In formulating and implementing guidelines for investing funds, we seek to earn returns that enhance our ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles of each business.

Investment policies define the overall framework for managing market and other investment risks, including accountability and controls over risk management activities. Subsidiaries that conduct investment activities follow policies that have been approved by their respective boards of directors. These investment policies specify the investment limits and strategies that are appropriate given the liquidity, surplus, product profile and regulatory requirements of the subsidiary. Executive oversight of investment activities is conducted primarily through subsidiaries' boards of directors and investment committees. For Allstate Financial, its asset-liability management ("ALM") policies further define the overall framework for managing market and investment risks. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns for Allstate Financial. Allstate Financial ALM activities follow asset-liability policies that have been approved by their respective boards of directors. These ALM policies specify limits, ranges and/or targets for investments that best meet Allstate Financial's business objectives in light of its product liabilities.

We manage our exposure to market risk through the use of asset allocation, duration and value-at-risk limits, simulation, and as appropriate, through the use of stress tests. We have asset allocation limits that place restrictions on the total funds that may be invested within an asset class. We have duration limits on the Property-Liability and Allstate Financial investment portfolios and, as appropriate, on individual components of these portfolios. These duration limits place restrictions on the amount of interest rate risk that may be taken. Our value-at-risk limits are intended to restrict the potential loss in fair value that could arise from adverse movements in the fixed income, equity, and currency markets based on historical volatilities and correlations among market risk factors. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by investment policies. For Allstate Financial, this day-to-day management is integrated with and informed by the activities of the ALM organization. This integration is intended to result in a prudent, methodical and effective adjudication of market risk and return, conditioned by the unique demands and dynamics of Allstate Financial's product liabilities and supported by the continuous application of advanced risk technology and analytics.

Although we apply a similar overall philosophy to market risk, the underlying business frameworks and the accounting and regulatory environments differ considerably between the Property-Liability and Allstate Financial businesses affecting investment decisions and risk parameters.

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the interest rate characteristics of interest bearing assets and liabilities. This risk arises from many of our primary activities, as we invest substantial funds in interest-sensitive assets and issue interest-sensitive liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities. One of the measures used to quantify this exposure is duration. Duration measures the price sensitivity of the assets and liabilities to changes in interest rates. For example, if interest rates increase 100 basis points, the fair value of an asset with a duration of 5 is expected to decrease in value by approximately 5%. At December 31, 2008, the difference between our asset and liability duration was approximately 0.02, compared to a 0.39 gap at

December 31, 2007. A positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities.

Most of our duration gap is attributable to the Property-Liability operations, with the primary liabilities being auto and homeowners claims. In the management of investments supporting the Property-Liability business, we adhere to an objective of emphasizing safety of principal and consistency of income within a total return framework. This approach is designed to ensure our financial strength and stability for paying claims, while maximizing economic value and surplus growth. This objective generally results in a positive duration mismatch between the Property-Liability assets and liabilities.

For the Allstate Financial business, we seek to invest premiums, contract charges and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable spreads across a wide variety of interest rate and economic scenarios. To achieve this objective and limit interest rate risk for Allstate Financial, we adhere to a philosophy of managing the duration of assets and related liabilities within predetermined tolerance levels. This philosophy is executed using duration targets for fixed income investments in addition to interest rate swaps, futures, forwards, caps, floors and swaptions to reduce the interest rate risk resulting from mismatches between existing assets and liabilities, and financial futures and other derivative instruments to hedge the interest rate risk of anticipated purchases and sales of investments and product sales to customers.

We pledge and receive collateral on certain types of derivative contracts. For futures and option contracts traded on exchanges, we have pledged securities as margin deposits totaling $72 million as of December 31, 2008. For OTC derivative transactions including interest rate swaps, foreign currency swaps, interest rate caps, interest rate floors, and credit default swaps, master netting agreements are used. These agreements allow us to net payments due for transactions covered by the agreements and, when applicable, we are required to post collateral. As of December 31, 2008, we held cash of $20 million and did not have any securities pledged by counterparties as collateral for OTC instruments; we pledged cash of $16 million and securities of $544 million as collateral to counterparties.

We performed a sensitivity analysis on OTC derivative collateral requirements by assuming a hypothetical reduction in our S&P's insurance financial strength ratings from AA- to A and a 100 basis point decline in interest rates. The analysis indicated that we would have to post an estimated $449 million in additional collateral with approximately 99.9% attributable to Allstate Financial. The selection of these hypothetical scenarios should not be construed as our prediction of future events, but only as an illustration of the estimated potential effect of such events. We also actively manage our counterparty credit risk exposure by monitoring the level of collateral posted by our counterparties with respect to our receivable positions.

To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments (as described in Note 6 of the consolidated financial statements), and certain other items including unearned premiums, property-liability claims and claims expense reserves, annuity liabilities and other interest-sensitive liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. The preceding assumptions relate primarily to mortgage-backed securities, collateralized mortgage obligations, municipal housing bonds, callable municipal and corporate obligations, and fixed rate single and flexible premium deferred annuities. Additionally, the calculations include assumptions regarding the renewal of property-liability policies.

Based upon the information and assumptions used in the duration calculation, and interest rates in effect at December 31, 2008, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would decrease the net fair value of the assets and liabilities by approximately $81 million, compared to $1.51 billion at December 31, 2007. Reflected in the duration calculation are the effects of a program that uses options on Treasury futures to manage the Property-Liability interest rate risk exposures relative to duration targets, as well as a program that uses interest rate swaptions to manage the risk of a large rate increase. In calculating the impact of a 100 basis point increase on the value of the derivatives, we have assumed interest rate volatility remains constant. Based on the option on Treasury futures and swaption contracts in place at December 31, 2008, we would recognize realized capital gains totaling $135 million in the event of a 100 basis point immediate, parallel interest rate increase and $11 million in realized capital losses in the event of a 100 basis point immediate, parallel interest rate decrease. The selection of a 100 basis point immediate parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. There are $6.79 billion of assets supporting life insurance products such as traditional and interest-sensitive life that are not financial instruments. These assets and the associated liabilities have not been included in the above estimate. The $6.79 billion of assets excluded from the calculation has decreased from the $7.77 billion reported at December 31, 2007 due to capital market changes. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance products would decrease in value by $515 million, compared to a decrease of $554 million at December 31, 2007.

To the extent that conditions differ from the assumptions we used in these calculations, duration and rate shock measures could be significantly impacted. Additionally, our calculations assume that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the effect of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

Credit spread risk is the risk that we will incur a loss due to adverse changes in credit spreads ("spreads"). This risk arises from many of our primary activities, as we invest substantial funds in spread-sensitive fixed income assets.

We manage the spread risk in our assets. One of the measures used to quantify this exposure is spread duration. Spread duration measures the price sensitivity of the assets to changes in spreads. For example, if spreads increase 100 basis points, the fair value of an asset exhibiting a spread duration of 5 is expected to decrease in value by approximately 5%.

Spread duration is calculated similarly to interest rate duration. At December 31, 2008, the spread duration of Property-Liability assets was 5.46 and the spread duration of Allstate Financial assets was 4.30. Based upon the information and assumptions we use in this spread duration calculation, and spreads in effect at December 31, 2008, we estimate that a 100 basis point immediate, parallel increase in spreads across all asset classes, industry sectors and credit ratings ("spread shock") would decrease the net fair value of the assets by approximately $3.61 billion, compared to $4.62 billion at December 31, 2007. Reflected in the duration calculation are the effects of our risk mitigation actions that use credit default swaps to manage spread risk. Based on contracts in place at December 31, 2008, we would recognize realized capital gains totaling $64 million in the event of a 100 basis point immediate, parallel spread increase and $64 million in realized capital losses in the event of a 100 basis point immediate, parallel spread decrease. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. At December 31, 2008, we held approximately $2.54 billion in common stocks and Exchange Traded Funds ("ETFs"), and $3.65 billion in other securities with equity risk (including primarily convertible securities, limited partnership interests, non-redeemable preferred securities and equity-linked notes), compared to approximately $4.32 billion and $3.76 billion, respectively, at December 31, 2007. Approximately 100.0% and 49.1% of these totals, respectively, represented assets of the Property-Liability operations at December 31, 2008, compared to approximately 100.0% and 50.5%, respectively, at December 31, 2007. Additionally, we had 25,634 contracts in long Standard & Poor's 500 Composite Price Index ("S&P 500") puts at December 31, 2008 with a fair value of $108 million.

At December 31, 2008, our portfolio of common stocks and other securities with equity risk had a cash market portfolio beta of approximately 0.66, compared to a beta of approximately 0.95 at December 31, 2007. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the S&P 500. Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by approximately 6.6%, respectively. Based upon the information and assumptions we used to calculate beta at December 31, 2008, including the effect of the S&P 500 puts, we estimate that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of our equity investments identified above by approximately $343 million, compared to $765 million at December 31, 2007, and an immediate increase in the S&P 500 of 10% would increase the net fair value by $368 million compared to $765 million at December 31, 2007. In calculating the impact of a 10% S&P index perturbation on the value of the puts, we have assumed index volatility remains constant. Based on the S&P 500 index put options in place at December 31, 2008, we would recognize losses totaling $36 million in the event of a 10% increase in the S&P 500 index and $61 million in gains in the event of a 10% decrease. The selection of a 10% immediate decrease in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The beta of our common stocks and other securities with equity risk was determined using Barra's predictive beta. This beta is based on a company's fundamental data. The illustrations noted above may not reflect our actual experience if the future composition of the portfolio (hence its beta) and correlation relationships differ from the historical relationships.

At December 31, 2008 and 2007, we had separate accounts assets related to variable annuity and variable life contracts with account values totaling $8.24 billion and $14.93 billion, respectively. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through a reinsurance agreement with Prudential as described in Note 3 of the consolidated financial statements, and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total variable life contract charges for 2008 and 2007 were $95 million and $92 million, respectively. Separate account liabilities related to variable life contracts were $561 million and $905 million in December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007 we had approximately $4.11 billion and $3.98 billion, respectively, in equity-indexed annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the risk associated with these liabilities using equity-indexed options and futures, interest rate swaps, and eurodollar futures, maintaining risk within specified value-at-risk limits.

Foreign currency exchange rate risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including real estate funds, and our Canadian operations. We also have certain funding agreement programs and a small amount of fixed income securities that are denominated in foreign currencies, however, derivatives are used to hedge the foreign currency risk of these funding agreements and approximately 65% of the fixed income securities. At December 31, 2008 and 2007, we had approximately $713 million and $924 million, respectively, in funding agreements denominated in foreign currencies.

At December 31, 2008, we had approximately $593 million in foreign currency denominated equity securities, an additional $482 million net investment in our foreign subsidiaries, and $103 million in unhedged non-dollar pay fixed income securities. These amounts were $791 million, $669 million, and $45 million, respectively, at December 31, 2007. Approximately 80.7% of the foreign currency exposure is in the Property-Liability business.

Based upon the information and assumptions we used at December 31, 2008, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates that we are exposed to would decrease the value of our foreign currency denominated instruments by approximately $118 million, compared with an estimated $150 million decrease at December 31, 2007. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. Our currency exposure is diversified across 38 currencies, compared to 30 currencies at December 31, 2007. Our largest individual foreign currency exposures at December 31, 2008 were to the Canadian dollar (43.2%) and the Euro (19.2%). The largest individual foreign currency exposures at December 31, 2007 were to the Canadian dollar (45.2%) and the Euro (21.7%). Our primary regional exposure is to Western Europe, approximately 33.2% at December 31, 2008, compared to 35.5% at December 31, 2007.

The modeling technique we use to report our currency exposure does not take into account correlation among foreign currency exchange rates. Even though we believe it is very unlikely that all of the foreign currency exchange rates that we are exposed to would simultaneously decrease by 10%, we nonetheless stress test our portfolio under this and other hypothetical extreme adverse market scenarios. Our actual experience may differ from these results because of assumptions we have used or because significant liquidity and market events could occur that we did not foresee.

Commodity price risk is the risk that we will incur economic losses due to adverse changes in the prices of commodities. This risk arises from commodity linked investments, such as the Goldman Sachs Commodity Index which is a broad based, oil dominated index. At December 31, 2008 and 2007, we had no exposure to the index.

PENSION PLANS

We have defined benefit pension plans, which cover most full-time and certain part-time employees and employee-agents. See Note 16 of the consolidated financial statements for a complete discussion of these plans and their effect on the consolidated financial statements. The pension and other postretirement plans may be amended or terminated at any time. Any revisions could result in significant changes to our obligations and our obligation to fund the plans.

We report unrecognized pension and other postretirement benefit cost in the Consolidated Statements of Financial Condition as a component of accumulated other comprehensive income in shareholders' equity. It represents differences between the fair value of plan assets and the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement plans that have not yet been recognized as a component of net periodic cost. The measurement of the unrecognized pension and other postretirement benefit cost can vary based upon the fluctuations in the fair value of the plan assets and the actuarial assumptions used for the plans as discussed below. The unrecognized pension and other postretirement benefit cost at December 31, 2008 was $1.07 billion, an increase of $724 million from $344 million at December 31, 2007. The increase was the result of declines in the value of plan assets during 2008 partially offset by an increased discount rate. As of December 31, 2008, each of our qualified pension plans had projected benefit obligations that significantly exceeded plan assets. As of December 31, 2007, each of our U.S. qualified pension plans had projected benefit obligations that slightly exceeded plan assets.

As provided for in the Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions," the market-related value component of expected returns recognizes plan losses and gains on equity securities over a five-year period, which we believe is consistent with the long-term nature of pension obligations. As a result, the effect of changes in fair value on equity securities on our net periodic pension cost may be experienced in periods subsequent to those in which the fluctuations actually occur.

Net periodic pension cost in 2009 is estimated to be $122 million based on current assumptions, including settlement charges. This represents a decrease compared to 2008 due to the increase in discount rate for each pension plan, which resulted in lower amortization of net actuarial loss. Net periodic pension cost decreased in 2008 principally due to lower service cost, higher expected returns on plan assets, and lower amortization of net actuarial loss due to higher plan asset values. Net periodic pension cost decreased in 2007 principally due to lower settlement charges and decreases in the amortization of actuarial losses. In each of the years 2008, 2007 and 2006, net pension cost included non-cash settlement charges primarily resulting from lump sum distributions made to agents and in 2006 due to higher lump sum payments made to Allstate employees. Additional settlement charges occurred during 2008 and 2007 also related to the Supplemental Retirement Income Plan as a result of lump sum payments made from the plan. Settlement charges are expected to continue in the future as we settle our remaining agent pension obligations by making lump sum distributions to agents.

Amounts recorded for pension cost and accumulated other comprehensive income are significantly affected by fluctuations in the returns on plan assets and the amortization of unrecognized actuarial gains and losses. Plan assets sustained net losses in current and prior periods primarily due to declines in equity and credit markets. These asset losses, combined with all other unrecognized actuarial gains and losses, resulted in amortization of net actuarial loss (and additional net periodic pension cost) of $37 million in 2008 and $116 million in 2007. We anticipate that the unrealized loss for our pension plans will exceed 10% of the greater of the projected benefit obligations or the market-related value of assets in 2010 and into the foreseeable future, resulting in additional amortization and net periodic pension cost.

Amounts recorded for net periodic pension cost and accumulated other comprehensive income are also significantly affected by changes in the assumptions used to determine the weighted average discount rate and the expected long-term rate of return on plan assets. The weighted average discount rate is based on rates at which expected pension benefits attributable to past employee service could effectively be settled on a present value basis at the measurement date. We develop the assumed weighted average discount rate by utilizing the weighted average yield of a theoretical dedicated portfolio derived from bonds available in the Barclay corporate bond universe having ratings of at least "AA" by S&P's or at least "Aa" by Moody's on the measurement date with cash flows that match expected plan benefit requirements. Significant changes in discount rates, such as those caused by changes in the yield curve, the mix of bonds available in the market, the duration of selected bonds and expected benefit payments, may result in volatility in pension cost and accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the weighted average discount rate would result in an increase of $37 million in net periodic pension cost and a $314 million increase in the unrecognized pension and other postretirement benefit cost liability of our pension plans recorded as accumulated other comprehensive income as of our December 31 measurement date, versus an increase of $47 million in net periodic pension cost and a $369 million increase in the unrecognized pension and other postretirement benefit cost liability as of January 1, 2008, our remeasurement date to transition to a December 31 measurement date under SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"). A hypothetical increase of 100 basis points in the weighted average discount rate would decrease net periodic pension cost by $8 million and would decrease the unrecognized pension and other postretirement benefit cost liability of our pension plans recorded as accumulated other comprehensive income by $267 million as of December 31, 2008, versus a decrease in net periodic pension cost of $34 million and a $311 million decrease in the net funded status liability as of January 1, 2008. This non-symmetrical range results from the non-linear relationship between discount rates and pension obligations, and changes in the amortization of unrealized net actuarial gains and losses.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. While this rate reflects long-term assumptions and is consistent with long-term historical returns, sustained changes in the market or changes in the mix of plan assets may lead to revisions in the assumed long-term rate of return on plan assets that may result in variability of pension cost. Differences between the actual return on plan assets and the expected long-term rate of return on plan assets are a component of unrecognized gains or losses, which may be amortized as a component of net actuarial gains and losses and recorded in accumulated other comprehensive income. As a result, the effect of changes in fair value on our pension cost may be experienced in results of operations in periods subsequent to those in which the fluctuations actually occur.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the expected long-term rate of return on plan assets would result in an increase of $48 million in pension cost at December 31, 2008, compared to $48 million at January 1, 2008. A hypothetical increase of 100 basis points in the expected long-term rate of return on plan assets would result in a decrease in net periodic pension cost of $48 million at December 31, 2008, compared to $48 million at January 1, 2008.

We target funding levels that do not restrict the payment of plan benefits in our domestic plans and were within our targeted range as of December 31, 2008. In light of significant market declines occurring at the end of 2008, we expect that contributions of approximately $300 million may be needed for the 2009 plan year to maintain the plans' funded status. This estimate could change significantly following either a dramatic improvement or decline in investment markets.

DEFERRED TAXES

The total deferred tax valuation allowance is $49 million at December 31, 2008. We evaluate whether a valuation allowance is required each reporting period. A valuation allowance is established if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. In determining whether a valuation allowance is needed, all available evidence is considered. This includes the potential for capital and ordinary loss carryback, future reversals of existing taxable temporary differences, tax planning strategies and future taxable income exclusive of reversing temporary differences.

With respect to our evaluation of the need for a valuation allowance related to the deferred tax asset on unrealized losses on fixed income securities, we rely on our assertion that we have the intent and ability to hold the securities to recovery. As a result, the unrealized losses on these securities would not be expected to materialize and no valuation allowance on the associated deferred tax asset is needed.

With respect to our evaluation of the need for a valuation allowance related to other capital losses that have not yet been recognized for tax purposes, we utilize prudent and feasible tax planning strategies. These include strategies that optimize the ability to carry back capital losses as well as the ability to offset future capital losses with capital gains that could be recognized for tax purposes. We have remaining capital loss carryback capacity of $1.50 billion from 2007. Included in the $49 million valuation allowance at December 31, 2008 is $40 million relating to the deferred tax asset on capital losses that have not yet been recognized for tax purposes.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources at December 31.

($ in millions)	2008	2007	2006
Common stock, retained income and other shareholders' equity items	$17,442	$21,228	$20,855
Accumulated other comprehensive income	(4,801)	623	991
Total shareholders' equity	12,641	21,851	21,846
Debt	5,659	5,640	4,662
Total capital resources	$18,300	$27,491	$26,508
Ratio of debt to shareholders' equity	44.8%	25.8%	21.3%
Ratio of debt to capital resources	30.9%	20.5%	17.6%

Shareholders' equity decreased in 2008, due to unrealized net capital losses on investments, net loss, share repurchases, dividends paid to shareholders and an increase in the unrecognized pension and other postretirement benefit cost. Shareholders' equity increased in 2007, due to net income and a decline in the unrecognized pension and other postretirement benefit cost, partially offset by share repurchases, decreases in unrealized net capital gains on investments and dividends paid to shareholders.

The decrease to shareholders' equity resulting from the increase in the unrecognized pension and other postretirement benefit cost in 2008 was the result of unfavorable investment returns partially offset by the effects of higher discount rates. The change to the unrecognized pension and other postretirement benefit cost had an impact on shareholders' equity of $822 million unfavorable for pension, and $98 million favorable for other post employment benefits ("OPEB"). For further information on the impact to unrecognized pension and other postretirement benefit cost, see Notes 2 and 16 of the consolidated financial statements.

The decline in the unrecognized pension and other postretirement benefit cost in 2007 was primarily related to favorable investment performance of the assets and an increase in the discount rate of the pension plans, and lower than assumed claims experience in the other postretirement employee benefit plans. The favorable change to the unrecognized pension and other postretirement benefit cost had an impact on shareholders' equity of $580 million for pension, and $185 million for OPEB.

Share repurchases We suspended our $2.00 billion share repurchase program in October 2008 and do not plan to complete it by the target date of March 31, 2009. The number of shares repurchased under the program was 22.7 million shares for $1.07 billion for the year ended December 31, 2008.

Since 1995, we have acquired 457 million shares of our common stock at a cost of $19.08 billion, primarily as part of various stock repurchase programs. We have reissued 95 million shares since 1995, primarily associated with our equity incentive plans, the 1999 acquisition of American Heritage Life Investment Corporation and the 2001 redemption of certain mandatorily redeemable preferred securities.

The impact of our repurchase programs on total shares outstanding since 1995 has been a net reduction of 360 million shares or 40.2%.

Debt increased $19 million in 2008 compared to 2007 and $978 million in 2007 compared to 2006 due to increases in long-term debt.

The $750 million of 7.20% Senior Notes due 2009 are scheduled to mature on December 1, 2009. These Senior Notes are expected to be refinanced. For further information on debt issuances, see Note 11 of the consolidated financial statements.

At December 31, 2008 and 2007, there were no outstanding commercial paper borrowings.

Financial Ratings and Strength The following table summarizes our debt, commercial paper and insurance financial strength ratings.

	Moody's	Standard & Poor's	A.M. Best
The Allstate Corporation (senior long-term debt)	A3	A-	a-
The Allstate Corporation (commercial paper)	P-2	A-2	AMB-1
AIC (insurance financial strength)	Aa3	AA-	A+
Allstate Life Insurance Company (insurance financial strength)	A1	AA-	A+

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage.

On February 2, 2009, A.M. Best affirmed The Allstate Corporation's debt rating of a- as well as the A+ financial strength ratings of AIC and ALIC. A.M. Best also affirmed the commercial paper rating of AMB-1. The outlook for all ratings remained stable. In October 2008, A.M. Best had downgraded The Allstate Corporation's debt rating to a- from a. On January 29, 2009, S&P downgraded the rating for The Allstate Corporation to A- from A+, the financial strength ratings for AIC and ALIC to AA- from AA, and the commercial paper rating of The Allstate Corporation to A-2 from A-1. The outlook for all ratings remained negative. In October 2008, the outlook had been revised to negative from stable. On January 29, 2009, Moody's downgraded the rating for The Allstate Corporation to A3 from A2, the financial strength rating of AIC to Aa3 from Aa2, the financial strength rating of ALIC to A1 from Aa3, and the commercial paper rating of The Allstate Corporation to P-2 from P-1. The outlook for all ratings was revised to stable from negative. In October 2008, Moody's downgraded The Allstate Corporation to A2 from A1 and the financial strength ratings of ALIC to Aa3 from Aa2.

We have distinct and separately capitalized groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida that maintain separate group ratings. The ratings of these groups are influenced by the risks that relate specifically to each group. Many mortgage companies require property owners to have insurance from an insurance carrier with a secure financial strength rating from an accredited rating agency. Allstate New Jersey Insurance Company and Encompass Insurance Company of New Jersey, which write auto and homeowners insurance, are rated A- by A.M. Best. Allstate New Jersey Insurance Company also has a Demotech rating of A". On October 29, 2008, A.M. Best placed The Allstate Corporation's subsidiary in Florida, Allstate Floridian, under review with negative implications based upon the uncertainty regarding the FHCF's ability to fund its reimbursement obligations. However, as no catastrophes occurred through the end of the season, A.M. Best removed Allstate Floridian from review and placed it on negative outlook while affirming its rating of B+.

Effective May 8, 2008, ALIC, AIC and the Corporation entered into a one-year Amended and Restated Intercompany Liquidity Agreement ("Liquidity Agreement") replacing the Intercompany Liquidity Agreement between ALIC and AIC, dated January 1, 2008. The agreement allows for short-term advances of funds to be made between parties for liquidity and other general corporate purposes. It shall be automatically renewed for subsequent one-year terms unless terminated by the parties. The Liquidity Agreement does not establish a commitment to advance funds on the part of either party. ALIC and AIC each serve as a lender and borrower and the Corporation serves only as a lender. AIC also has a capital support agreement with ALIC effective December 14, 2007. Under the capital support agreement, AIC is committed to provide capital to ALIC to allow for profitable growth while maintaining an adequate capital level. The maximum amount of potential funding under the intercompany and capital support agreements is $1.00 billion.

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. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings. As of December 31, 2008, AIC's statutory surplus is approximately $13.0 billion compared to $18.0 billion at December 31, 2007. These amounts include ALIC's statutory surplus of $3.2 billion at December 31, 2008, compared to $2.6 billion at December 31, 2007. The decrease is the result of dividends paid to The Allstate Corporation, net loss and unrealized losses on equity securities and investments in ALIC.

We have received approval from the Illinois Division of Insurance for the use of two permitted practices in the statutory-basis financial statements related to areas in which statutory accounting is not reflective of the underlying economics during this period of extreme market conditions caused by the current economic crisis. The first permitted practice relates to the statutory accounting for deferred taxes and applies to AIC and ALIC.

Specifically, this permitted practice increased the amount of deferred income tax asset that can be recognized in the statutory-basis financial statements and included in statutory surplus from the lesser of the amounts that can be realized in one year or 10% of adjusted statutory surplus to the lesser of deferred taxes that can be realized within 3 years or 15% of adjusted statutory surplus. The permitted practice resulted in an increase in AIC's statutory surplus of $365 million as of December 31, 2008 which included an increase in ALIC's statutory surplus of $140 million. Admitted statutory-basis deferred tax assets on both companies totaled $1.76 billion after the permitted practice reflecting approximately 60% of total potential statutory-basis deferred tax assets before non-admission limitations. The second permitted practice relates to statutory accounting for market value adjusted annuities ("MVAA") whose related assets are held in a separate account in the statutory-basis financial statements. Specifically, this permitted practice resulted in the MVAA related investments being recorded at amortized cost, which is consistent with statutory accounting for other fixed income investments and the book value method of accounting required under Illinois Code for MVAA investments held in a general account. The permitted practice was requested because the Illinois Code is silent on MVAA that are issued by a separate account. In the extreme market conditions of the economic crisis, the market value method of accounting reduced statutory surplus due to unrealized losses on investments caused by wide credit spreads and the liquidity based dislocations in the investment markets in a manner not representative of the economics of the related liabilities. The effect of the permitted practice, which is to value the invested assets and insurance reserves on a book value basis instead of the formerly used market value basis, was $394 million based on October 1, 2008 valuations and grew to $1.24 billion at December 31, 2008 due to an increase of $720 million in the investment unrealized loss position, while the market-based reserves increased $130 million relative to book-basis reserves. The permitted practice eliminated the inconsistent impacts in the amounts determined by the valuation methodologies for invested assets and insurance reserves and resulted in invested assets being valued at $8.07 billion and reserves at $9.17 billion.

The ratio of net premiums written to statutory surplus is a common measure of operating leverage used in the property-casualty insurance industry and serves as an indicator of a company's premium growth capacity. Ratios in excess of 3 to 1 are typically considered outside the usual range by insurance regulators and rating agencies. AIC's premium to surplus ratio was 2.0x on December 31, 2008 compared to 1.5x in the prior year.

State laws specify regulatory actions if an insurer's risk-based capital ("RBC"), a measure of an insurer's solvency, falls below certain levels. The NAIC has a standard formula for annually assessing RBC. The formula for calculating RBC for property-liability companies takes into account asset and credit risks but places more emphasis on underwriting factors for reserving and pricing. The formula for calculating RBC for life insurance companies takes into account factors relating to insurance, business, asset and interest rate risks. At December 31, 2008, the RBC for each of our domestic insurance companies was within the range that we target.

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. The ratios of our domestic insurance companies are within these ranges.

Liquidity Sources and Uses Our potential sources of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Receipt of insurance premiums	X	X	
Allstate Financial contractholder fund deposits		X	
Reinsurance recoveries	X	X	
Receipts of principal, interest and dividends on investments	X	X	X
Sales of investments	X	X	X
Funds from investment repurchase agreements, securities lending, dollar roll, commercial paper and line of credit agreements	X	X	X
Inter-company loans	X	X	X
Capital contributions from parent	X	X	
Dividends from subsidiaries	X		X
Tax refunds/settlements		X	X
Funds from periodic issuance of additional securities			X
Funds from the settlement of our benefit plans			X

Our potential uses of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Payment of claims and related expenses	X		