



NYSE

The Allstate Corporation 2002 Annual Report, Notice of Annual Meeting and Proxy Statement

*Our time.  
Our opportunity.*

The Allstate Corporation  
2775 Sanders Road  
Northbrook, IL 60062-6127

The Allstate Corporation  
2002 Annual Report,  
Notice of Annual Meeting  
and Proxy Statement



After more than 60 years as part of Sears, Allstate became a publicly traded company almost a decade ago.

Since then we've seen our customers through storms and accidents, earthquakes and hurricanes, bull markets and bear.

Along the way, we've grown the company. We've focused more intently on the things we do best, and expanded the ways we reach and serve customers. We've staked out leadership positions in the evolving field of financial services.

Now we've set even higher goals. And we're better prepared and better positioned than ever.

So the mission going forward is clear: One by one, we will deepen relationships with customers to help provide financial security for millions of American households.

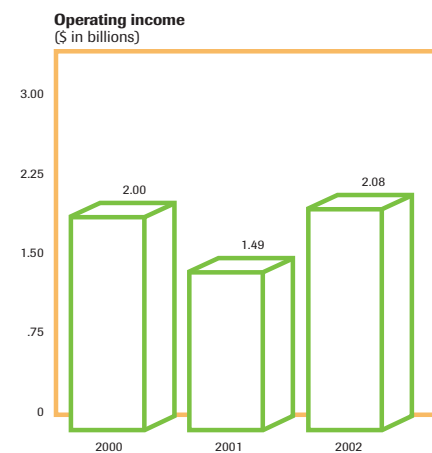
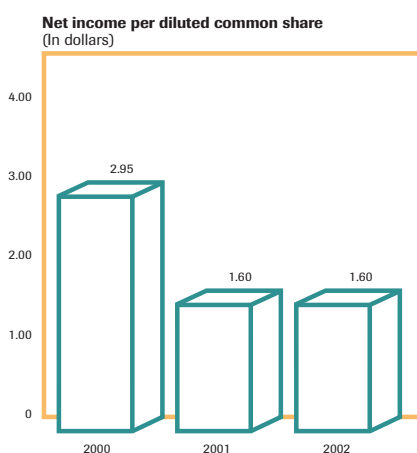
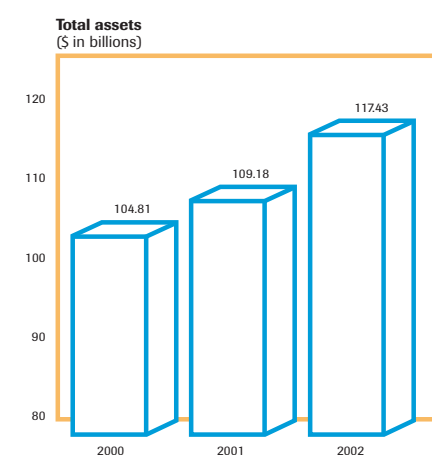
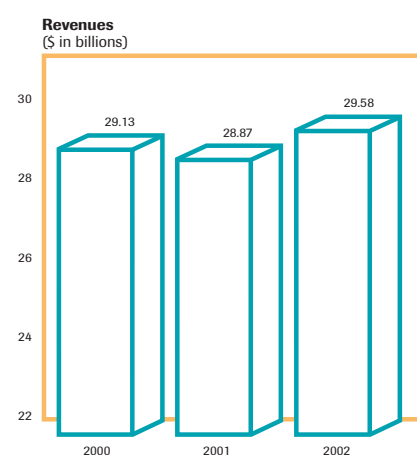
That's the challenge. That's the opportunity. That's Allstate in the next decade and beyond.

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## Financial Highlights

\$ in millions, except per share data	2002	2001	% change
Revenues	\$ 29,579	\$ 28,865	2.5
Net income	1,134	1,158	(2.1)
Operating income <sup>1</sup>	2,075	1,492	39.1
Investments	\$ 90,650	\$ 79,876	13.5
Total assets	117,426	109,175	7.6
Shareholders' equity	17,438	17,196	1.4
Per diluted common share:			
Net income	\$ 1.60	\$ 1.60	—
Operating income	2.92	2.06	41.7
Dividends declared	0.84	0.76	10.5
Market value per share:			
Close	\$ 36.99	\$ 33.70	
12-month high	41.95	45.90	
12-month low	31.03	30.00	



<sup>1</sup>**Operating income** is a measure used by Allstate management, which is not based on generally accepted accounting principles ("non-GAAP"), to supplement its evaluation of Net income. Operating income is "Income before dividends on preferred securities and cumulative effect of changes in accounting principle, after-tax", excluding the effects of Realized capital gains and losses, after-tax, and Gain (loss) on disposition of operations, after-tax. In this computation Realized capital gains and losses, after-tax is presented net of the effects of Allstate Financial's deferred policy acquisition cost amortization and additional future policy benefits, to the extent that such effects resulted from the recognition of Realized capital gains and losses. Further information and a reconciliation of Operating income to Net income appear in the Definitions of Non-GAAP and Operating Measures section of Appendix D of the Notice of Annual Meeting and Proxy Statement, beginning on page D-3.

"This annual report contains forward-looking statements about Allstate, including statements about its profitability and the impact of Strategic Risk Management. These statements are subject to the Private Securities Litigation Reform Act of 1995 and are based on management's estimates, assumptions and projections. Actual results may differ materially from those projected in the forward-looking statements for a variety of reasons. For example, profitability could be affected by loss costs in our Property-Liability business, including losses due to catastrophes such as hurricanes and earthquakes in excess of management's projections. Also, the number of customers priced through SRM could be less than projected by management if competitive pressures lead to sales of private passenger auto and homeowners insurance that are lower than projected by management. Readers are encouraged to review the other risk factors facing Allstate that we disclose in our annual report to the Securities and Exchange Commission on Form 10-K. We undertake no obligation to publicly correct or update any forward-looking statements."

*Edward M. Liddy  
Chairman, President and CEO  
The Allstate Corporation*



*At the core of our company are only two things: people and capital. With the right people and sound stewardship of our financial resources, we can confidently deliver on our promise - to give our customers peace of mind by protecting their property and their lives, and to help them achieve financial security.*

*Having the assurance of one of the industry's strongest balance sheets helps give us, and our customers, that confidence. But more importantly, I'm fortunate to work with the finest employees and agencies in the business, and to have the support and good sense of the best management team in the insurance industry. Together, we have fashioned a strategy that worked very well in 2002, and has us readied for the future.*

*I'm honored to lead the work ahead.*

On behalf of our Allstate employees and dedicated agencies, I am pleased to report that your company had a very good year in 2002. We significantly improved our financial results, while some of our competitors continued to struggle. This has enabled us to advance our strategy of helping to protect and secure the financial future of our customers, and enhanced the value of your shares.

Just as important, we continued to transform Allstate by getting better and bigger in the personal lines insurance market and by broadening our financial services offerings. By doing so, we were able to give our customers more ways to protect and grow their assets. Allstate's successful implementation of our business plan should provide for more predictable and sustained growth, create additional opportunities for our employees and agencies and ultimately translate into a reliable and rewarding picture for our investors.

In a time of corporate mistrust, you should feel confident that your board worked diligently over the past year to further strengthen our corporate governance processes. These processes were recently recognized by a leading investor services group as being among the very best in corporate America.

With the 10-year anniversary of our initial public offering only months away, Allstate is well-positioned for both accelerated growth and sustained profitability. Over the past decade, we have continuously refined our strategy to meet the ever-changing expectations of the marketplace.

We have broadened our business so that, as we reach out in new directions, our journey will take us both further and faster in our quest to reassure you, our shareholders, that Allstate has the right strategy at the right time. Our performance in 2002 represents another milestone in achieving those goals that we set for ourselves and we'll endeavor to build on those accomplishments in 2003.

*Allstate today has a window of opportunity we can use to strengthen and consolidate our competitive position. We're determined to seize that advantage. Execution will be the key.*

## 2002 Results

As usual, numbers help tell the story:

- In our Allstate brand standard auto insurance, our largest single product, Premiums written<sup>2</sup> rose 5.9 percent last year and loss ratios moderated compared with 2001.
- The improvement was even more dramatic in our Allstate brand homeowners product, where Premiums written were up 18 percent. As promised, we're on track to bring profitability to targeted levels by mid-2003.
- Our Ivantage independent agency business increased Premiums written by 4.5 percent and cut its Underwriting loss<sup>3</sup> approximately in half. We're on schedule to achieve targeted levels of profitability.
- In financial services, we performed well despite one of the most difficult market environments in memory.

Overall Property-Liability Premiums written rose 5.8 percent and Operating income jumped 54.8 percent, driven largely by decisive pricing and risk management actions. Premiums and deposits<sup>4</sup> in our Allstate Financial business rose 11.6 percent and Operating income gained 5.5 percent.

For the company as a whole, Operating income increased 39.1 percent, from \$1.49 billion to \$2.08 billion. A solid performance.

These accomplishments helped drive up the value of your Allstate stock during

2002. Total return for the year increased 12.3 percent over 2001, compared with an average loss of 22 percent among companies in the Standard & Poor's 500 (S&P), as well as outperforming all insurance indices that S&P tracks. Your dividend increased for the ninth straight year, while we completed one share repurchase program and authorized another in early 2003.

Of course, not everything was perfect. We had our challenges: Declining interest rates reduced our investment income and, as a result of deteriorating capital markets, losses on securities in our investment portfolio cut into Net income.

Elsewhere, regulation and other factors slowed opportunities for growth in key states such as California, Texas and Florida. Issues like medical inflation and mold claims, as well as adverse trends in environmental and asbestos litigation, caused us to strengthen reserves.

In all of these areas, we acted quickly to confront concerns. We did the same with respect to rate increases in auto and homeowners. Because we were ahead of the industry curve, we are hitting profitability targets faster and gaining greater strategic flexibility than many of our competitors for 2003 and beyond.

Other trendlines are pointed in similarly positive directions:

- In our protection business, the focus of our customer base is shifting. We're increasing the number of more profitable customers while decreasing the number of less profitable ones.

- In financial services, our mix of business likewise is expanding from a primary reliance on life insurance products toward more asset accumulation products across a range of distribution channels.
- We continue to refine our organization to reflect the company's business strategy. In September 2002, we joined our Allstate property and casualty and Ivantage businesses to leverage their resources. We intend to strengthen and deepen the relationships with agencies and customers in both channels.
- Our protection claims organization successfully completed a national consolidation of claims offices, substantially reducing overhead costs while allowing us to focus our people and resources on front-line customer service and severity control.

This progress reflects the effort and expertise of everyone in the organization. Change is never easy, even when it's working. But what we've accomplished has created real momentum. Allstate today has a window of opportunity we can use to strengthen and consolidate our competitive position.

We're determined to seize that advantage. Execution will be the key. Underlying our better, bigger and broader strategy are seven priorities that will help make Allstate the company customers prefer to help bring alive their version of the American Dream.

<sup>2</sup>**Premiums written** is used in the property-liability insurance industry to measure the amount of premiums charged for policies issued during a fiscal period. Premiums are considered earned ("Premiums earned" is a GAAP measure) and are included in financial results on a pro-rata basis over the policy period. Further information and a reconciliation of Premiums written to Premiums earned appear in the Definitions of Non-GAAP and Operating Measures section of Appendix D of the Notice of Annual Meeting and Proxy Statement, beginning on page D-3.

<sup>3</sup>**Underwriting income (loss)** is a non-GAAP measure used by Allstate management to supplement its evaluation of Property-Liability Net income. Underwriting income (loss) is Premiums earned, less Claims and claims expense ("losses") and underwriting expenses as determined using GAAP. Further information and a reconciliation of Underwriting income to Net income appear in the Definitions of Non-GAAP and Operating Measures section of Appendix D of the Notice of Annual Meeting and Proxy Statement, beginning on page D-3.

<sup>4</sup>**Premiums and deposits** is an operating measure used by Allstate management to analyze production trends for Allstate Financial sales. Premiums and deposits includes premiums on insurance policies and annuities, and all deposits and other funds received from customers on deposit-type products which are accounted for by Allstate as liabilities, rather than as revenue, including the net new deposits of Allstate Bank. Further information and a table illustrating where Premiums and deposits are reflected in the consolidated financial statements appear in the Definitions of Non-GAAP and Operating Measures section of Appendix D of the Notice of Annual Meeting and Proxy Statement, beginning on page D-3.



*Designers Insurance Agency, Fairfax, Va. – Agent Wally Arcayan’s outbound marketing results have been aided by ECRM. “My team is more targeted in its outreach,” says Arcayan.*



## 1. *Meeting Customer Needs*

*“Putting the customer first” is too often an empty promise. Mistrust in the marketplace is real, and it creates problems for many companies. But it also creates opportunities for those who can consistently meet and exceed expectations. Allstate is working to be that kind of company.*

In the recent era of rapid growth and mass marketing, many businesses believed the key to success was “pushing product.” Many companies still do. But it’s a strategy out of sync with today’s realities.

We know the only way for Allstate to win in a crowded and competitive marketplace is to understand and meet customer needs, one-on-one, better than anyone else in the business. So we’re constantly studying what matters most to our customers – what attracts them, satisfies them and keeps them coming back.

For example, research shows that Allstate customers closely associate our traditional protection products with other financial services. But to help make that connection a reality, we have to offer a spectrum of financial solutions – from protecting their current assets with

products like auto and homeowners insurance to providing for their future financial security with savings and investment opportunities.

And we’re constantly assessing market trends to introduce new products. In 2002, for example, we redesigned some long-term care and life insurance policies and introduced important new annuity features for customers.

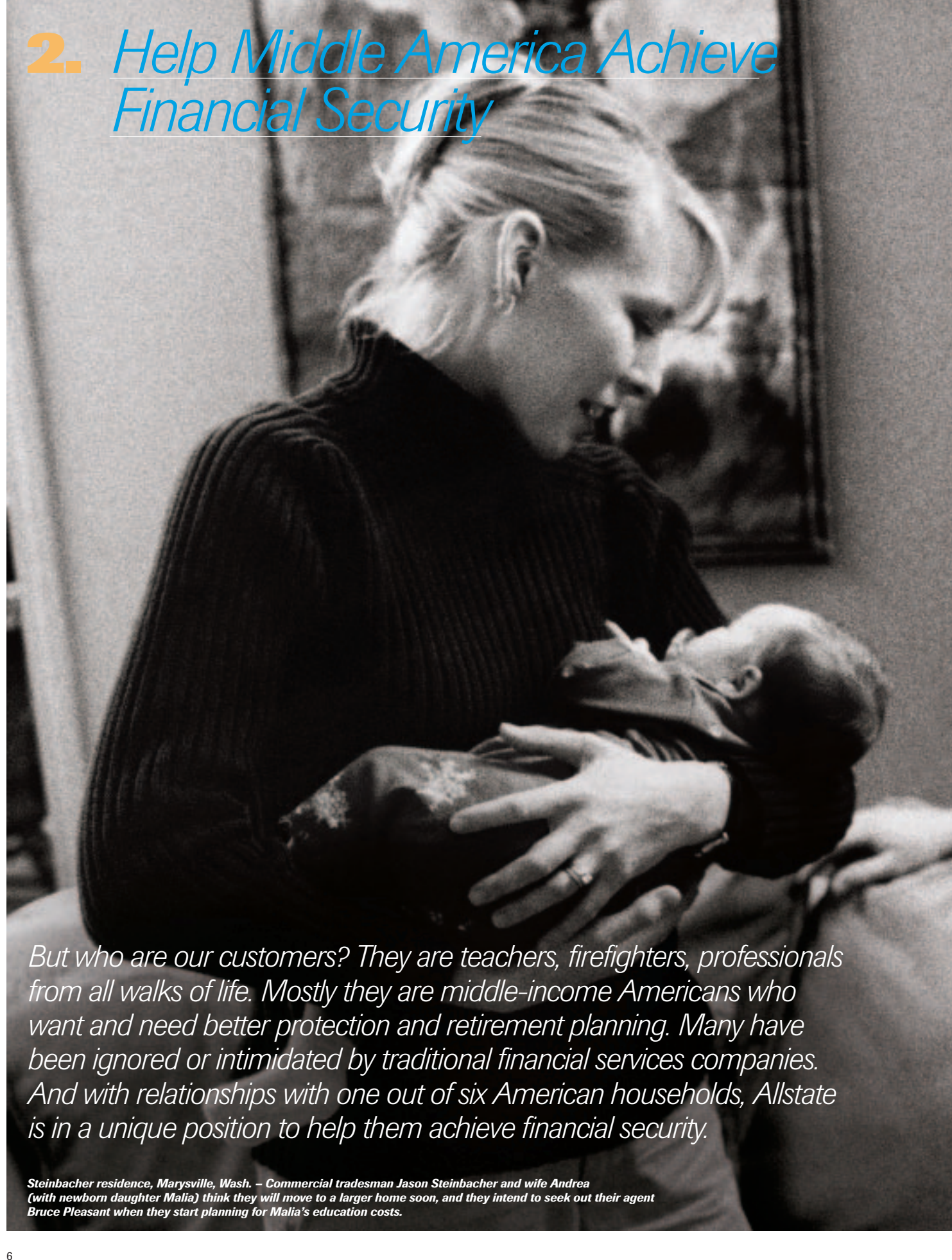
We also offer alternatives in terms of accessibility. We’re available to customers through Allstate’s exclusive agency network, the Internet and our toll-free telephone number. Moreover, customers can also buy Allstate products through independent agents, banks and financial services firms.

To succeed, we must pull together our various products and ways to interact

with customers in ways that help us understand and anticipate customers’ current and future needs. One tool we’re testing is Enterprise Customer Relationship Management (ECRM). It’s a technology that helps us better understand our customer needs, especially in response to significant life events. It gives our agencies, our Web site and our telephone centers a better ability to interact with our customers in a more personal manner.

By tapping into true needs rather than simply pushing product, we intend to draw on the reservoir of consumer goodwill that we know exists. Customers want to be satisfied, to be delighted, to be loyal. Our job is to help make that possible.

## 2. *Help Middle America Achieve Financial Security*



*But who are our customers? They are teachers, firefighters, professionals from all walks of life. Mostly they are middle-income Americans who want and need better protection and retirement planning. Many have been ignored or intimidated by traditional financial services companies. And with relationships with one out of six American households, Allstate is in a unique position to help them achieve financial security.*

*Steinbacher residence, Marysville, Wash. – Commercial tradesman Jason Steinbacher and wife Andrea (with newborn daughter Malia) think they will move to a larger home soon, and they intend to seek out their agent Bruce Pleasant when they start planning for Malia's education costs.*



Our focus is clear. Allstate does not want to be all things to all people in financial services. We want to be more things to more people. So we don't plan on being a player in the consumer finance or brokerage businesses, for example. Instead we focus on areas adjacent to our existing business – asset protection, asset accumulation and life insurance and savings.

Within our overall customer base, we likewise focus on an underserved segment of the financial services marketplace. Households earning between \$30,000 and \$100,000 a year have an aggregate income of \$3.1 trillion. Like most Americans, they want to build assets for a home, for college education and especially for retirement.

Our protection business gives Allstate a great place to start – because of our brand name and large customer base. Also, because insuring assets like homes and cars is the first step toward financial security. But to build on that base for the future, we must make the most of our existing customer relationships.

That's where our Allstate agencies play a critical role. They have answered the challenge and broadened their expertise. More than half have studied, tested and are licensed to sell a broad range of financial products. We call them

Personal Financial Representatives. More than a third also regularly partner with Allstate's Exclusive Financial Specialists (EFS) – more than 1,000 professionals who focus solely on life insurance and financial, rather than property/casualty, products.

The strategy is already working. New sales of financial products by Allstate exclusive agencies<sup>5</sup> reached \$1.6 billion in 2002 – more than in the three previous years combined.

In addition to life insurance, annuities and mutual funds, we offer insured savings accounts, certificates of deposit, insured money-market accounts and other savings and lending products through our Allstate Bank. Deposits have grown rapidly, reaching \$610 million in less than 18 months. It's one more way we're reaching customers with new solutions that fit their financial futures.

<sup>5</sup>*New sales of financial products by Allstate exclusive agencies is an operating measure used by Allstate management to quantify the current year sales of financial products by the Allstate proprietary distribution channel. New sales of financial products by Allstate exclusive agencies includes annual premiums on new insurance policies, initial premiums and deposits on annuities, deposits in the Allstate Bank, sales of other company's mutual funds and generally excludes renewal premiums. Further information appears in the Definitions of Non-GAAP and Operating Measures section of Appendix D of the Notice of Annual Meeting and Proxy Statement, beginning on page D-3.*



### 3. Improve Agency Relationships

*Meeting customers' needs and helping them achieve financial security is everyone's job at Allstate, but the people customers see most – the faces and voices of our company in the community – are Allstate agencies and EFSs.*

*The Parthenon, Nashville, Tenn. – Dennis Smith was among the first agents to secure his Series 6/63 licenses. Smith also has partnered with Allstate to develop new ways for agencies to manage their businesses more efficiently.*



Allstate's local presence is a long-standing strategic advantage, and it will be just as important in the future. But running an agency is harder than it used to be. Competition is keener, costs keep rising and the industry keeps changing.

We've made some changes too. In recent years, for example, almost all Allstate employee agencies have made the shift to independent contractors. Likewise, we asked our agencies to become educated on new products, new processes, new technology. To be competitive, all these changes were essential. But they still were wrenching.

So now, more than ever, our job at Allstate is to help make the work of our agencies easier, not harder. And to give them more ways to win.

One way we can help is by providing more opportunities to sell more products to more customers. Our expansion into financial services, for example, is broadening their revenue base.

We'll also help by expanding local agency advertising and marketing programs in 2003. We'll make more technology enhancements available, based upon guidelines and feedback from agencies themselves. And, by linking

compensation to strategies that produce more profit for the agency and for the company, we'll help motivate and encourage agencies to build their businesses.

We're working in other ways, too. Because so many agencies are active as volunteer leaders in their communities, we're increasing financial and other support for local community efforts.

All this represents progress. But we need to do much more. Nationally the trend is toward larger agencies with more support staff. So, for agencies, finding and training more employees, organizing businesses for greatest efficiencies, and financing growth initiatives all are issues we must help them address. By listening harder *to* them, and working harder *with* them, we'll help create more opportunities *for* them.

## 4. Deepen Relationships With Our Financial Partners

*Allstate exclusive agencies serve one of the biggest customer bases in the business, with a presence in 14 million American households. But the other 90 million-plus U.S. households need financial services too. To be a leader, we must be able to serve consumers who prefer to do their financial business through other channels.*

Allstate reaches these consumers in a variety of ways. Approximately 80,000 independent agents and financial planners sell Allstate products under the Lincoln Benefit Life name. We also provide Allstate Financial products through a wide range of blue-chip financial services firms, including many of the largest national and regional investment advisory firms and banks, as well as through independent insurance agents and brokerages.

Diversified distribution is good for growth. In 2002, for example, total Premiums and deposits in the bank channel rose 38 percent, easily surpassing projections. Today, Allstate ranks third in life insurance, sixth in fixed annuity and eighth in variable annuity sales through banks.

We're also diversified in terms of products we can offer customers – from traditional life insurance to mutual funds to annuities and 529 college savings plans. And we're constantly adding to our portfolio based on feedback from consumers and producers. Product development at Allstate today is faster and more focused.

One example is the Allstate® Treasury-Linked Annuity, which combines the safety and security of a fixed annuity with the opportunity for growth, based on the five-year U.S. Treasury yield. Based on extensive investor research and developed by a cross-functional team of Allstate Financial and Allstate Investments professionals, the Allstate® Treasury-Linked Annuity was launched in February 2002. It recorded \$762 million

in sales in just nine months. Some of its features are so unique we've even applied for a patent.

Another growing distribution channel focuses on workplace marketing. Allstate's Workplace Division sells life insurance, disability and supplemental insurance coverage through independent agencies to employees at more than 20,000 small and mid-sized businesses across the country.

All told, these non-proprietary channels accounted for 80.2 percent of the total Premiums and deposits generated by the Allstate Financial business unit in 2002. Our aim is to continually strengthen these relationships by offering more products and generating more revenue with our successful producer-partners.

## 5. Simplify Doing Business With Allstate

*Reaching customers through Allstate agencies or other distribution channels is only the beginning. To succeed, we need to nurture customer relationships. Every interaction is an opportunity to serve, satisfy and retain their loyalty. So we need to provide real solutions and support – no matter what, where or when.*

Our most important interactions with customers involve claims. So we're constantly seeking innovative ways to make

the claims experience faster, better and more attuned to customer needs.

For example, we expanded our

innovative Sterling Autobody Centers, which offer customers the option of having Allstate-owned facilities repair their

*Allstate Customer Information Center, Charlotte, N.C. – Allstate CICs provide extensive upfront and ongoing training to elevate and maintain strong customer service skills. (Instructor Charlotte Tucker pictured.)*



autos. Compared with traditional alternatives, Sterling Autobody Centers have substantially lower repair times. Plans call for continued expansion in 2003 and beyond.

Beyond claims, customers have more routine interactions such as policy changes or bill payments. And they want to do them on their time, on their terms. We try to make that as easy as possible.

So we're continually expanding our online presence at [allstate.com](http://allstate.com). Most American customers can choose from

a wealth of services and information, including paying a bill, reporting a claim, purchasing a policy, viewing policy information or learning about investment-planning basics.

The response has been positive. Registration for our online Customer Care Center more than doubled during 2002. Nearly nine of 10 visitors were either very or completely satisfied with the overall experience.

Like our Web presence, 1-800-Allstate is available to customers 24 hours a day, seven days a week. For example, our tele-

phone centers answered more than 50,000 calls for agencies that were closed the day after Thanksgiving last year.

Our Customer Information Centers (CIC) offer all the services available on our Web site and more. All told, 1-800-Allstate handled nearly 10 million calls last year from claims reports to agent referrals.

It's already a powerful partnership. Allstate.com and 1-800-Allstate help handle many routine service tasks, freeing agencies to focus more on building relationships and satisfying customers. They also bring new customers into agencies. Our focus will be to continue to leverage this relationship with Allstate agencies and Exclusive Financial Specialists.

*Leaving school, Scottsdale, Ariz. – Persistent work by agent Chris King and more flexible SRM auto policy pricing won back working mother of two Audrey Contreras from a competitor. Contreras has auto, renters and life policies with Allstate.*



## 6. Achieve Profitable Growth

*Focusing on customers first is the surest way to build our business. But as we expand, we must keep a close eye on our bottom line and our capital as well.*

It all starts with our Strategic Risk Management (SRM) tool that integrates underwriting, pricing and marketing to help attract and retain the right customers with the right products at the right price. In particular, SRM helps us attract and keep high-lifetime-value customers – the kind who are more likely to renew their policies and buy more products from Allstate.

In one 22-state sample, for instance, the share of new standard auto customers in high-value segments increased from 28 percent to 43 percent. Retention rates in those segments are higher. And those customers buy more, too. In the same study, cross-sell results were 51 percent more in higher-value segments.

The long-term benefits are obvious: When we lose fewer customers, we add

to total policies in force. The same is true when we sell more policies to the same number of customers.

It's also important to remember that the impact of SRM is cumulative. Today, customers priced through SRM represent about 25 percent of our total business. Within five years, they will account for two-thirds, and the cumulative effects will be significant. One example: High-lifetime-value customers are renewing their policies today at a rate 1 percent to 2 percent higher than other customers. Over 10 years, that could mean substantially fewer defections.

Moving forward, we know profitability, growth and acceptable returns can live together, even when the need arises to adapt to different regulatory and market conditions. In 1998, for example, Allstate

created a separate property/casualty company in New Jersey to deal with profitability issues. Today, Allstate New Jersey is profitable and growing. We're currently looking at this and other options in states where we face similar profitability challenges.

Finally, generating profitable growth requires that we be highly visible in the marketplace. That's why late last year we dramatically increased advertising and marketing spending, with a focus on encouraging current single-line customers to become multi-line customers. We'll build on that marketing momentum in 2003 and supplement national efforts with local plans in key markets.

*Allstate Investments trading floor, Northbrook, Ill. – A 100-member investments team actively manages the company's investment decisions.*





## 7. Maintain Our Financial Strength

*Supporting growth – in our customer base, in our distribution networks and in our product portfolio – is the financial strength that has made us a stable company for decades. When we tell our customers, our investors and our employees, “You’re In Good Hands with Allstate<sup>®</sup>,” the commitment carries with it an awesome responsibility. While some companies today find their resources and reputations declining, financial strength ensures that Allstate will be able to keep its promises.*

Strength comes from strategy and focus. Since our public offering, we sold non-core businesses, including large commercial accounts, reinsurance and mortgage insurance. That channeled our energies and resources to markets where we had the best chance of winning, while limiting our catastrophe exposure and shielding our asset base against multi-billion-dollar losses.

Financial strength comes from sound governance, transparency and a commitment to integrity. Our board is recognized as one of the most independent in America. In recent years we’ve increased the transparency of our financial reporting. What’s more, we operate in one of the most regulated industries anywhere. Our principles, accounting and otherwise, are sound. So when I sign our financial statements every quarter, I do it with a steady hand.

Strength also comes from sound investment decisions that help improve returns for shareholders. Allstate Investments, LLC, an Allstate subsidiary, manages our \$91 billion portfolio. We believe in being diversified and value-oriented. While almost no one emerged unscathed from economic downturns in recent years – Allstate fared far better

than most. In 2002, for example, our investment writedowns, while substantial, amounted to only one half of 1 percent of the average portfolio for the year. And while the major rating agencies downgraded the life operations of many other companies in the industry, our ratings from A.M. Best Company, Moody’s Investors Service and Standard & Poor’s remained unchanged at the same high levels that we have consistently enjoyed over the past five years.

Finally, financial strength comes from always being conscious of costs. In 2002, our Property-Liability expense ratio declined again, from 23.9 percent to 23.3 percent. The reduction reflected premium increases and companywide efforts by individuals at all levels. Six Sigma initiatives implemented in Allstate Financial and a more rigorous procurement governance process also yielded incremental savings.

Staying true to these priorities while making prudent moves to ensure that our reserves are sufficient to address liquidity requirements will help keep us financially strong far into the future.

# Looking Ahead

*Clearly, we have a full plate of initiatives going forward. Our agenda is ambitious, yet achievable. And our confidence in the future is bolstered by lessons from the recent past.*

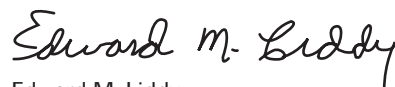
In the near decade since becoming a public company, much has changed at Allstate. But several characteristics have remained consistent:

- We have an unwavering commitment to integrity. Our word is our bond.
- Our approach to change has been calculated, not haphazard. We built on our core strengths.
- We place a premium on execution. We did what we said we'd do.
- We demonstrated a passion for success. Our employees have been able to embrace, and to implement change.

These attributes will continue to serve us well. In many ways, Allstate today represents the best of both worlds. As a company with roots that go back more than 70 years, we have financial strength and one of America's finest brands. Having functioned on our own as a public company for nearly a decade, we're becoming nimble enough to respond to changing markets and customer preferences.

The combination makes us a formidable competitor. We'll draw on all of these resources as we expand our operations and our opportunities in the years ahead.

Sincerely,



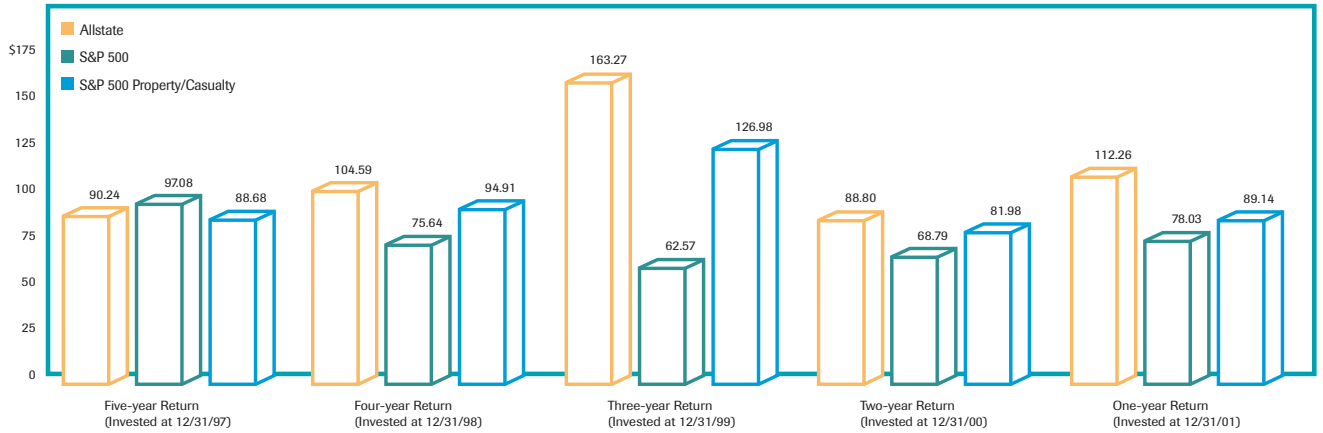
Edward M. Liddy  
Chairman, President and CEO

Allstate operates from a strong position financially, with \$117.4 billion in assets and shareholders' equity of \$17.4 billion. Its main business units, Property-Liability and Allstate Financial,

provide insurance, investment and retirement products to 14 million households served through Allstate directly, and 2.5 million households served through non-proprietary channels.

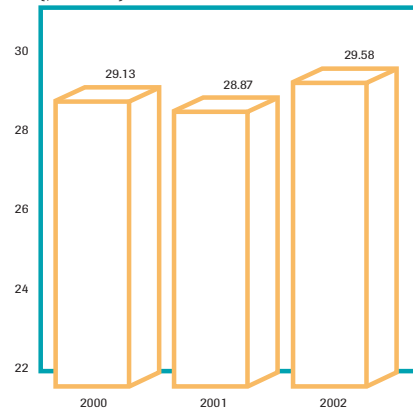
**Comparison of Cumulative Total Return**

For a \$100 initial investment made as of December 31, 1997, 1998, 1999, 2000 and 2001. Allstate vs. Published Indices

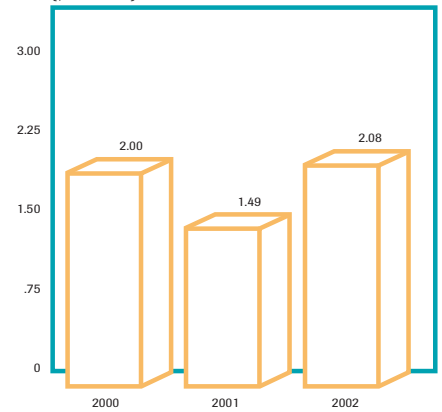


The chart above compares the cumulative performance of Allstate's returns for an initial \$100 investment made at the end of each of the preceding five year periods, with the performance of the S&P 500 and S&P 500 Property/Casualty indices. The chart shows the changes in cumulative value of an initial \$100 investment over the indicated time periods, assuming all dividends are reinvested quarterly.

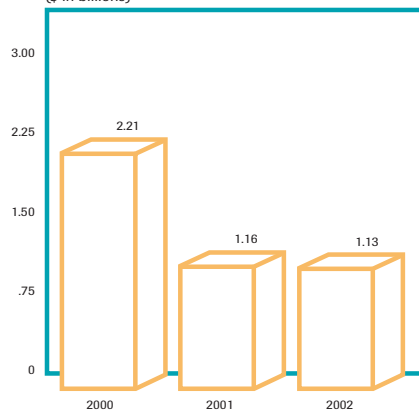
**Revenues**  
(\$ in billions)



**Operating income**  
(\$ in billions)



**Net income**  
(\$ in billions)

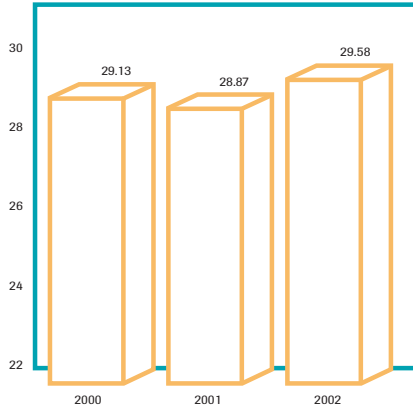


## Consolidated Financial Highlights

Allstate provides insurance, investment and retirement products to more than 14 million households served through Allstate directly and 2.5 million households served through non-proprietary channels, and has approximately 12,300 exclusive agents in the United States and Canada. Customers can access Allstate products and services through Allstate agents, allstate.com and 1-800-Allstate. Advantage includes Encompass<sup>SM</sup> and

Deerbrook<sup>SM</sup> Insurance brand property and casualty insurance products that are sold exclusively through independent agents. Allstate Financial products can also be accessed through independent agents and representatives of banks and securities firms. The consolidated financial results of Allstate include its Property-Liability, Allstate Financial and Corporate and Other business units.

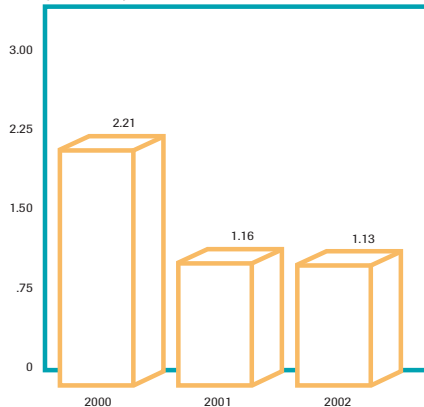
**Revenues**  
(\$ in billions)



**Revenues** increased to \$29.58 billion in 2002 from \$28.87 billion in 2001 due to increased Premiums earned in the Property-Liability business, Life and annuity premiums and contract charges in the Allstate Financial business and Net investment income. Offsetting these increases was a higher level of net realized capital losses in 2002 when compared to 2001.

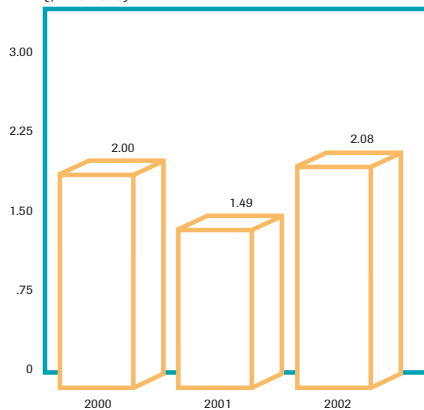
**Net income** declined to \$1.13 billion in 2002 from \$1.16 billion in 2001 due to higher realized capital losses when compared to 2001, and the cumulative effect of a 2002 change in accounting principle. Net income per diluted common share in 2002 was equal to 2001 as reduced Net income was offset by the positive impacts of Allstate's share repurchase program. Allstate repurchased 12 million shares totaling \$446 million during 2002.

**Net income**  
(\$ in billions)



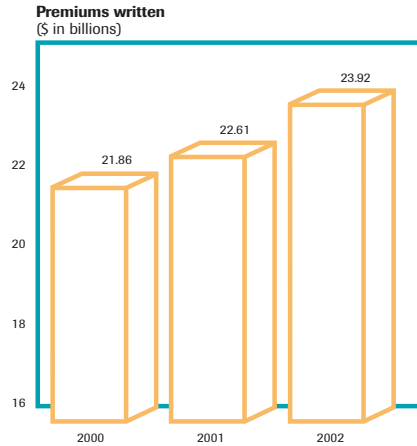
**Operating income** increased to \$2.08 billion in 2002 from \$1.49 billion in 2001 due to higher Operating income in both Property-Liability and Allstate Financial.

**Operating income**  
(\$ in billions)

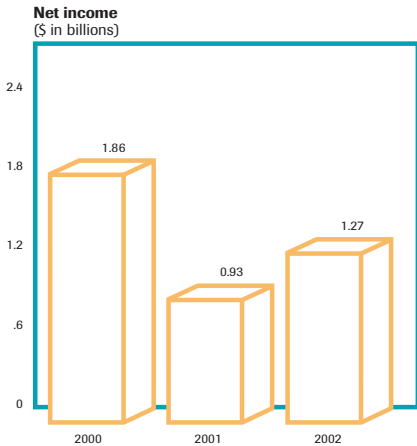


## Property-Liability Highlights

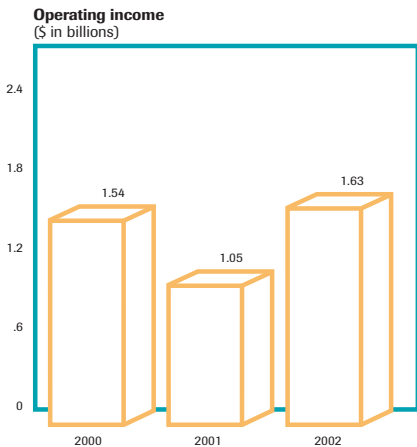
Allstate's Property-Liability business is the second largest personal property and casualty insurer in the United States. It is principally engaged in the sale of private passenger auto and homeowners insurance.



**Premiums written** increased to \$23.92 billion in 2002 from \$22.61 billion in 2001 due to increases in the standard auto and homeowners lines. These increases were due to increased premium rates, but were partially offset by a decline in the number of policies. Increases in Premiums written in standard auto and homeowners were partially offset by declines in Premiums written in the Allstate brand non-standard auto line related to the implementation of programs to address profitability trends in this line.



**Net income for Property-Liability** increased to \$1.27 billion in 2002 from \$926 million in 2001. This increase was the result of higher Operating income, partially offset by increased realized capital losses and the Cumulative effect of a change in accounting principle.

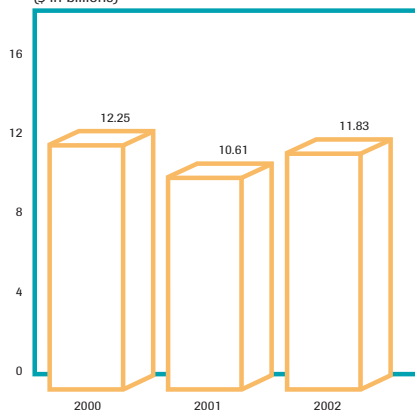


**Operating income for Property-Liability** increased to \$1.63 billion in 2002 from \$1.05 billion in 2001. This increase was due to higher Premiums earned and lower catastrophe losses. These factors were partially offset by higher insurance claims and claims expenses and declines in Net investment income. During 2002, claims and claims expenses were affected by a higher average cost per claim, which was partially offset by a lower rate of claim occurrence.

**Outlook** Property-Liability will continue to seek approval for rate changes wherever and whenever it's appropriate, and to pursue other actions such as underwriting process improvements, that will promote a targeted level of profitability. Strategic plans are also in place to increase the retention of current customers, increase the number of agents and market to a focused group of consumers who are best able to provide profitable growth.

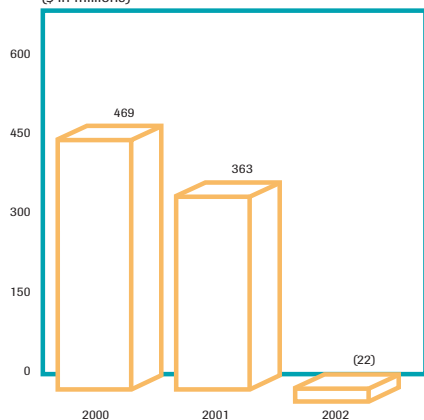
The Allstate Financial business provides life insurance, investment and retirement products through Allstate agents, independent agents and representatives of banks and securities firms.

**Premiums and deposits**  
(\$ in billions)



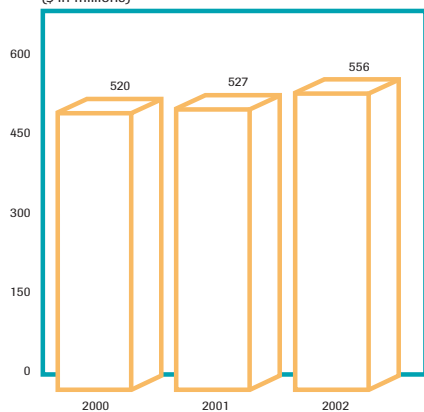
**Premiums and deposits** increased to \$11.83 billion in 2002 from \$10.61 billion in 2001 due to an increase in fixed annuity sales and an increase in deposits at the Allstate Bank. These increases were partially offset by a significant decline in sales of institutional products reflecting unfavorable credit market conditions, and variable annuities caused by poor equity market performance.

**Net income**  
(\$ in millions)



**Net income for Allstate Financial** declined to a loss of \$22 million in 2002 from Net income of \$363 million in 2001. This decrease was the result of the Cumulative effect of a change in accounting principle and higher realized capital losses in 2002 compared to 2001.

**Operating income**  
(\$ in millions)



**Operating income for Allstate Financial** increased to \$556 million in 2002 from \$527 million in 2001. This increase was due to new product sales, management actions to improve the gross investment margin, which is the margin earned on investments in excess of interest credited on policies, adjust-

ments for prior year tax liabilities and the elimination of goodwill amortization due to an accounting change. These increases were partly offset by higher Amortization of deferred policy acquisition costs related to variable annuities resulting from the equity market environment during 2002, and increased Operating costs and expenses.

**Outlook** Allstate Financial will continue to manage its investment margin to maintain profitable spreads between investment yields and interest crediting rates on its inforce products. Management will also continue to evaluate the investment environment and manage product pricing to ensure that new product sales generate acceptable returns. Allstate Financial will continue to strengthen its relationships within its current distribution channels by enhancing its focus on key distribution partners and Allstate agents.

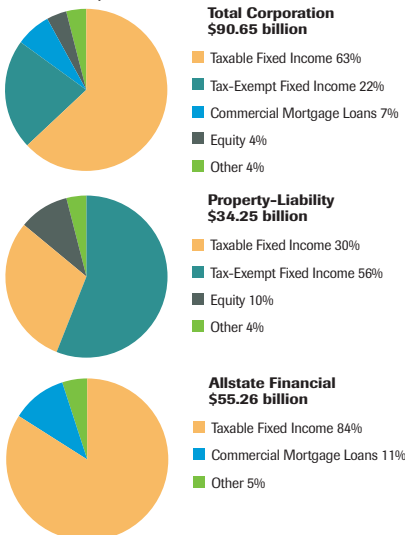
## Investments Highlights

Allstate Investments, LLC is a wholly-owned subsidiary of The Allstate Corporation responsible for managing the invested assets of the principal business units, Property-Liability and Allstate Financial. Allstate Investments, LLC works closely with Allstate's business units to design effective market and credit quality, liquidity and asset allocation strategies that will most effectively support their business objectives. Allstate is a major investor in many domestic securities markets and participates in several international investment markets. Working within a comprehensive risk management framework, Allstate's team of dedicated investment professionals takes an active market stance in pursuit of generating returns in excess of appropriate benchmarks in support of the Company's overall financial objectives.

## Asset Allocation

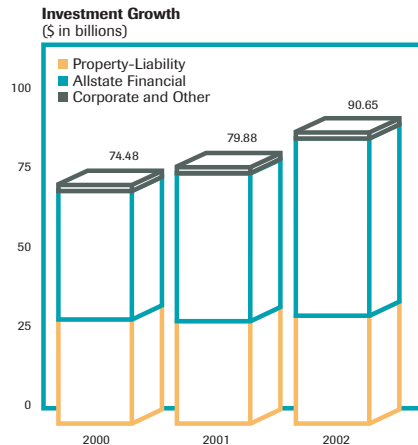
Allstate's consolidated allocation of assets is designed to best support the needs of its business units. Allstate's portfolio of invested assets is heavily weighted towards fixed income securities. Fixed income securities provide the most effective match to the business units' financial objectives while best supporting Allstate policyholder claim payments. The balanced allocation across both fixed income and equity markets performed well during the unique and volatile capital markets that existed during 2002.

At Dec. 31, 2002:



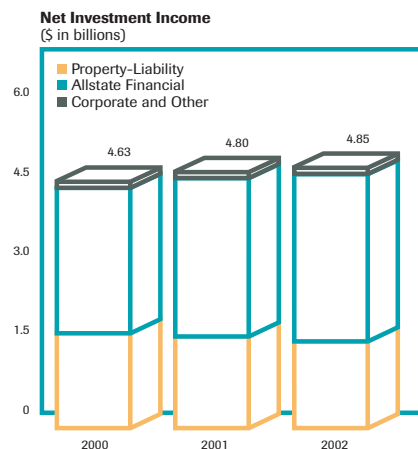
## Investment Growth

Consolidated investment balances increased to \$90.65 billion in 2002 from \$79.88 billion in 2001, or 13.5%, primarily due to increased cash flows from growth in operations, as well as increased unrealized gains in fixed income assets generated in a lower interest rate environment.



## Net Investment Income

Allstate's consolidated Net investment income for 2002 increased to \$4.85 billion from \$4.80 billion in 2001, or 1.2%, primarily due to higher investment balances, but partially offset by lower yields on purchases of new fixed income securities. Investment strategies are focused on achieving consistent growth in investment income within the context of overall asset growth and available market yields.

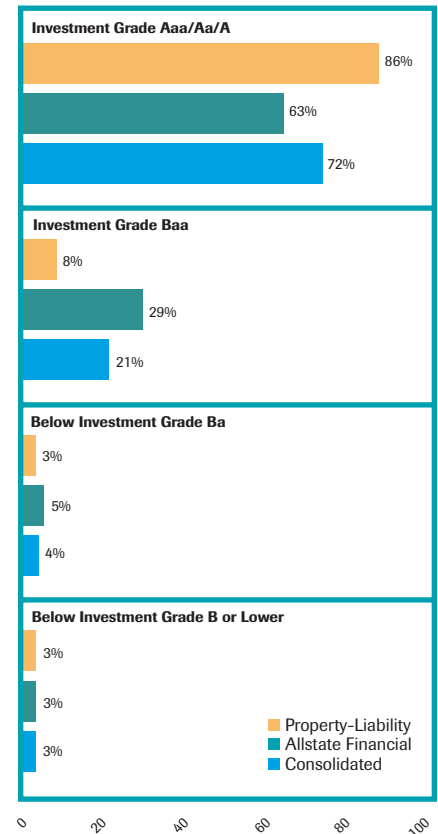


## Fixed Income Portfolio Quality

Allstate's fixed income portfolios are both highly-diversified and of high quality. On a consolidated basis, approximately 93% of Allstate's fixed income assets are of investment grade quality. Allstate considers a security investment grade when it has received a rating from the National Association of Insurance Commissioners of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, or a comparable internal rating. The high quality nature of the portfolios provide the foundation for the risk management framework that best meets each business unit's financial objectives and risk tolerance levels.

## Distribution of Fixed Income Assets by Credit Quality (In Percent)

At Dec. 31, 2002:



**Outlook** The continued presence of a soft economy, geopolitical risks and historically low interest rates will present a challenging investment climate in 2003. Allstate believes a disciplined approach to risk management and asset allocation combined with an active management philosophy will continue to serve Allstate well in the coming year.

*Allstate offers a wide range of protection and savings tools that work together to achieve financial security.*

**5. Wealth Transfer**

- Estate planning products:
  - Fixed Survivorship Life Insurance
  - Variable Survivorship Life Insurance

**4. Asset Management and Accumulation**

- Fixed Annuities
- Variable Annuities
- Single Premium Immediate Annuities
- Universal Life Insurance
- Variable Universal Life Insurance
- Structured Settlement Annuities
- Mutual Funds
- IRAs
  - Roth IRAs
  - SIMPLE IRAs
  - SEP IRAs
- 529 Plans
- Coverdell Education Savings Accounts

**3. Short-term Financial Objectives**

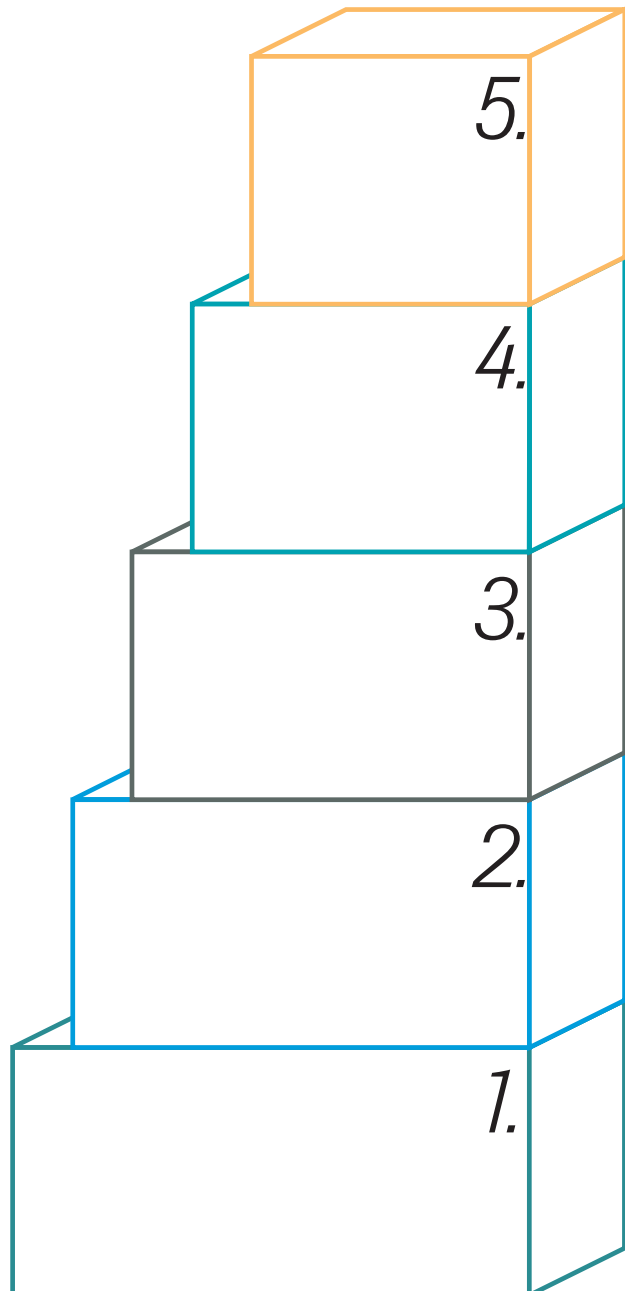
- Checking Accounts
- Savings Accounts
- Certificates of Deposit
- Money Market Accounts
- Mortgages

**2. Family Life Protection**

- Term Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance
- Long-term Care Insurance
- Disability Insurance

**1. Asset Protection**

- Auto Insurance
- Homeowners Insurance
- Condominium Insurance
- Renters Insurance
- Scheduled Personal Property
- Commercial Auto Insurance
- Customizer-Small Business Owner Insurance
- Landlord Package Insurance
- Mobile Home Insurance
- Motorcycle Insurance
- Boat Insurance
- Personal Excess Liability Insurance
- Emergency Roadside Service Plans





The success of any business rests on the shoulders of its people. That’s particularly true in a business like ours. Our product is our people and the service they deliver each and every day.

Allstate has long understood the relationship between company performance and an effective work environment that recognizes and rewards performance while enabling employees to pursue personal and professional goals.

Allstate offers a distinctive employment opportunity including an inclusive and effective work environment that ensures dignity and respect for all individuals, competitive pay and benefits, opportunities for development, and quality leadership – all designed to attract the brightest new talent and retain and motivate our skilled workforce.

We are pleased to receive confirmation externally that we’re on the right track with our employment practices and work environment. Allstate has been recognized repeatedly in various publications including: *CAREERS & the disABLED*, *Fortune*, *Hispanic*, *LATINA Style*, *Money*, *Training Magazine* and *Working Mother*.

And, while we’re proud of the recognition, we know we can’t rest on our laurels. Our workforce is a competitive advantage. Employees have the opportunity on a regular basis to provide their feedback through a survey process designed to monitor the effectiveness of our work environment. We continually look for ways to improve the work environment and provide the tools our employees need to be successful.

**A Diverse Workforce**

Shown are minority and female employee percentages of the company’s total U.S. workforce

Source: EEO-1 report, December 2002

Job Category	Total Number by Category	Total Female Percent	Total African American Percent	Total Hispanic Percent	Total Asian/Pacific Islander Percent	Total Native American Percent	Total Minority Percent
Officials & Managers	5,614	41.6	11.8	5.0	2.7	0.4	19.9
Professionals	18,789	49.2	13.2	6.0	5.0	0.4	24.5
Technicians	30	3.3	6.7	3.3	3.3	0	13.3
Sales Workers	209	18.7	9.1	4.3	3.8	0.5	17.7
Office Workers	13,779	84.1	24.0	10.2	3.1	0.4	37.8
Craft Workers	98	8.2	10.2	18.4	4.1	0	32.7
<b>Total Workforce</b>	<b>38,519</b>	<b>60.3</b>	<b>16.8</b>	<b>7.4</b>	<b>4.0</b>	<b>0.4</b>	<b>28.6</b>

Data as of 12/22/02 (Employee counts only. Exclude EAs, EFSs & IAs)

**The Allstate  
Corporation Board  
of Directors**

**F. Duane Ackerman**  
Chairman, President and  
Chief Executive Officer  
BellSouth Corporation

**James G. Andress**  
Retired Chairman and  
Chief Executive Officer  
Warner Chilcott PLC

**Edward A. Brennan**  
Retired Chairman,  
President and Chief  
Executive Officer  
Sears, Roebuck and Co.

**W. James Farrell**  
Chairman and  
Chief Executive Officer  
Illinois Tool Works Inc.

**Jack M. Greenberg**  
Retired Chairman and  
Chief Executive Officer  
McDonald's Corporation

**Ronald T. LeMay**  
President and  
Chief Operating Officer  
Sprint Corporation

**Edward M. Liddy**  
Chairman, President and  
Chief Executive Officer  
The Allstate Corporation

**Michael A. Miles**  
Special Limited Partner  
Forstmann Little & Co.

**J. Christopher Reyes**  
Chairman  
Reyes Holdings LLC

**H. John Riley Jr.**  
Chairman, President and  
Chief Executive Officer  
Cooper Industries Ltd.

**Joshua I. Smith**  
Chairman and  
Managing Partner  
The Coaching Group

**Judith A. Sprieser**  
Chief Executive Officer  
Transora

**Mary Alice Taylor**  
Independent Business  
Executive

**Allstate Insurance  
Company Senior  
Management Team  
(as of 3/1/03)**

**Edward M. Liddy**  
Chairman, President and  
Chief Executive Officer

**Robert S. Apatoff**  
Senior Vice President and  
Chief Marketing Officer

**Catherine S. Brune**  
Senior Vice President and  
Chief Technology Officer

**Joan M. Crockett**  
Senior Vice President  
Human Resources

**Dan L. Hale**  
Senior Vice President and  
Chief Financial Officer

**Ernest A. Lausier**  
President  
Ivantage Group

**Michael J. McCabe**  
Senior Vice President and  
General Counsel

**Ronald D. McNeil**  
Senior Vice President  
Product Operations

**Robert W. Pike**  
Executive Vice President  
Administration and  
Secretary

**Eric A. Simonson**  
President  
Allstate Investments, LLC

**Casey J. Sylla**  
President  
Allstate Financial

**Thomas J. Wilson**  
President  
Allstate Protection

**Acknowledgment**

Three officers, Rick Cohen, Frank Pollard and Steve Groot, retired from The Allstate Corporation in 2002. Each of these individuals provided lengthy, loyal service toward making Allstate the great company it is today. Their contributions were valued immensely, and their counsel and wisdom will be missed.

**Corporate Headquarters/  
Home Office**

The Allstate Corporation  
2775 Sanders Road  
Northbrook, IL 60062-6127  
(800) 574-3553  
www.allstate.com

**Annual Meeting**

Shareholders of record are invited to attend the annual meeting of The Allstate Corporation, Tuesday, May 20, 2003, 11 a.m., Bank One Auditorium, 1 Bank One Plaza, (Dearborn between Madison and Monroe), Chicago, IL.

Holders of common stock of record at the close of business on March 21, 2003 are entitled to vote at the meeting. A notice of meeting, proxy statement and proxy were provided to shareholders with this annual report.

**Transfer Agent/Shareholder  
Records**

For information or assistance regarding individual stock records, dividend reinvestment, dividend checks, 1099DIV and 1099B tax forms, direct deposit of dividend payments, or stock certificates, call:

(800) 355-5191  
within the U.S. or  
(781) 575-2723  
outside the U.S.

Hearing impaired may call  
(800) 952-9245

Or write:  
EquiServe Trust Company N.A.  
P.O. Box 43069  
Providence, RI 02940

For items sent by courier or overnight use the following address:  
EquiServe Trust Company N.A.  
Attn. Transfer Department  
150 Royall Street  
Canton, MA 02021

www.equiserve.com

**Share Purchase and Dividend  
Reinvestment Plan**

Shareholders can reinvest their Allstate dividends as well as make optional cash deposits to purchase additional shares of Allstate common stock. Please write or call EquiServe Trust Company N.A., as indicated above.

**Profit Sharing**

For information about The Savings and Profit Sharing Fund of Allstate Employees, call the Allstate Benefits Center at (888) 255-7772.

**Exclusive Agent Stock  
Bonus Plan**

For information about the Exclusive Agent Independent Contractors Stock Bonus Plan, call EquiServe Trust Company N.A. at (800) 706-9862.

**Investor Relations**

Security analysts, portfolio managers and representatives of financial institutions seeking information about the company should contact:

Investor Relations  
The Allstate Corporation  
3075 Sanders Road  
Northbrook, IL 60062-7127  
(800) 416-8803

**Common Stock and  
Dividend Information**

	High	Low	Dividends Close declared	
2002				
First quarter	38.00	31.03	37.77	.21
Second quarter	41.25	35.90	36.98	.21
Third quarter	39.10	31.74	35.55	.21
Fourth quarter	41.95	33.17	36.99	.21
2001				
First quarter	42.94	33.56	41.94	.19
Second quarter	45.90	40.18	43.99	.19
Third quarter	44.89	30.00	37.35	.19
Fourth quarter	38.38	30.58	33.70	.19

Stock price ranges are from the New York Stock Exchange Composite Listing. As of 4:00 p.m. (EST) on March 7, 2003, the closing price of Allstate common stock as reported on the New York Stock Exchange was \$32.13, and there were 157,748 shareholders of record.

**Media Inquiries**

Allstate Media Relations  
2775 Sanders Road  
Northbrook, IL 60062-6127  
(847) 402-5600

**Form 10-K, Other Reports**

Shareholders may receive without charge a copy of The Allstate Corporation Form 10-K annual report (filed with the Securities and Exchange Commission) and other public financial information for the year ended Dec. 31, 2002, by contacting:  
Investor Relations  
The Allstate Corporation  
3075 Sanders Road  
Northbrook, IL 60062-7127  
(800) 416-8803  
The Allstate annual report is available online at:  
www.allstate.com/investor/  
annual\_report

**Annual Report Recordings**

Audio cassette tapes of the Allstate annual report are available without charge to the visually impaired by calling (800) 416-8803.

**Stock Exchange Listing**

The Allstate Corporation common stock is listed on the New York Stock Exchange under the trading symbol ALL. Common stock is also listed on the Chicago Stock Exchange.

**Independent Auditors**

Deloitte & Touche LLP  
Two Prudential Plaza  
180 North Stetson Avenue  
Chicago, IL 60601-6779

**Online Information**

Investor supplements describing Allstate quarterly fiscal results, as well as audio rebroadcasts of investor conferences at which the company participates, will be posted on www.allstate.com. Investor conference calls will also be broadcast from that Web site.