ALLSTATE CORP
Form DEF 14A
March 28, 2003

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

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Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
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The Allstate Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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THE ALLSTATE CORPORATION

2775 Sanders Road
Northbrook, Illinois 60062-6127

March 28, 2003

Notice of Annual Meeting and Proxy Statement

Dear Stockholder:

You are invited to attend Allstate's 2003 annual meeting of stockholders to be held on Tuesday, May 20, 2003. The meeting will be held at 11 a.m. in the Bank One Auditorium, 1 Bank One Plaza (located at Dearborn and Madison), Chicago, Illinois.

We hope you will find our new combined Annual Report, Notice of Annual Meeting and Proxy Statement format more useful. We combined the format to facilitate your review of the Company's 2002 performance, its strategies to continue the solid performance of 2002, as well as the items to be covered at the upcoming annual stockholders meeting by providing all important company information in one complete package.

Following this page are:

- The notice of meeting
- The proxy statement
- Financial information about Allstate and management's discussion and analysis of Allstate's operations and financial condition

Also enclosed are the following:

- A proxy card and/or a voting instruction form
- A postage-paid envelope

Your vote is important. You may vote by telephone, Internet or mail. Please use one of these methods to vote before the meeting even if you plan to attend the meeting.

Sincerely,

Edward M. Liddy
Chairman, President and
Chief Executive Officer

THE ALLSTATE CORPORATION
2775 Sanders Road
Northbrook, Illinois 60062-6127

March 28, 2003

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders of The Allstate Corporation will be held at the Bank One Auditorium which is located on the Plaza level of the Bank One building, 1 Bank One Plaza, Chicago, Illinois on Tuesday, May 20, 2003, at 11 a.m. for the following purposes:

1. To elect to the Board of Directors thirteen directors to serve until the 2004 annual meeting
2. To ratify the appointment of Deloitte & Touche LLP as Allstate's independent public accountants for 2003
3. To consider two stockholder proposals, if properly presented.

In addition, any other business properly presented may be acted upon at the meeting.

Allstate began mailing this proxy statement, proxy cards and/or voting instruction forms to its stockholders and to participants in its profit sharing fund on March 28, 2003.

By Order of the Board,

Robert W. Pike
Secretary

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Proxy and Voting Information

Who is asking for your vote and why

The annual meeting will be held only if a majority of the outstanding common stock entitled to vote is represented at the meeting. If you vote before the meeting or if you attend the meeting in person, your shares will be counted for the purpose of determining whether there is a quorum. To ensure that there will be a quorum, the Allstate Board of Directors is requesting that you vote before the meeting and allow your Allstate stock to be represented at the annual meeting by the proxies named on the enclosed proxy card and/or voting instruction form. Voting before the meeting will not prevent you from voting in person at the meeting. If you vote in person at the meeting, your previous vote will be automatically revoked.

Who can vote

You are entitled to vote if you were a stockholder of record at the close of business on March 21, 2003. On March 21, 2003, there were 703,629,112 Allstate common shares outstanding and entitled to vote at the annual meeting.

How to vote

If you hold your shares in your own name as a record holder, you may instruct the proxies how to vote your shares in any of the following ways:

- By using the toll-free telephone number printed on the proxy card and/or the voting instruction form
- By using the Internet voting site and instructions listed on the proxy card and/or the voting instruction form
- By signing and dating the proxy card and/or the voting instruction form and mailing it in the enclosed postage-paid envelope to The Allstate Corporation, c/o Proxy Services, P.O. Box 9112, Farmingdale, N.Y. 11735

You may vote by telephone or Internet 24 hours a day, seven days a week. If you vote using the Internet, such votes are valid under Delaware law. If you hold your shares through a bank, broker, or other record holder, you may vote your shares by following the instructions they have provided.

How votes are counted and discretionary voting authority of proxies

When you vote you may direct the proxies to withhold your votes from particular director nominees. With respect to each of the other items, you may vote "for" or "against," or you may "abstain" from voting. If you do not indicate how your shares should be voted on a matter, the shares represented by your signed proxy will be voted as the Board of Directors recommends.

The thirteen nominees who receive the most votes will be elected to the open directorships even if they get less than a majority of the votes. For any other item to be ratified or approved, a majority of the shares present at the meeting and entitled to vote on the item must be voted in favor of it.

Abstention with respect to any of items 2 through 4 will be counted as shares present at the meeting and will have the effect of a vote against the matter. Broker non-votes (that is, if the broker holding your shares in street name does not vote with respect to a proposal) and shares as to which proxy authority is withheld with respect to a particular matter will not be counted as shares voted on the matter and will have no effect on the outcome of the vote.

If you use the telephone, the Internet, the proxy card and/or the voting instruction form to allow your shares to be represented at the annual meeting by the proxies but you do not give voting instructions, then the proxies will vote your shares as follows on the four matters set forth in this proxy statement:

- *For* all of the nominees for director listed in this proxy statement
- *For* the ratification of the appointment of Deloitte & Touche LLP as Allstate's independent public accountants for 2003

- *Against* the stockholder proposal for cumulative voting in elections of directors

- *Against* the stockholder proposal concerning the shareholder rights plan

How to change your vote

Before your shares have been voted at the annual meeting by the proxies, you may change or revoke your vote in the following ways:

- Voting again by telephone, by Internet or in writing

- Attending the meeting and voting your shares in person

Unless you attend the meeting and vote your shares in person, you should use the same method as when you first voted telephone, Internet or writing. That way, the inspectors of election will be able to identify your latest vote.

If your shares are held in the name of a bank, broker or other record holder and you plan to attend the meeting, please bring proof of ownership that documents your right to attend and personally vote your shares.

Confidentiality

All proxies, ballots and tabulations that identify the vote of a particular stockholder are kept confidential, except as necessary to allow the inspectors of election to certify the voting results or to meet certain legal requirements. A representative of IVS Associates, Inc. will act as the inspector of election and will count the votes. The representative is independent of Allstate and its directors, officers and employees.

Comments written on proxy cards, voting instruction forms or ballots may be provided to the Secretary of Allstate with the name and address of the stockholder. The comments will be provided without reference to the vote of the stockholder, unless the vote is mentioned in the comment or unless disclosure of the vote is necessary to understand the comment. At Allstate's request, the inspectors of election may provide Allstate with a list of stockholders who have not voted and periodic status reports on the aggregate vote. These status reports may include breakdowns of vote totals by different types of stockholders, as long as Allstate is not able to determine how a particular stockholder voted.

Profit Sharing Participants

If you hold Allstate common shares through The Savings and Profit Sharing Fund of Allstate Employees, your voting instruction form for those shares will instruct the profit sharing trustee how to vote those shares. If you return a signed voting instruction form or vote by telephone or the Internet on a timely basis, the trustee shall vote as instructed for all Allstate common shares allocated to your profit sharing account unless to do so would be inconsistent with the trustee's duties.

If your voting instructions are not received on a timely basis for the shares allocated to your profit sharing account, those shares will be considered "unvoted". If you return a signed voting instruction form but do not indicate how your shares should be voted on a matter, the shares represented by your signed voting instruction form will be voted as the Board of Directors recommends. The trustee will vote all unvoted shares and all unallocated shares held by the profit sharing fund as follows:

- If the trustee receives instructions (through voting instruction forms or through telephonic or Internet instruction) on a timely basis for at least 50% of the votable shares in the profit sharing fund, then it will vote all unvoted shares and unallocated shares in the same proportion and in the same manner as the shares for which timely instructions have been received, unless to do so would be inconsistent with the trustee's duties.

- If the trustee receives instructions for less than 50% of the votable shares, the trustee shall vote all unvoted and unallocated shares in its sole discretion. However, the trustee will not use its discretionary authority to vote on adjournment of the meeting in order to solicit further proxies.

Profit sharing votes receive the same level of confidentiality as all other votes. You may not vote the shares allocated to your profit sharing account by attending the meeting and voting in person. You must instruct The Northern Trust Company, as trustee for the profit sharing fund, how you want your profit sharing fund shares voted.

If You Receive More Than One Proxy Card and a Voting Instruction Form

If you receive more than one proxy card and a voting instruction form, your shares are probably registered in more than one account or you may hold shares both as a registered stockholder and through The Savings and Profit Sharing Fund of Allstate Employees. You should vote each proxy card and voting instruction form you receive.

Annual Report and Proxy Statement Delivery

Allstate has adopted the "householding" procedure approved by the Securities and Exchange Commission that allows us to deliver a single copy of our proxy statement and annual report to a household of stockholders instead of delivering one copy of the document to each stockholder in the household. This procedure saves costs by reducing the number of these materials to be printed and mailed. Stockholders who share the same last name and address, or where shares are held through the same nominee or record holder (for example, when you have multiple accounts at the same brokerage firm), will receive one copy of the proxy statement and annual report per address unless we receive, or have received, contrary instructions. Stockholders will continue to receive separate proxy cards or voting instruction forms to vote their shares.

If you would like to receive a separate copy of the proxy statement and annual report for this year, please write or call us at the following address or phone number: Investor Relations, The Allstate Corporation, 3075 Sanders Road, Northbrook, IL 60062-7127, (800) 416-8803. Upon receipt of your request, we will promptly deliver the requested materials to you.

If you and other Allstate stockholders of record with whom you share an address currently receive multiple copies of the proxy statement and annual report, and you would like to receive only a single copy of each in the future, please contact ADP by calling (800) 542-1061 or by writing to ADP Householding Department, 51 Mercedes Way, Edgewood, NY 11717. If you hold your shares in street name (through a bank, brokerage account or other record holder), please contact your bank, broker or other record holder to request information about householding.

You may also revoke your consent to householding by contacting ADP at the phone number and address listed above. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

Item 1
Election of Directors

Each nominee was previously elected by the stockholders at Allstate's Annual Meeting on May 16, 2002, and has served continuously since then. The terms of all directors will expire at this annual meeting in May 2003. No person, other than the directors of Allstate acting solely in that capacity, is responsible for the naming of the nominees. The Board of Directors expects all nominees named in this proxy statement to be available for election. If any nominee is not available, then the proxies may vote for a substitute.

The Board of Directors has determined each of the following nominees, with the exception of Mr. Liddy in his capacity as Chief Executive Officer, is independent according to the Board's criteria as contained in its Corporate Governance Guidelines (which are posted on the company's website at allstate.com), the regulations of the Securities and Exchange Commission and the independence standards contained in the New York Stock Exchange's Listed Company Standards.

Information as to each nominee follows. Unless otherwise indicated, each nominee has served for at least five years in the business position currently or most recently held.

Nominees

F. Duane Ackerman (Age 60)
Director since 1999

Chairman, President and Chief Executive Officer since 1997 of BellSouth Corporation, a communications services company. Mr. Ackerman also serves as a director of Wachovia Corporation.

James G. Andress (Age 64)
Director since 1993

Chairman and Chief Executive Officer of Warner Chilcott PLC, a pharmaceutical company, from February 1997 until his retirement in January 2000. Mr. Andress previously served as President and Chief Executive Officer of Warner Chilcott from November 1996 until 1998. Mr. Andress is also a director of Dade Behring, Inc., Information Resources, Inc., OptionCare, Inc., Sepracor, Inc., and Xoma Corporation.

Edward A. Brennan (Age 69)
Director since 1993

Chairman of the Board, President and Chief Executive Officer of Sears, Roebuck and Co. from January 1986 until his retirement in August 1995. Mr. Brennan is also a director of AMR Corporation, Exelon Corporation, 3M Company, McDonald's Corporation and Morgan Stanley.

W. James Farrell (Age 61)
Director since 1999

Chairman since May 1996 and Chief Executive Officer since September 1995 of Illinois Tool Works Inc., a manufacturer of engineering and industrial components. Mr. Farrell is also a director of the Federal Reserve Bank of Chicago, Kraft Foods Inc., Sears, Roebuck and Co. and UAL Corporation.

Jack M. Greenberg (Age 60)
Director since February 2002

Chairman and Chief Executive Officer of McDonald's Corporation from May 1999 until his retirement on December 31, 2002. Previously, Mr. Greenberg served as President and Chief Executive Officer since April 1998 and had been a member of McDonald's board of directors since 1982. Mr. Greenberg is also a director of Abbott Laboratories.

Ronald T. LeMay (Age 57)
Director since 1999

President and Chief Operating Officer since October 1997 of Sprint Corporation, a global telecommunications company. Mr. LeMay is also a director of Ceridian Corporation, Imation Corporation and Sprint Corporation.

Edward M. Liddy (Age 57)
Director since 1999

Chairman, President and Chief Executive Officer of Allstate since January 1999. Mr. Liddy served as President and Chief Operating Officer of Allstate from January 1995 until 1999. He is also a director of 3M Company and The Kroger Co.

Michael A. Miles (Age 63)
Director since 1993

Special Limited Partner since 1995 of Forstmann Little & Co., an investment firm. Mr. Miles is also a director of AMR Corporation, AOL Time Warner Inc., Community Health Systems, Inc., Dell Computer Corporation, Exult, Inc., Morgan Stanley and Sears, Roebuck and Co.

J. Christopher Reyes (Age 49)
Director since February 2002

Chairman since January 1998 of Reyes Holdings LLC and its affiliates, a privately held food and beverage distributor. Mr. Reyes is also a director of Fortune Brands, Inc. and Wintrust Financial Corporation.

H. John Riley, Jr. (Age 62)
Director since 1998

Chairman, President and Chief Executive Officer since April 1996 of Cooper Industries Ltd., a diversified manufacturer of electrical products and tools and hardware. He is also a director of Baker Hughes Inc..

Joshua I. Smith (Age 62)
Director since 1997

Chairman and Managing Partner since 1999 of The Coaching Group, a management consulting firm. As part of the consulting business of The Coaching Group, Mr. Smith was Vice Chairman and Chief Development Officer of iGate, Inc., a manufacturer of broadband convergence products for communications companies from June 2000 through April 2001. Previously, Mr. Smith had been Chairman and Chief Executive Officer of The MAXIMA Corporation, a provider of technology systems support services, from 1978 until 2000. In June 1998, The MAXIMA Corporation filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Reform Act of 1978 in the United States Bankruptcy Court, District of Maryland. Mr. Smith is also a director of Cardio Comm Solutions, Inc., Caterpillar, Inc. and Federal Express Corporation.

Judith A. Sprieser (Age 49)
Director since 1999

Chief Executive Officer since September 2000 of Transora, a global eMarketplace for consumer packaged goods. Ms. Sprieser was Executive Vice President of Sara Lee Corporation from 1998 until 2000 and had also served as Chief Financial Officer from 1994 to 1998. Ms. Sprieser also serves as a director of Kohl's Corporation, Transora, and USG Corporation and is a trustee of Northwestern University.

Mary Alice Taylor (Age 53)
Director since 2000

Ms. Taylor is currently an independent business executive. From July 2001 to December 2001, Ms. Taylor accepted a temporary assignment as Chairman and Chief Executive Officer of Webvan Group, Inc., an Internet e-commerce company. Prior to that Ms. Taylor was Chairman and Chief Executive Officer of HomeGrocer.com, from September 1999 until October 2000. Ms. Taylor was Corporate Executive Vice President of Citigroup, Inc. from January 1997 until September 1999. Ms. Taylor also serves as a director of Autodesk, Inc. and Sabre Holdings Corporation.

Meetings of the Board and Board Committees

The Board held 6 meetings during 2002. Each incumbent director attended at least 75% of the Board meetings and meetings of committees of which he or she was a member. The following table identifies each committee, its members and the number of meetings held during 2002. The Board of Directors, in its business judgment, has determined that all members of the Audit Committee are "independent" as required by the applicable listing standards of the New York Stock Exchange. A summary of each committee's functions and responsibilities follows the table.

Director	**Audit**	**Compensation and Succession**	**Nominating and Governance**
F. Duane Ackerman(1)	X	X	
James G. Andress(2)	X*		X
Edward A. Brennan		X	X*
W. James Farrell(3)		X	X
Jack M. Greenberg		X	
Ronald T. LeMay	X	X	
Michael A. Miles(4)		X	X

J. Christopher Reyes	X		
H. John Riley, Jr.		X*	X
Joshua I. Smith	X		X
Judith A. Sprieser(5)	X		X
Mary Alice Taylor	X		
Number of Meetings in 2002	5	6	5

* Committee Chair

(1) Mr. Ackerman joined the Audit Committee on May 16, 2002.

(2) On May 16, 2002, Mr. Andress became Audit Committee chairperson, a member of the Nominating and Governance Committee and left the Compensation and Succession Committee.

(3) Mr. Farrell joined the Nominating and Governance Committee on May 16, 2002.

(4) On May 16, 2002, Mr. Miles joined the Compensation and Succession Committee and left the Audit Committee.

(5) Ms. Sprieser became a member of the Nominating and Governance Committee on May 16, 2002.

Functions of Board Committees

Audit Committee Functions:

Select, appoint, determine compensation and provide oversight of the independent public accountants

Review Allstate's annual audited and quarterly financial statements

Determine whether audited financial statements should be included on Form 10-K and in annual report to stockholders

Prepare the Audit Committee Report for the proxy statement

Review disclosures by the Chief Executive Officer and the Chief Financial Officer for the quarterly and annual financial reports related to Allstate's internal controls design and operation

Review Allstate's accounting and auditing principles and practices affecting the financial statements

Examine the scope of audits conducted by the independent public accountants and the internal auditors

Review and evaluate at least annually, the qualifications, independence and performance of the independent public accountants

Approve services provided by independent public accountants

Discuss with management Allstate's processes for risk assessment and risk management, including major financial risk exposures

Review reports by the independent public accountants and internal auditors concerning management's compliance with law

Confer with the General Counsel on the status of potentially material legal matters affecting Allstate's financial statements

Discuss with management processes for earnings releases, providing financial information and earnings guidance to analysts and rating agencies generally

Review and approve Allstate's Code of Ethics

Adopt procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters, including procedures for receiving confidential, anonymous employee concerns

Conduct independent inquiries when deemed necessary by the Committee to discharge its duties

Conduct annual review and assessment of Committee's Charter and performance

Compensation and Succession Committee Functions:

Make recommendations with respect to executive officer salaries, bonuses and other compensation, including terms and conditions of employment

Retain and terminate independent compensation consultants as needed

Annually review management organization and succession plans for Allstate and senior officers of each significant operating subsidiary

Recommend nominees for certain officer positions

Administer Allstate's equity incentive and other executive benefit plans

Advise the Board on the proxy statement and form of proxy for the annual meeting

Provide annual report on executive compensation for proxy statement

Conduct annual review and assessment of Committee's Charter and performance

Nominating and Governance Committee Functions:

Recommend size and composition of Board and criteria used to select nominees for election to the Board and its committees, including determinations of independence and qualifications

Recommend nominees for election as Chairman and Chief Executive Officer

Determine criteria for the assessment of the Board's performance and oversee assessment of the Board

Administer non-employee director compensation

Make recommendations with respect to the periodic review of the performance of and succession planning for the Chairman and Chief Executive Officer

Advise the Board on the proxy statement and form of proxy for the annual meeting

Review the shareholder rights plan triennially and make recommendations to the Board with respect to its terms and retention

Conduct periodic review and assessment of the guidelines on corporate governance

Advise the Board on policies and practices on stockholder voting

Retain and terminate independent consultants as needed

Conduct annual review and assessment of Committee's Charter and performance

Compensation Committee Interlocks and Insider Participation

During 2002, the Compensation and Succession Committee consisted of H. John Riley, Jr., Chairman, F. Duane Ackerman, Edward A. Brennan, W. James Farrell, Jack M. Greenberg, Ronald T. LeMay and Michael A. Miles. None is a current or former officer of Allstate or any of its subsidiaries. There were no committee interlocks with other companies in 2002 within the meaning of the Securities and Exchange Commission's proxy rules.

Directors' Compensation and Benefits

The following table lists the compensation and benefits provided in 2002 to directors who are not employees of Allstate or its affiliates ("non-employee directors").

Non-Employee Directors' Compensation and Benefits

	Cash Compensation	Equity Compensation

	Cash Compensation	Equity Compensation	
	Annual Retainer Fee(a)	Grant of Allstate Shares(b)	Stock Option for Allstate Shares(c)
Board Membership	$35,000	1,000 shares	4,000 shares
Committee Chairperson	$5,000		
Committee Members	0		

(a) Under the Equity Incentive Plan for Non-Employee Directors, directors may elect to receive Allstate common stock in lieu of cash compensation. In addition, under Allstate's Deferred Compensation Plan for Directors, directors may elect to defer directors' fees to an account that generates earnings based on:

1. The market value of and dividends on Allstate's common shares ("common share equivalents")

2. The average interest rate payable on 90-day dealer commercial paper

3. Standard & Poor's 500 Composite Stock Price Index (with dividends reinvested)

4. A money market fund

No director has voting or investment powers in common share equivalents, which are payable solely in cash. Subject to certain restrictions, amounts deferred under the plan (together with earnings thereon) may be transferred between accounts and are distributed in a lump sum or over a period not in excess of ten years.

(b) Granted each December 1st under the Equity Incentive Plan for Non-Employee Directors and subject to restrictions on transfer until the earliest of six months after grant, death or disability or termination of service. Grants are accompanied by a cash payment to offset the increase in the director's federal, state and local tax liabilities (assuming the maximum prevailing individual tax rates) resulting from the grant of shares. Directors who are elected to the board between annual shareholder meetings are granted a pro-rated number of Allstate shares on June 1st following the date of the director's initial election.

(c) Granted each June 1st at exercise prices equal to 100% of value on the date of grant. Directors who are elected to the board between annual shareholder meetings are granted an option for a pro-rated number of shares on the date of their election at an exercise price equal to 100% of value on the date of their election. The options become exercisable in three substantially equal annual installments, expire ten years after grant, and have a "reload" feature. The reload feature permits payment of the exercise price by tendering Allstate common stock, which in turn gives the option holder the right to purchase the same number of shares tendered, at a price equal to the fair market value on the exercise date. Upon mandatory retirement pursuant to the policies of the Board, the unvested portions of any outstanding options fully vest. The options permit the option holder to exchange shares owned or have option shares withheld to satisfy all or part of the exercise price. The vested portion of options may be transferred to any immediate family member, to a trust for the benefit of the director or immediate family members, or to a family limited partnership.

Security Ownership of Directors and Executive Officers

The following table sets forth certain information as to shares of Allstate common stock beneficially owned by each director and executive officer named in the Summary Compensation Table, and by all executive officers and directors of Allstate as a group. Shares reported include shares held as nontransferable restricted shares awarded under Allstate's employee benefit plans, subject to forfeiture under certain circumstances, shares held indirectly through The Savings and Profit Sharing Fund of Allstate Employees and other shares held indirectly, and shares subject to stock options exercisable on or prior to April 1, 2003. The percentage of Allstate shares beneficially owned by any Allstate director or nominee or by all directors and executive officers of Allstate as a group does not exceed 1%. The following share amounts are as of January 31, 2003.

Name	Amount and Nature of Beneficial Ownership of Allstate Shares(a)

F. Duane Ackerman	22,484(b)
James G. Andress	23,998
Edward A. Brennan	330,116(c)
Richard I. Cohen	593,282(d)
W. James Farrell	10,676(e)
Jack M. Greenberg	2,834(f)
Ronald T. LeMay	11,584(g)
Edward M. Liddy	1,919,702(h)
Michael A. Miles	40,832
Robert W. Pike	361,938(i)
J. Christopher Reyes	13,014(j)
H. John Riley, Jr.	24,834(k)
Joshua I. Smith	17,316(l)
Judith A. Sprieser	13,015(m)
Mary Alice Taylor	13,222(n)
Casey J. Sylla	362,114(o)
Thomas J. Wilson, II	546,669(p)
All directors and officers as a group	5,641,116(q)

(a) Each of the totals for Messrs. Andress, Brennan, and Miles includes 15,334 Allstate shares subject to option.

(b) Includes 4,834 shares subject to option.

(c) Includes 36,894 shares held by Mr. Brennan's spouse. Mr. Brennan disclaims beneficial ownership of these shares.

(d) Includes 554,099 shares subject to option and 130 shares held by Mr. Cohen's spouse. Mr. Cohen disclaims beneficial ownership of these shares

(e) Includes 6,334 shares subject to option.

(f) Includes 334 shares subject to option.

(g) Includes 7,084 shares subject to option.

(h) Includes 1,636,960 shares subject to option.

(i) Includes 321,936 shares subject to option.

(j) Includes 334 shares subject to option.

(k) Includes 8,834 shares subject to option.

(l) Includes 13,084 shares subject to option.

(m) Includes 5,834 shares subject to option.

(n) Includes 3,334 shares subject to option.

(o) Includes 44,186 shares subject to option.

(p) Includes 501,428 shares subject to option.

(q) Includes 4,518,673 shares subject to option.

Security Ownership of Certain Beneficial Owners

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common	Northern Trust Corporation 50 S. LaSalle Street Chicago, IL 60675	41,200,508(a)	5.9%
Common	Capital Research & Management Company 333 South Hope Street, 55th Floor Los Angeles, CA 90071	46,506,100(b)	6.6%
Common	FMR Corporation 82 Devonshire Street Boston, MA 02109	42,025,466(c)	6.0%

(a) As of December 31, 2002. Held by Northern Trust Corporation together with certain subsidiaries (collectively "Northern"). Of such shares, Northern held 2,890,711 with sole voting power; 38,246,222 with shared voting power; 4,175,285 with sole investment power; and 177,082 with shared investment power. 36,462,431 of such shares were held by The Northern Trust Company as trustee on behalf of participants in Allstate's profit sharing plan. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

(b) As of December 31, 2002 based on Form 13G reflecting sole investment power over shares, filed by Capital Research and Management Company on February 13, 2003.

(c) As of December 31, 2002 based on Form 13G reflecting sole investment power over shares, filed by FMR Corporation on February 13, 2003.

Item 2
Ratification of Appointment of Independent Public Accountants

The Audit Committee of the Board of Directors has recommended the selection and appointment of Deloitte & Touche LLP as Allstate's independent public accountants for 2003. The Board has approved the Audit Committee's recommendation. Stockholder approval of the selection of Deloitte & Touche LLP is not required by law, however, the Board is submitting the selection of Deloitte & Touche LLP upon the Audit Committee's recommendation, to the stockholders for ratification consistent with our long-standing prior practice. If the selection is not ratified by the stockholders, the Audit Committee may reconsider its selection. Even if the selection is ratified, the Audit Committee may, in its discretion, appoint a different independent public accountant at any time during the year if the Committee determines a change would be in the best interests of Allstate and the stockholders.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independent public accountant's independence, and has discussed with Deloitte & Touche LLP that firm's independence.

In November 2002, the Audit Committee adopted a Policy Regarding Pre-Approval of Independent Auditors' Services for all services provided after that date. A copy of the policy, as amended March 10, 2003, is attached as Appendix B to this Notice of Annual Meeting and Proxy Statement.

The following fees have been, or will be, billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, for professional services rendered to Allstate for the fiscal years ending December 31, 2002 and December 31, 2001.

	2002	2001
Audit Fees(1)	$ 6,063,752	$ 5,275,465
Audit Related Fees(2)	$ 963,328	$ 213,365
Tax Fees(3)	$ 81,551	$ 99,374
All Other Fees(4)	$ 61,807	$ 624,735
Total Fees	$ 7,170,338	$ 6,212,939

(1) Fees for audits of annual financial statements, reviews of quarterly financial statements, statutory audits, attest services, comfort letters, consents and review of documents filed with the Commission.

(2) Audit Related Fees relate to professional services such as accounting consultations relating to new accounting standards, due diligence assistance and audits of non-consolidated entities (i.e. employee benefit plans, various trusts, Allstate Foundation, etc.) and are set forth below. The fees associated with the 2001 audits of these entities (totaling $416,150) were not included in last year's Proxy Statement.

	2002	2001
Adoption of New Accounting Standards	$ 16,610	$ 169,612
Due Diligence	$ 479,861	$ 23,903
Audits of Non-consolidated Entities	$ 432,010	$
Other	$ 34,747	$ 19,850
Audit Related Fees	$ 963,228	$ 213,365

(3) Includes fees for tax compliance, consultation and planning

(4) All Other Fees primarily include professional fees for consulting services related to financial and non-financial information systems, as well as fees for other consulting services:

	2002	2001
Strategic Planning	$ 40,727	$
Non-Financial Information Systems	$	$ 445,353
Business Consulting	$	$ 67,580
Lease Consulting	$ 7,710	$ 62,804
Financial Information Systems Design & Implementation	$	$ 9,160
Other	$ 13,370	$ 39,838
All Other Fees	$ 61,807	$ 624,735

NOTE: Audit, Audit Related and All (Non-Audit Related) Fees for 2001 were reclassified to present them in accordance with prospective expanded disclosure requirements. Consents for product filings and registration fees ($483,200) previously classified as Audit Related are now considered Audit Fees. Tax services ($99,374) were included as All Other Fees in the 2001 Proxy Statement and are now in a separate Tax Fees category.

Representatives of Deloitte & Touche LLP will be present at the meeting, will be available to respond to questions and may make a statement if they so desire.

The Audit Committee and the Board of Directors unanimously recommend that stockholders vote *for* the ratification of the appointment of Deloitte & Touche LLP as independent public accountants for 2003 as proposed.

Item 3
Stockholder Proposal on Cumulative Voting

Mr. William E. Parker, 6906 Village Parkway, Dublin, California, 94568, registered owner of 222 shares of Allstate common stock as of November 19, 2002, intends to propose the following resolution at the Annual Meeting.

"Resolved: That the stockholders of The Allstate Corporation, assembled at the annual meeting in person and by proxy, hereby request the Board of Directors to take steps necessary to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall

equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

Supporting Statement

"Even before corporate accountability and integrity became a national issue, this proposal received strong support from the shareholders, proving that there is strong interest and awareness on the part of the shareholders for the need for oversight and accountability at The Allstate Corporation.

We believe that the company's financial performance is directly related to its corporate governing procedures and policies.

As we write this statement, The Allstate Corporation is under investigation by the Equal Employment Opportunity Commission, Department of Labor, Pension and Welfare Benefits Administration, and numerous state departments of insurance for various business practices.

The Allstate Corporation is being sued by consumers for discrimination, redlining and unfair claim practices. Its employees and agents are suing for overtime wages, misrepresentation, breech [sic] of contract, bad faith and fraud.

Currently the company's Board of Directors is composed entirely of management nominees.

Cumulative voting increases the possibility of electing independent-minded directors that will enforce management's accountability to shareholders and the public at large.

Corporations that have independent minded directors can help foster improved financial performance and greater stockholder wealth.

The argument that the adoption of cumulative voting will lead to the election of dissidents to the board that will only represent the special interest is misleading because standards of fiduciary duty compel directors to act in the best interest of all shareholders.

Please help us bring The Allstate Corporation back to being a "great American company" by voting "yes" on this resolution."

The Board unanimously recommends that stockholders vote *against* this proposal for the following reasons:

The Board believes its current method of electing directors, by a plurality of the votes cast, will continue to work as successfully in the future as it has in the past because it is the fairest way to elect an ***independent*** board that represents the interests of ***all*** stockholders and not a particular interest group. A majority of Allstate's stockholders have rejected this proposal at the last five consecutive annual meetings from 1998 to 2002.

Cumulative voting is inconsistent with the principle that each director should represent all stockholders equally and can result in the election of a director who feels accountable to a particular stockholder constituency, not to stockholders as a whole. Currently each director nominee stands each year for election by all stockholders. Cumulative voting could give disproportionate and unfair weight to the votes cast by a minority shareholder or shareholders which may lead to partisanship among the directors. Such partisanship and voting on behalf of special interests could interfere with the effectiveness of a Board and could be contrary to the interests of Allstate and its stockholders as a whole.

The proponent erroneously suggests that Allstate's Board is not independent. With the typical exception of the Chairman of the Board and Chief Executive Officer, all of the nominees and incumbent directors are independent as determined by the Nominating and Governance Committee and the Board of Directors and as defined by all current securities laws regulations and as further defined in the current proposed standards of the New York Stock Exchange. No directors are employees or former employees of Allstate and none have any significant financial or personal ties to Allstate or to its management. Moreover, all nominees have been evaluated and recommended for election by the Nominating and Governance Committee which is comprised solely of independent, non-employee directors. The Committee recommends members who are highly qualified and reflect a diversity of experience and viewpoints.

In addition, stockholders may recommend candidates for election. The process for recommending nominees is provided in each year's proxy statement (see "Stockholder Proposals for Year 2004 Annual Meeting" below).

The Board agrees that financial performance is driven in part by strong corporate governance standards and is proud of its own corporate governance practices and procedures. There has been an extraordinary amount of attention and focus on corporate governance, including the independence of directors, driven by recent high profile corporate scandals. In response to these corporate scandals, lawmakers and regulators have raised the bar on corporate governance processes, including the independence standards to which corporate directors should be held. Allstate's Board has undergone a strenuous review of its corporate governance to ensure that it continues to meet the highest standards of ethical corporate best practices, including the independence of its members and nominees. The Board has established Governance Guidelines which are posted on the Company's website and which include, among other things, specific selection criteria for Board nominees that emphasize leadership, independence, and ability to act in the interest of all stockholders. These Guidelines are regularly reviewed by the Board to ensure that they remain current and consistent with corporate governance best practices. Allstate's corporate governance practices and procedures have recently been reviewed by Institutional Shareholder Services, a leading provider of proxy voting and corporate governance services. As of February, 25, 2003, Allstate was rated as outperforming 95.4% of the companies in the S&P 500 Index, and 96.8% of its peer insurance industry group.

In addition to its strong corporate governance, the Board has demonstrated its focus and commitment to increase stockholder value by taking actions necessary to improve financial performance. Allstate's 2002 results demonstrate that these efforts delivered value to our shareholders. The success of the actions and strategies taken will continue to be leveraged in order to drive increasing shareholder value into the future.

Like other members of the industry and corporate America in general, Allstate is a target of an increasing number of class action lawsuits and other types of litigation. Allstate is vigorously defending these lawsuits and is committed to conducting its business in full compliance with the law and to cooperating fully with the state and federal agencies that regulate its business.

For the reasons stated above, the Board recommends a vote *against* this proposal.

Item 4
Stockholder Proposal Concerning the Rights Plan

Mr. Emil Rossi, P.O. Box 249, Boonville, CA 95415, registered owner of 6,094 shares of Allstate common stock as of October 1, 2002, has submitted notice to the Company of his intention to present the following proposal at the Annual Meeting and has furnished the following statements in support of his proposal.

"SHAREHOLDER VOTE ON POISON PILLS

This topic won an average 60%-yes vote at 50 companies in 2002

This is to recommend that the Board of Directors redeem any poison pill previously issued (if applicable) and not adopt or extend any poison pill unless such adoption or extension has been submitted to a shareholder vote.

Harvard Report

A 2001 Harvard Business School study found that good corporate governance (which took into account whether a company had a poison pill) was positively and significantly related to company value. This study, conducted with the University of Pennsylvania's Wharton School, reviewed the relationship between the corporate governance index for 1,500 companies and company performance from 1990 to 1999.

Some believe that a company with good governance will perform better over time, leading to a higher stock price. Others see good governance as a means of reducing risk, as they believe it decreases the likelihood of bad things happening to a company.

Since the 1980s Fidelity, a mutual fund giant with $800 billion invested, has withheld votes for directors at companies that have approved poison pills, *Wall Street Journal*, June 12, 2002.

Council of Institutional Investors Recommendation

The Council of Institutional Investors, an organization of 120 pension funds which invests $1.5 trillion, called for shareholder approval of poison pills. In recent years, various companies have been willing to redeem existing poison pills or seek shareholder approval for their poison pill. This includes Columbia/HCA, McDermott International and Bausch & Lomb. I believe that our company should follow suit and allow shareholder input.

Shareholder Vote on Poison Pills
YES ON 4"

The Board unanimously recommends that stockholders vote *against* this proposal for the following reasons:

The Board adopted the shareholder rights plan (commonly known as a "poison pill") in 1999 to protect the stockholders against unsolicited attempts to gain control of the Company without providing fair value to all of its shareholders. The adoption of the rights plan was a proper exercise of the Board's responsibilities under Delaware corporate law to direct the management of Allstate's business and affairs. The rights plan is designed to prevent partial or two-tier bids that fail to treat all stockholders equally, creeping acquisitions through open market purchases and other acquisition tactics that the Board believes are unfair to stockholders. The Board continues to believe that the rights plan protects the Company's stockholders by allowing the Board to carefully evaluate any takeover proposal to determine whether, in the exercise of its fiduciary responsibilities, a proposed offer adequately reflects the value of the Company and is in the interests of all stockholders.

The proponent seems to argue that the adoption of a rights plan is not in keeping with good corporate governance practices. Allstate's Board, comprised entirely of independent (the sole exception being the Chairman and Chief Executive Officer) outside directors adopted the rights plan as an exercise in good corporate governance practice. The decision to adopt the shareholder rights plan was made after careful evaluation and deliberation of the market environment and risks faced and after consideration of legal and financial expert opinions.

In November 2002, in response to shareholder sentiment, the Board approved a new feature to the rights plan designed to assure periodic, independent evaluation of the need for the rights plan. This feature is the triennial independent director evaluation process, otherwise known as a TIDE provision. The TIDE process will require the disinterested periodic review of the rights plan at least every three years, commencing in 2003. The Nominating and Governance Committee, comprised entirely of independent outside directors, will conduct this review and will (1) set its own agenda, (2) retain its own legal counsel, investment bankers and other advisors as it deems appropriate and (3) take into consideration factors such as shareholder opinion, Allstate's assets, market valuations of Allstate stock, relative valuations of peer companies, developments in rights plans, the mergers and acquisitions and buy-out financing markets, and studies of rights plans and contests for corporate control. The TIDE process may lead to improvements in the rights plan, if the Nominating and Governance Committee determines such changes would be beneficial to Allstate and its stockholders. Further, the TIDE process provides an additional safeguard to insure that the rights plan will be maintained only for so long as it remains in the best interest of Allstate's stockholders.

The rights plan does not prevent anyone from making a takeover proposal. The rights plan simply preserves the Board's ability to negotiate directly with a bidder on behalf of the stockholders. In general, directors are required to act with due care, in good faith and in the best interests of stockholders. The Board's duties to the stockholders require that it evaluate the merits of each and every takeover proposal to ensure that any proposed business combination is in the best interests of stockholders. The rights plan is designed to ensure that takeover proposals are submitted to the Board and that the Board is provided with the time necessary to properly evaluate each proposal and alternatives to each proposal. After it has thoroughly reviewed a takeover proposal and considered alternative opportunities available for the Company, the Board will approve a proposal if it determines that the proposal serves the stockholders' best interests. If, however, the proposal is inadequate in any respect, the rights plan enables the Board to either reject the proposal, or to insist that it be changed. By inducing a bidder to negotiate with the Board, a rights plan operates to strengthen the Board's bargaining position for the benefit of the stockholders.

The 2001 Harvard study cited by the proponent acknowledges that when management judiciously uses the strengthened negotiating power that a rights plan confers, the result can lead to an increase in overall shareholder wealth. The economic benefits of a shareholder rights plan have been validated in several studies. A 2001 Investor Responsibility Research Center report on poison pills cites several empirical studies which demonstrate that companies with rights plans are not insulated from bids and receive higher takeover premiums for their shareholders. One of those studies, conducted by Georgeson Shareholder, *Poison Pills and Shareholder Value / 1992-1996* analyzed takeover data between 1992 and 1996 and found premiums paid to targeted companies with poison pills were on average eight percentage points higher than the premiums paid to target companies without poison pills in place, which represented a difference of approximately $13 billion in shareholder value. A 1997 J.P. Morgan Securities study found that companies with rights plans in place received approximately a 10% greater premium for their shareholders in takeover situations as compared to companies without a rights plan.

These empirical studies support the underlying reasons why more than half of the companies in the S&P 500 Index have some type of rights plan in place.

Allstate's Board is comprised of independent directors who are, or were prior to their respective retirements, partners, executive officers or directors of major corporations. All are versed in business and financial matters and all are familiar with Allstate's business. As an independent body, the Board is fully cognizant of its duties to its stockholders to carefully evaluate the merits, free from self-interest, of any acquisition proposal. The Board is thus uniquely and best qualified to act in the best interests of the stockholders. The rights plan strengthens the ability of the Board in the exercise of its duties, to protect and further the interests of the stockholders by providing it with the opportunity to thoroughly and completely evaluate an offer in order to maximize shareholder value.

For the reasons stated above, the Board recommends a vote *against* this proposal.

Executive Compensation

The following Summary Compensation Table sets forth information on compensation earned in 2000, 2001 and 2002 by Mr. Liddy (Allstate's Chief Executive Officer) and by each of Allstate's four most highly compensated executive officers (with Mr. Liddy, the "named executives").

Summary Compensation Table

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Other Annual Compensation ($)(2)	Restricted Stock Award(s) ($)(3)	Securities Underlying Options/ SARs (#)(4)	LTIP Payouts ($)(5)	All Other Compensation ($)(6)
Edward M. Liddy	2002	1,033,747	3,101,250	734	0	550,000	0	10,080
(Chairman, President	2001	990,000	103,356	55,199	0	400,000	1,024,873	4,293
and Chief Executive Officer)	2000	954,167	594,083	1,153	2,930,719	307,428	0	7,889

		Annual Compensation			Long Term Compensation			
Richard I. Cohen*	2002	550,000	640,409	1,295	0	150,000	0	10,080
(President, Personal Property and Casualty)	2001	540,000	206,464	769	0	119,864	166,642	4,330
	2000	492,900	414,393	1,422	772,683	114,574	0	7,529
Robert W. Pike	2002	484,250	847,438	1,325	0	136,000	0	10,123
(Executive Vice President Administration and Secretary)	2001	462,925	251,825	769	0	90,612	131,209	4,330
	2000	436,450	324,775	769	726,378	85,659	0	4,330
Casey J. Sylla	2002	494,501	682,483	2,108	0	149,000	0	10,080
(President, Allstate Financial)	2001	450,925	536,545	769	0	93,143	119,154	4,330
	2000	424,575	443,540	769	710,279	87,942	0	7,710
Thomas J. Wilson, II	2002	555,251	622,563	2,734	0	167,000	0	10,019
(President, Allstate Protection)	2001	510,050	404,485	986	0	114,503	167,952	4,269
	2000	479,325	645,213	913	736,617	109,694	0	7,675

* Mr. Cohen retired from the company on December 31, 2002 after 34 years of service. In the third quarter of 2002, the Personal Property and Casualty business was combined with the Ivantage Group, Allstate's independent agency channel, and renamed Allstate Protection.

(1) Amounts earned under Allstate's Annual Covered Employee Incentive Compensation Plan are paid in the year following performance. Up to $3.0 million of any individual award opportunity may be paid from this plan. The remainder is automatically deferred and will be paid pursuant to the terms of The Allstate Corporation Deferred Compensation Plan.

(2) The amount attributed to Mr. Liddy in 2001 includes $29,409 for personal use of the corporate aircraft pursuant to the Board's request that he maximize use of the aircraft to cope with emergency and other special situations and avoid the risks of commercial air travel. The remainder of the amounts for each of the named executives represent financial planning services and tax gross-up payments attributed to income taxes payable on certain travel benefits and tax return preparation fees.

(3) The 2000 restricted stock grant shares held by the named executives are valued below at the December 31, 2002 closing price of $36.99 per share. The 2000 restricted stock awards vest in two approximately equal installments on May 18, 2002 and May 18, 2004. The shares representing the second installment of the 2000 grant, as shown below in the middle column, will vest on May 18, 2004 with the exception of Mr. Cohen's grant which was accelerated upon his retirement. Dividends are paid on the restricted stock shares in the same amount and at the same time as dividends paid to all other owners of Allstate common stock.

Named Executive	Original # Shares Granted in 2000	Remaining # of Restricted Shares Held as of 12/31/02	12/31/02 Market Value
Edward M. Liddy	109,049	54,524	$ 2,016,843
Richard I. Cohen	28,751	14,375	$ 531,731
Robert W. Pike	27,027	13,513	$ 499,846
Casey J. Sylla	26,429	13,214	$ 488,786
Thomas J. Wilson, II	27,409	13,704	$ 506,911

(4) The 2002 option awards are set forth below in detail in the table titled "Option/SAR Grants in 2002."

(5) Amounts earned under Allstate's Long-Term Executive Incentive Compensation Plan are paid in the year following the end of the performance cycle.

(6) Each of the named executives participated in group term life insurance and in Allstate's profit sharing plan, a qualified defined contribution plan sponsored by Allstate. The amounts shown represent the premiums paid for the group term life insurance by Allstate on behalf of each named executive officer and the value of the allocations to each named executive's account derived from employer matching contributions to the profit sharing plan.

Option/SAR Grants in 2002

The following table is a summary of all Allstate stock options granted to the named executives during 2002. Individual grants are listed separately for each named executive. In addition, this table shows the potential gain that could be realized if the fair market value of Allstate's common stock were not to appreciate, or were to appreciate at either a five or ten percent annual rate over the period of the option term:

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
	Number of Securities Underlying Options/SARs Granted(1)	% of Total Options/SARs Granted to All Employees in 2002	Exercise or Base Price ($ per share)	Expiration Date	0% ($33.38 per share stock value)	5% ($54.37 per share stock value)	10% ($86.58 per share stock value)
Edward M. Liddy	550,000	6.46	33.38	2/7/12	0	$ 11,545,876	$ 29,259,518
Richard I. Cohen	150,000	1.76	33.38	2/7/12	0	$ 3,148,875	$ 7,979,868
Robert W. Pike	136,000	1.60	33.38	2/7/12	0	$ 2,854,980	$ 7,235,081
Casey J. Sylla	149,000	1.75	33.38	2/7/12	0	$ 3,127,883	$ 7,926,669
Thomas J. Wilson, II	167,000	1.96	33.38	2/7/12	0	$ 3,505,748	$ 8,884,254

(1) These options become exercisable in four annual installments, were granted with an exercise price equal to the fair market value of Allstate's common shares on the date of grant, expire ten years from the date of grant, and include tax withholding rights and a "reload" feature. Tax withholding rights permit the option holder to elect to have shares withheld to satisfy minimum federal, state and local tax withholding requirements. The reload feature permits payment of the exercise price by tendering Allstate common stock, which in turn gives the option holder the right to purchase the same number of shares tendered, at a price equal to the fair market value on the exercise date. The options permit the option holder to exchange shares owned (by actual physical delivery or by attestation) to satisfy all or part of the exercise price. The vested portions of all the options may be transferred during the holder's lifetime to any defined family member, to a trust in which the family members have more than fifty percent of the beneficial interest, a foundation in which the family members (or the option holder) control the management of assets, and any other entity in which the family members (or option holder) own more than fifty percent of the voting interests.

Option Exercises in 2002 and Option Values on December 31, 2002

The following table shows Allstate stock options that were exercised during 2002 and the number of shares and the value of grants outstanding as of December 31, 2002 for each named executive:

	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at 12/31/02(#)		Value of Unexercised In-The-Money Options/SARs at 12/31/02($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Edward M. Liddy	0	0	1,505,982	1,103,714	14,923,954	3,767,754
Richard I. Cohen(2)	0	0	228,080	326,019	817,339	1,188,927

			Number of Securities Underlying Unexercised Options/SARs at 12/31/02(#)		Value of Unexercised In-The-Money Options/SARs at 12/31/02($)(1)	
Robert W. Pike	0	0	277,936	279,260	920,639	950,134
Casey J. Sylla	0	0	269,220	295,178	956,990	1,036,063
Thomas J. Wilson, II	0	0	446,641	348,924	3,739,970	1,225,165

(1) Value is based on the closing price of Allstate common stock ($36.99) on December 31, 2002, minus the exercise price.

(2) Mr. Cohen's unexercisable stock options became fully exercisable at his retirement date.

Long-Term Incentive Plan Awards in 2002

The following table details the long-term incentive plan awards made in 2002. Awards represent a potential cash incentive to be paid in the year following the completion of a cycle to the extent target or maximum performance objectives are achieved.

Name	Number of Shares, Units or Other Rights ($)	Performance or Other Period Until Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans ($)(1)		
			Threshold	Target	Maximum(2)
Edward M. Liddy	1,550,000	1/1/02-12/31/04	0	1,550,000	3,857,000
Richard I. Cohen	275,000	1/1/02-12/31/04	0	275,000	687,500
Robert W. Pike	188,000	1/1/02-12/31/04	0	188,000	470,000
Casey J. Sylla	229,000	1/1/02-12/31/04	0	229,000	572,500
Thomas J. Wilson, II	259,000	1/1/02-12/31/04	0	259,000	647,500

(1) Target awards are set for participants at the beginning of each cycle based on a percentage of annual salary at the beginning of the cycle. The performance goal for the named executives' 2002-2004 cycle is based solely on a comparison of the return on equity compared with the return on equity of an identified peer group of companies representing the S&P 500 Property/Casualty Index. If the maximum level of performance is achieved, which is defined as Allstate's return on equity being the first or second highest of the peer group, the award would be 250% of the participant's target award.

(2) Up to $3.5 million of any individual award opportunity may be paid from The Allstate Corporation Long-Term Executive Incentive Compensation Plan. The remainder, if any, is automatically deferred and will be paid pursuant to the terms of The Allstate Corporation Deferred Compensation Plan.

Pension Plans

The following table indicates the estimated total annual benefits payable to the named executives upon retirement under the specified compensation and years of service classifications, pursuant to the combined final average pay benefit formulas for the Allstate Retirement Plan and the unfunded Supplemental Retirement Income Plan. Benefits shown below are based on retirement at age 65 and selection of a straight life annuity payment option.

Pension Plan Table Final Average Pay
Years of Service

Remuneration	15	20	25	30	35
$ 1,000,000	$ 327,000	$ 435,000	$ 544,000	$ 610,000	$ 610,000
$ 1,500,000	$ 492,000	$ 655,000	$ 819,000	$ 918,000	$ 918,000
$ 2,000,000	$ 657,000	$ 875,000	$ 1,094,000	$ 1,226,000	$ 1,226,000
$ 2,500,000	$ 822,000	$ 1,095,000	$ 1,369,000	$ 1,534,000	$ 1,534,000
$ 3,000,000	$ 987,000	$ 1,315,000	$ 1,644,000	$ 1,842,000	$ 1,842,000
$ 3,500,000	$ 1,152,000	$ 1,535,000	$ 1,919,000	$ 2,150,000	$ 2,150,000
$ 4,000,000	$ 1,317,000	$ 1,755,000	$ 2,194,000	$ 2,458,000	$ 2,458,000

The Supplemental Retirement Income Plan will pay the portion of the benefits shown above which exceeds Internal Revenue Code limits or is based on compensation in excess of Internal Revenue Code limits. Benefits are computed on the basis of a participant's years of credited service (generally limited to 28) and average annual compensation over the participant's highest five successive calendar years of earnings out of the ten years immediately preceding retirement. Only annual salary and annual bonus amounts referred to as remuneration in the table above, as reflected in the Summary Compensation Table, are considered annual compensation in determining retirement benefits.

Annual retirement benefits are generally payable monthly and benefits accrued from January 1, 1978 through December 31, 1988 are reduced by a portion of a participant's estimated social security benefits. Effective January 1, 1989 the retirement benefit calculation was integrated with the employee's social security wage base.

As of December 31, 2002, Messrs. Liddy and Wilson had 15 and 10 years, respectively, of combined Allstate/Sears, Roebuck and Co. service and Messrs. Cohen, Pike and Sylla had 34, 30 and 7 years of service, respectively, with Allstate. As a result of their prior Sears service, a portion of Mr. Liddy's and Mr. Wilson's retirement benefits will be paid from the Sears Plan. Mr. Liddy and Mr. Sylla each will receive a pension enhancement payable from a nonqualified pension plan upon termination, retirement, death or change of control. Mr. Liddy will receive an enhanced pension benefit that assumes an additional five years of age and service under the pension formula through age 61. At age 62 and after, the enhancement is based on the maximum credited service under the pension formula. Mr. Sylla will receive an enhanced pension benefit based on the addition of five years of age and service if he retires from Allstate on or after age 63. All of these enhancements are payable upon death and are considered to be supplemental retirement plans in the event of a change of control.

During 2002, the pension plan formula changed to a cash balance approach effective January 1, 2003. Eligible employees were given the opportunity to choose between the final average pay and cash balance approaches for their pension benefit going forward. Each of the named executives chose the final average pay approach during the pension choice period. Pension benefits for employees hired after August 1, 2002 will be determined under the cash balance approach.

Retirement and Change of Control Arrangements

Mr. Cohen

In October, 2002 Allstate agreed to accept Mr. Cohen's request to retire effective as of December 31, 2002. In recognition of Mr. Cohen's 34 years of dedicated service, Allstate accelerated the vesting of Mr. Cohen's outstanding options and restricted stock grant awards. In addition, no proration will be applied to Mr. Cohen's outstanding long-term incentive plan awards.

Change of Control Arrangements

The named executives have agreements in place which provide for severance and other benefits upon a "change of control" involving Allstate. In general, a change of control is one or more of the following events: 1) any person acquires more than 20% of Allstate common stock; 2) certain changes are made to the composition of the Board; or 3) certain transactions occur that result in Allstate stockholders owning 70% or less of the surviving corporation's stock.

Under these agreements, severance benefits would be payable if an executive's employment is terminated by Allstate without "cause" or by the executive for "good reason" as defined in the agreements during the three-year period following such event. Good reason includes a termination of employment by a named executive for any reason during the 13th month after a change of control.

The principal severance benefits include: 1) pro-rated annual incentive award and long-term incentive award (both at target) for the year of termination of employment; 2) a payment equal to three times the sum of the executive's base salary, target annual incentive award and target annualized long-term incentive award; 3) continuation of certain welfare benefits for three years; 4) an enhanced retirement benefit; and 5) reimbursement (on an after-tax basis) of any resulting excise taxes. In addition, all unvested stock options would become exercisable, all restricted stock would vest and nonqualified deferred compensation and supplemental retirement plan balances would become payable upon a change of control.

Allstate believes these agreements encourage retention of its executives and enable them to focus on managing the Company's business thereby more directly aligning management and shareholder interests in the event of a transaction.

Compensation and Succession Committee Report

Allstate's Compensation and Succession Committee, which is composed entirely of independent, non-employee directors, administers Allstate's executive compensation program. The purposes of the program are to:

- Link executives' goals with stockholders' interests
- Attract and retain talented management
- Reward annual and long-term performance

Committee-approved stock ownership goals for executives at the vice president level and above require these executives to own, within five years of the date the executive position is assumed, common stock worth a multiple of base salary, ranging from one times salary to up to five times salary for Mr. Liddy as Chief Executive Officer. The Committee weights compensation opportunities for executive officers, including each of the named executives, more heavily towards compensation payable upon the attainment of specified performance objectives and compensation in the form of Allstate common stock. At least annually, the Committee reviews a report based on data prepared by independent compensation consultants comparing Allstate's total compensation levels for its executives with total compensation paid to executives in comparable positions at other companies in the peer group of large U.S. public insurance companies. The Committee attempts to set Allstate total compensation at the 65th percentile of the peer group.

Allstate executives can receive three types of compensation, each of which is described in more detail below:

- Annual cash compensation
- Long-term cash compensation
- Long-term equity compensation

Annual Cash Compensation

Annual cash compensation includes base salary and annual incentive awards.

Base salaries of Allstate executives are set by the Committee at a level designed to be competitive in the U.S. insurance industry.

Annual incentive awards are designed to provide certain employees, including each of the named executives, with a cash award based on the achievement of corporate performance, business unit performance, or a combination thereof. These objectives are approved by the Committee prior to the end of the first quarter of the relevant year. Threshold, target and maximum benchmarks are set for each objective. Each award opportunity is stated as a specified percentage of base salary for the year. No award is payable with respect to an objective if the threshold level of performance is not attained.

Annual incentive awards are paid in March of the year following the year of performance, after the Committee has certified attainment of the objectives. The Committee has the authority to adjust the amount of awards but, with respect to the chief executive officer and the other named executives, has no authority to increase any award above the amount specified for the level of performance achieved with respect to the relevant objective.

The corporate performance objective is derived from an operating earnings per share objective approved by the Committee. The Property and Casualty performance objective is tied to a matrix comparison of revenue growth with combined ratio and in addition, revenue growth in financial services products. The Allstate Financial performance objective is based on statutory premium growth, operating income, expenses and invested asset growth objectives. Investment unit performance objectives are based on portfolio total return, life spread roll-up and Allstate Financial quality roll-up.

For 2002, Mr. Liddy's and Mr. Pike's annual cash incentive awards were based on the corporate performance objective. The 2002 annual cash incentive award for Mr. Cohen was based on the Property and Casualty performance objective. In the third quarter of 2002, the Property and Casualty business unit was combined with the Ivantage Group, Allstate's independent agency channel, and is now called Allstate Protection. For the first nine months of 2002, Mr. Wilson's annual cash incentive award was based on the

Allstate Financial performance objective; for the final three months of the year his award was based on the corporate performance objective during the transition period from the Allstate Financial business unit to his new position as President of the Allstate Protection business unit upon Mr. Cohen's retirement at the end of the year. For the first six months of 2002, 70% of Mr. Sylla's annual cash incentive award was based on the performance objectives of Investments and 30% was based on the corporate performance objective. For the final six months of 2002 during which Mr. Sylla served as Acting Chief Financial Officer and then was appointed President of Allstate Financial (replacing Mr. Wilson), Mr. Sylla's award was based solely on the corporate performance objective.

Allstate achieved the maximum level of performance on the corporate performance objective. Business unit performance varied. Allstate Property and Casualty exceeded the target level on its matrix comparing revenue growth with combined ratio results and exceeded the target level for revenue growth in financial services products. Allstate Financial did not meet the threshold level on its statutory premium growth objective, met the threshold level on its operating income objective and exceeded the maximum level of performance on its expense and invested asset growth objective. Investments exceeded the threshold levels of performance on its portfolio total return and life spread roll-up objectives and exceeded the target level on the Allstate Financial quality roll-up performance objective.

Long-Term Cash Compensation

Long-term incentive cash awards are designed to provide certain employees, including each of the named executives, with a cash award based on the achievement of a performance objective over a three-year period. The objective is established by the Committee at the beginning of the three-year cycle. Threshold, target and maximum levels of performance are established on which individual award opportunities are based. The Committee must certify in writing the attainment of the objective before awards may be paid. Awards are payable in March of the year following the end of the cycle.

The current cycles for long-term incentive cash awards cover the periods of 2001-2003 and 2002-2004. In 2001, the Committee approved changes to the cycle timing. Prior to the 2002-2004 cycle, a new cycle commenced every two years and covered three years of performance. Under that design, award opportunities for the 2001-2003 cycle are stated as a specified percentage of a participant's base salary from July 1, 2001 to July 1, 2003. Performance measures for the named executive officers are based on an absolute return on average equity with peer calibrations of plus or minus 50% depending on Allstate's growth in operating earnings per share as compared to a peer group of companies over the same period. For all other participants, the performance standard is a relative measure based on return on equity as compared to that of the peer companies in the S&P 500 Property/Casualty Index.

Beginning with the 2002-2004 cycle, a new cycle commences annually and covers three years of performance. Awards are calculated on a participant's annual salary as of the beginning of the cycle. The performance measure is a relative measure based on return on equity as compared to that of the peer group of companies in the S&P 500 Property/Casualty Index. This peer comparison is intended to more closely link long-term cash compensation to shareholder value. No payment is made unless the return on equity satisfies an initial minimum level, defined as the average of the rate on 3-year Treasury Notes over the three-year cycle, plus 200 basis points. Awards will be calculated at the end of each cycle accordingly.

No long-term performance cycle ended in 2002. Under the prior cycle's plan design, 2002 was the middle year of a cycle that was originally granted biennially; therefore, no payments were made in 2002.

Long-Term Equity Compensation

The 2001 Equity Incentive Plan provides for the grant of stock options, performance units and performance stock, stock appreciation rights, restricted or unrestricted common stock, restricted stock units and stock in lieu of cash awards to plan participants.

In February 2002, the Committee granted stock options to a number of key Allstate employees, including each of the named executives. The size of each named executive's grant was based on a specified percentage of his base salary and the Committee's assessment of his performance. All stock option grants under this plan have been made in the form of nonqualified stock options at exercise prices equal to 100% of the fair market value of Allstate common stock on the date of grant. Except in certain change of control situations, these options are not fully exercisable until four years after the date of grant and expire in ten

years. The vested portions of options may be transferred during the holder's lifetime to any defined family member, to a trust in which the family members have more than fifty percent of the beneficial interest, a foundation in which the family members (or the option holder) control the management of assets, and any other entity in which the family members (or option holder) own more than fifty percent of the voting interests.

Chief Executive Officer Compensation

In 2002, approximately 12% of Mr. Liddy's total compensation opportunity was base salary. The remaining 88% was variable compensation that was at risk and tied to Allstate's business results. Mr. Liddy's last increase in base salary was in April 2002, at which time Mr. Liddy's base salary was increased 4.5% to $1,045,000.

For 2002, Mr. Liddy's annual cash incentive award was based upon the achievement of the corporate performance objective. Allstate exceeded the maximum level of performance. The payout was calculated accordingly.

On February 7, 2002, the Committee awarded Mr. Liddy a stock option for 550,000 shares under the 2001 Equity Incentive Plan. The Committee used a specified percentage of Mr. Liddy's 2002 base salary to determine the award. The Black-Scholes valuation formula was applied to the stock option award.

Limit on Tax Deductible Compensation

Under Section 162(m) of the Internal Revenue Code, Allstate cannot deduct compensation paid in any year to certain executives in excess of $1,000,000; however, performance-based compensation is not subject to this limit. The Committee continues to emphasize performance-based compensation for executives and this is expected to minimize the effect of Section 162(m). However, the Committee believes that its primary responsibility is to provide a compensation program that attracts, retains and rewards the executive talent that is necessary for Allstate's success. Consequently, in any year the Committee may authorize compensation in excess of $1,000,000 that is not performance-based. The Committee recognizes that the loss of a tax deduction may be unavoidable in these circumstances.

Compensation and Succession Committee

H. John Riley, Jr. (Chairman)

F. Duane Ackerman	Jack M. Greenberg
Edward A. Brennan	Ronald T. LeMay
W. James Farrell	Michael A. Miles

Stock Performance Graphs

The following performance graphs compare the performance of Allstate common stock total return during periods ranging from one to five years with the performance of the S&P 500 Property/Casualty Index* and the S&P 500 Index.

The graph below plots the cumulative changes in value of an initial $100 investment as of December 31, 1997 over the indicated time periods, assuming all dividends are reinvested quarterly.

COMPARISON OF CUMULATIVE TOTAL RETURN
December 31, 1997 to December 31, 2002 for $100 Initial Investment Made on December 31, 1997
Allstate v. Published Indices

Value at each year-end of a $100 initial investment made on December 31, 1997.

	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001	12/31/2002
Allstate	100.00	86.28	55.27	101.62	80.38	90.24
S&P 500 Prop./Cas.	100.00	93.44	69.84	108.17	99.49	88.68
S&P 500	100.00	128.34	155.14	141.13	124.40	97.08

* Standard and Poors discontinued the S&P Property/Casualty Index on January 1, 2002 and replaced it with the S&P 500 Property/Casualty Index. Data reflected in the above-chart reflects the performance of the current S&P 500 Property/Casualty Index members (ticker symbol S5PROP).

The following graph compares the cumulative performance of Allstate's returns for an initial $100 investment made at the end of each of the preceding five years with the performance of the S&P 500 Property/Casualty Index and the S&P 500 Index. The graph provides an investor who has held Allstate common stock for periods fewer than five years with an additional comparison of cumulative performance as it shows the changes in cumulative value of an initial $100 investment over the most recent five-, four-, three-, two- and one-year periods, respectively, assuming all dividends are reinvested quarterly.

COMPARISON OF CUMULATIVE TOTAL RETURN
For $100 Initial Investment made as of December 31, 1997, 1998, 1999, 2000 and 2001
Allstate v. Published Indices

Audit Committee Report

Deloitte & Touche LLP was Allstate's independent public accountant for the year ended December 31, 2002.

The Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended December 31, 2002.

The Audit Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by Statement of Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380).

The Audit Committee received from Deloitte & Touche LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Deloitte & Touche LLP its independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Allstate's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 for filing with the Securities and Exchange Commission and in Appendix D to this Notice of Annual Meeting and Proxy Statement.

A copy of the Audit Committee charter, as amended on March 10, 2003, is included as Appendix A.

James G. Andress (Chairman)

F. Duane Ackerman	J. Christopher Reyes
Ronald T. LeMay	Joshua I. Smith
Judith A. Sprieser	Mary Alice Taylor

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Allstate's executive officers, directors and persons who beneficially own more than ten percent of Allstate's common stock to file reports of securities ownership and changes in such ownership with the SEC.

Based solely upon a review of copies of such reports or written representations that all such reports were timely filed, Allstate believes that each of its executive officers, directors and greater than ten-percent beneficial owners complied with all Section 16(a) filing requirements applicable to them during 2002 except that one Form 4 reporting a single transaction for each of Robert S. Apatoff and Robert W. Pike, both executive officers, was late.

Certain Transactions

The Northern Trust Company maintains banking relationships, including credit lines, with Allstate and some of its subsidiaries, in addition to performing services for the profit sharing plan. In 2002, revenues received by Northern Trust for cash management activities, trustee, custodian, credit lines and other services for all such entities were approximately $1,014,009.

In July 2000, Robert S. Apatoff, Senior Vice President and Chief Marketing Officer of Allstate Insurance Company received a $250,000 loan with an interest rate of 6.51% per annum. This loan was made in connection with his job-related relocation. As of December 31, 2002, the outstanding balance was $150,000.

Other Matters

If you use the telephone, the Internet, proxy card or voting instruction form to allow your shares to be represented at the annual meeting, or at any adjournment thereof, the proxies may vote your shares in accordance with their best judgment on any other matters properly presented. Other than the matters referred to in this proxy statement, Allstate knows of no other matters to be brought before the meeting.

Stockholder Proposals for Year 2004 Annual Meeting

Proposals which stockholders intend to be included in Allstate's proxy material for presentation at the annual meeting of stockholders in the year 2004 must be received by the Secretary of Allstate, Robert W. Pike, The Allstate Corporation, 2775 Sanders Road, Suite F8, Northbrook, Illinois 60062-6127 by November 29, 2003, and must otherwise comply with rules promulgated by the Securities and Exchange Commission in order to be eligible for inclusion in the proxy material for the 2004 annual meeting.

If a stockholder desires to bring a matter before the meeting which is not the subject of a proposal meeting the SEC proxy rule requirements for inclusion in the proxy statement, the stockholder must follow procedures outlined in Allstate's bylaws in order to personally present the proposal at the meeting. A copy of these procedures is available upon request from the Secretary of Allstate or can be accessed on Allstate's website (allstate.com). One of the procedural requirements in the bylaws is timely notice in writing of the business the stockholder proposes to bring before the meeting. Notice of business proposed to be brought before the 2004 annual meeting must be received by the Secretary of Allstate no earlier than January 21, 2004 and no later than February 20, 2004 to be presented at the meeting. The notice must describe the business proposed to be brought before the meeting, the reasons for conducting the business at the meeting, any material interest of the stockholder in the business, the stockholder's name and address and the number of shares of Allstate stock beneficially owned by the stockholder. It should be noted that these bylaw procedures govern proper submission of business to be put before a stockholder vote at the annual meeting.

Under Allstate's bylaws, if a stockholder wants to nominate a person for election to the Board at Allstate's annual meeting, the stockholder must provide advance notice to Allstate. Notice of stockholder nominations for election at the 2004 annual meeting must be received by the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite F8, Northbrook, Illinois 60062-6127, no earlier than January 21, 2004 and no later than February 20, 2004. With respect to the proposed nominee, the notice must set forth the name, age, principal occupation, number of shares of Allstate stock beneficially owned and business and residence address. With respect to the stockholder proposing to make the nomination, the notice must set forth the name, address and number of shares of Allstate stock beneficially owned. A copy of these bylaw provisions is available from the Secretary of Allstate upon request or can be accessed on Allstate's website (allstate.com).

Alternatively, a stockholder may propose an individual to the Nominating and Governance Committee for its consideration as a nominee for election to the Board by writing to the office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite F-8, Northbrook, Illinois 60062-6127.

Proxy Solicitation

Officers and other employees of Allstate and its subsidiaries may solicit proxies by mail, personal interview, telephone, telex, facsimile, or electronic means. None of these individuals will receive special compensation for these services, which will be performed in addition to their regular duties, and some of them may not necessarily solicit proxies. Allstate has also made arrangements with brokerage firms, banks, record holders and other fiduciaries to forward proxy solicitation materials for shares held of record by them to the beneficial owners of such shares. Allstate will reimburse them for reasonable out-of-pocket expenses. Georgeson Shareholder Communications, Inc., 17 State Street, New York, NY 10004 will assist in the distribution of proxy solicitation materials, for a fee estimated at $12,500 plus expenses. In addition, Allstate has retained Georgeson to solicit proxies by personal and telephone interview for a fee anticipated to be about $120,000. Allstate will pay the cost of all proxy solicitation.

By order of the Board,

Robert W. Pike
Secretary

Dated: March 28, 2003

Appendix A

AUDIT COMMITTEE CHARTER

I. Purpose

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the following areas: the integrity of the Company's financial statements and other financial information; the selection and oversight of the registered public accounting firm ("independent auditor"); the Company's compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Company's internal audit function and independent auditor; and the Company's systems of disclosure controls, internal controls, internal audit, accounting, and financial reporting processes. In carrying out its purpose, the Committee has the responsibilities and powers provided in this Charter.

II. Membership

The size of the Audit Committee is set from time to time by the Board, but will always consist of at least three directors. The members of the Committee are appointed by the Board upon the recommendation of the Nominating and Governance Committee in accordance with the independence and experience requirements of the New York Stock Exchange and the Securities and Exchange Commission (SEC).

For purposes of membership on the Audit Committee, no director will be considered independent where the director:

(i) has a material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a material relationship with the Company);

(ii) is, or has been an employee of the Company or any of its affiliates within the last five years;

(iii) is, or has been within the last five years, affiliated with the Company's present independent auditor or former independent auditor if the termination of such affiliation or auditing relationship has been less than five years;

(iv) is, or within the last five years has been, part of an interlocking directorate (i.e., the situation in which an executive officer of the Company serves on the compensation committee of another company that concurrently employs the director);

(v) has an immediate family member who has any of the foregoing relationships; or

(vi) is an "affiliated person" with respect to the Company as defined by applicable law or regulation.

Each member of the Audit Committee shall be, in the Board's judgment, "financially literate" or shall become financially literate within a reasonable period of time after his or her appointment to the Committee as determined by the Board. At least one member of the Committee shall be a "financial expert" as defined under SEC rules and as determined by the Board.

Members of the Audit Committee are only entitled to receive regular director's fees and benefits as compensation for their services on the Board and the Committee and may not accept any consulting, advisory or other fees from the Company.

III. Meetings

The Committee Chair determines the number, time, place and agenda of the Audit Committee meetings. The Committee meets not less than four times a year. At least quarterly, the Committee meets separately with management, with the internal auditors and with the independent auditor and may meet with the Company's internal auditors and/or independent auditor without management present whenever the Committee shall deem it appropriate. After each meeting, the Committee reviews with the Board any issues that arose with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the independent auditor, or the performance of the internal audit function.

IV. Powers and Responsibilities

The following functions are the common recurring activities of the Audit Committee in carrying out its oversight responsibilities. The functions are set forth as a guide and may be varied from time to time as appropriate under the circumstances:

Selection of Independent Auditor

The independent auditor is ultimately accountable to the Audit Committee and the Board, as representatives of the stockholders. In this regard, the Audit Committee, as a committee of the Board, is directly responsible for the selection, appointment, compensation and oversight of the work of the independent auditor in preparing or issuing an audit report or related work, including resolving any disagreements between management and the independent auditor regarding financial reporting. Once the selection and appointment has been approved by the Board, and ratified by the shareholders, the Committee has sole authority and responsibility to retain and terminate the Company's independent auditor, to pre-approve all auditing services and all permitted non-auditing services of, or any other relationships with, the independent auditor and to approve the terms of and fees for such services, subject to *de minimis* exceptions allowed by law. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

The Audit Committee may not retain as the Company's independent auditor any firm in which the Chief Executive Officer, Chief Financial Officer, Controller or any person serving in an equivalent position for the Company, was employed by such independent auditor and participated in any capacity in an audit of the Company during the one year period prior to the date of initiation of the audit.

At least annually, the Audit Committee reviews and evaluates the qualifications, performance and independence of the Company's independent auditor, including a review and evaluation of the lead audit partner. As part of its evaluation, the Committee obtains and reviews a report by the independent auditor that describes the firm's internal quality-control procedures, including any material issues raised by the firm's most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, relating to one or more independent audits conducted by the firm and any steps taken to deal with any such issues. Annually, the Committee requests a written report from the independent auditor regarding their independence and all relationships between them and the Company consistent with Independence Standards Board Standard No.1 and such other requirements as may be established by the Public Company Accounting Oversight Board. The Committee discusses with the independent auditor any such disclosed relationships and their impact on the auditor's independence. If any concerns regarding the auditor's independence are identified, the Committee takes such action as it deems appropriate or necessary.

The Audit Committee maintains a hiring policy for employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.

Review of Financial Reports and Information

The Audit Committee reviews and discusses with management, its internal auditors and the independent auditor, the Company's annual audited and quarterly financial statements, including matters required to be discussed by Statement of Auditing Standards No. 61. Specifically, the review includes a discussion of:

- management's discussion and analysis of financial condition and results of operations ("MD&A")
- financial statement presentations, including any significant changes in the Company's selection or application of accounting principles;
- any major issues regarding accounting and auditing principles and practices;
- critical accounting policies;

the comparison of the Company's accounting policies with those in the industry;

significant items impacting the Company's financial statements, risk factors and forward-looking statements contained in the Company's disclosures under MD&A;

the effect of regulatory and accounting initiatives as well as any off-balance sheet structures on the Company's financial statements;

analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and

the adequacy of internal controls that could significantly affect the Company's financial statements including the MD&A and any special audit steps adopted in light of material control deficiencies.

The Audit Committee reviews disclosures made to the Committee by the Company's CEO and CFO during their certification process for the annual and quarterly financial reports about any significant deficiencies in the design or operation of internal controls or material weaknesses in such controls and any fraud involving management or other employees who have a significant role in the Company's internal controls.

The Audit Committee recommends to the Board whether the audited financial statements should be included in the Company's Form 10-K and prepares the report required by the rules of the SEC to be included in the Company's annual proxy statement.

The Audit Committee reviews with the General Counsel of the Company the status of legal matters that may have a material impact on the Company's financial statements.

The Audit Committee discusses the Company's process for developing and preparing earnings releases, as well as its processes for providing financial information and earnings guidance to analysts and rating agencies, generally (including the types of information to be disclosed and types of presentations to be made).

The Audit Committee discusses with management policies with respect to the Company's processes of risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control them.

While the Audit Committee has the responsibilities and powers set forth in this Charter, the Committee is not required to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. These are the responsibilities of management and the independent auditor.

Review of Independent Auditor Reports

The Audit Committee reviews the independent auditor reports on the Company's financial statements. The Committee discusses with the independent auditor judgments about the quality (not just the acceptability) of the accounting principles used in the Company's financial reporting. The Committee also reviews the scope of audits conducted by the Company's independent auditor. The Committee reviews with the independent auditor any difficulties encountered in the audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, any significant disagreements with management and management's response, and addresses those as the Committee deems appropriate. The Committee may review with the auditor: any accounting adjustments that were noted; any communications between the audit team and the auditor's national office respecting auditing or accounting issues presented by the engagement; any "management" or "internal control" letter issued or proposed by the auditor to the Company; and any other issues regarding the auditor report that the Committee may deem appropriate.

The Audit Committee reviews any significant recommendations from the Company's independent auditor and internal auditors concerning compliance by management with governmental laws and regulations and with the Company's policies relating to ethics, conflicts of interest, perquisites and use of corporate assets.

Retention of Outside Experts

The Audit Committee has the power to conduct or authorize special projects or investigations related to any matters brought to its attention with full access to all books, records, facilities and personnel of the Company as the Committee considers necessary to discharge its responsibilities. It has the authority, without seeking Board approval, to retain independent outside counsel, accountants or others to assist it with such projects, investigations or other matters in the conduct of its business. The Committee may seek advice from the Company's internal counsel or regular outside counsel and may also use the Company's internal auditors for such purposes. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to any advisors employed by the Committee.

Audit Committee Report

The Audit Committee prepares the Audit Committee report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

Self-Evaluation

The Audit Committee conducts a self-evaluation of its performance and reports the results to the Board on an annual basis.

Code of Ethics and Complaint Resolution

The Audit Committee reviews and approves the Company's Code of Ethics applicable to the Board of Directors and all Company employees, including the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer or Controller, executive and senior financial officers, and other employees performing similar functions, and periodically assesses the adequacy of the Code of Ethics. The Committee has the sole authority to grant waivers under, or changes to the Code of Ethics for directors, executive officers and senior financial officers. The Committee shall also adopt procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters and also for the confidential and anonymous submission by employees of related concerns.

Charter Review

The Audit Committee also reviews and assesses the adequacy of this Charter on an annual basis and recommends any proposed changes to the Board.

Appendix B

Policy Regarding Pre-Approval of Independent Auditors' services

Purpose and Applicability

The Audit Committee recognizes the importance of maintaining the independent and objective stance of our Independent Auditors. We believe that maintaining independence, both in fact and in appearance, is a shared responsibility involving management, the Audit Committee and the Independent Auditors.

The Committee recognizes that the Independent Auditors possess a unique knowledge of the Company (which includes consolidated subsidiaries), and can provide necessary and valuable services to the Company in addition to the annual audit. The provision of these services is subject to three basic principles of auditor independence: (i) auditors cannot function in the role of management, (ii) auditors cannot audit their own work and (iii) auditors cannot serve in an advocacy role for their client. Consequently, this policy sets forth guidelines and procedures to be followed by the Company when retaining the Independent Auditors to perform audit and permitted non-audit services.

Policy Statement

All services provided by the Independent Auditors, both audit and permitted non-audit, must be pre-approved by the Audit Committee or a designated member of the Committee. The pre-approval of audit and permitted non-audit services may be given at any time before commencement of the specified service.

Designated Member The Audit Committee may delegate to one or more designated member(s) of the Audit Committee (a "Designated Member"), who is independent as defined under the applicable New York Stock Exchange listing standards, the authority to grant pre-approvals of permitted audit related and other permitted non-audit services (collectively "permitted services") or classes of these permitted services, to be provided by the Independent Auditors. The Chair of the Audit Committee shall serve as its Designated Member. The decisions of a Designated Member to pre-approve a permitted service shall be reported to the Audit Committee at each of its regularly scheduled meetings.

Permitted Audit Related Services The Company may engage the Independent Auditors to provide classes of permitted audit related services. Such classes of services include the following:

1. Audits of the Company's financial statements required by SEC rules, lenders, statutory requirements, regulators and others.
2. Consents, comfort letters, reviews of registration statements and similar services that incorporate or include the audited financial statements of the Company.
3. Audits of employee benefit plans.
4. Accounting consultations and support related to generally accepted accounting principles.
5. Tax compliance and related support for any tax returns filed by the Company, and returns filed by any executive or expatriate under a company-sponsored program.
6. Tax consultation and support related to planning.
7. Regulatory exam related services.
8. Internal control consulting services.
9. Merger and acquisition due diligence services.
10. Other audit related services.

Other Permitted Services The Company may also engage the Independent Auditors to provide classes of other permitted services to the Company as long as the fees for all of these services within any calendar year do not exceed 50% of the audit fee. Such classes of services including the following:

1. Information technology services and consulting unrelated to the Company's Non-financial statements or accounting records.
2. Integration consulting services.

3. Review of third party specialist work related to appraisal and/or valuation services.

4. Actuarial consulting services non-audit related that would not be subject to audit procedures during an audit of the Company's financial statements.

5. Employee benefit consulting services that are not the functional equivalent of management or employee services.

6. Training unrelated to the Company's financial statements or other areas subject to audit procedures during an audit of the Company's financial statements.

Prohibited Services The Company may not engage the Independent Auditors to provide non-audit services described below unless such services may be provided under future SEC rules.

1. Bookkeeping or other services related to the Company's accounting records or financial statements.

2. Appraisal or valuation services or fairness opinions.

3. Management functions or human resources.

4. Broker-dealer, investment adviser, or investment banking services.

5. Legal services and expert services unrelated to the audit.

6. Internal audit outsourcing.

7. Financial information systems design and implementation.

8. Actuarial audit-related.

9. Expert services, unrelated to an audit of the Company's financial statements, in connection with legal, administrative, or regulatory proceedings or in an advocate capacity.

10. Services determined impermissible by the Public Company Accounting Oversight Board.

Audit Committee review of services

At each regularly scheduled Audit Committee meeting, the Audit Committee shall review the following:

- A report summarizing the permitted services, or grouping of related services, including fees, provided by the Independent Auditors.

- A listing of newly pre-approved permitted services since its last regularly scheduled meeting.

An updated projection for the current fiscal year, presented in a manner consistent with the proxy disclosure requirements, of the estimated annual fees to be paid to the Independent Auditors.

Appendix C

Executive Officers

The following table sets forth the names of our executive officers, their current ages and their positions as officers. "AIC" refers to Allstate Insurance Company.

Name	Age	Principal Positions and Offices Held
Edward M. Liddy	57	Chairman, President and Chief Executive Officer of The Allstate Corporation and AIC. Mr. Liddy is also a director of The Allstate Corporation.
Robert S. Apatoff	44	Senior Vice President and Chief Marketing Officer of AIC.
Catherine S. Brune	49	Senior Vice President and Chief Technology Officer of AIC. Ms. Brune was named to this position in October 2002.
Richard I. Cohen	58	Senior Vice President of AIC (President, Property and Casualty). Mr. Cohen retired as of December 31, 2002.
Joan M. Crockett	52	Senior Vice President of AIC (Human Resources).
Steven L. Groot	53	Senior Vice President of AIC (President, Direct Distribution and E-Commerce). Mr. Groot announced his intention to retire from the Company.
Danny L. Hale	59	Elected in January 2003, Mr. Hale is Vice President and Chief Financial Officer of The Allstate Corporation and Senior Vice President and Chief Financial Officer of AIC.
Ernest A. Lausier	57	Senior Vice President of AIC (President, Ivantage).
Michael J. McCabe	57	Vice President and General Counsel of The Allstate Corporation and Senior Vice President, General Counsel and Assistant Secretary of AIC.
Ronald D. McNeil	50	Senior Vice President of AIC (Product Operations).
Robert W. Pike	61	Vice President and Secretary of The Allstate Corporation and Executive Vice President Administration and Secretary of AIC.
Francis W. Pollard	60	Senior Vice President and Chief Information Officer of AIC. Mr. Pollard retired as of December 31, 2002.
Eric A. Simonson	57	Senior Vice President and Chief Investment Officer of AIC and President of Allstate Investments, LLC. Mr. Simonson joined Allstate in July 2002.
Samuel H. Pilch	56	Controller of The Allstate Corporation and Group Vice President and Controller of AIC.
Casey J. Sylla	59	Senior Vice President of AIC (President, Allstate Financial).
Thomas J. Wilson	45	Senior Vice President of AIC (President, Allstate Protection).

Appendix D

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11-Year Summary of Selected Financial Data

(in millions except per share data and ratios)	2002	2001	2000	1999

Consolidated Operating Results				
Insurance premiums and contract charges	$ 25,654	$ 24,427	$ 24,076	$ 21,735
Net investment income	4,854	4,796	4,633	4,112
Realized capital gains and losses	(929)	(358)	425	1,112
Total revenues	29,579	28,865	29,134	26,959
Operating income (loss)(1)	2,075	1,492	2,004	2,082
Realized capital gains and losses, after-tax	(602)	(240)	248	691
Gain (loss) on dispositions of operations, after-tax	2	(40)		(14)
Dividends on preferred securities of subsidiary trusts, after-tax	(10)	(45)	(41)	(39)
Equity in net income of unconsolidated subsidiary, after-tax				
Income (loss) from continuing operations	1,465	1,167	2,211	2,720
Cumulative effect of changes in accounting principle, after-tax	(331)	(9)		
Net income (loss)	1,134	1,158	2,211	2,720
Net income (loss) per share(4)(6):				
Diluted:				
Income (loss) before cumulative effect of changes in accounting principle, after-tax	2.06	1.61	2.95	3.38
Cumulative effect of changes in accounting principle, after-tax	(0.46)	(0.01)		
Net income (loss)	1.60	1.60	2.95	3.38
Basic:				
Income (loss) before cumulative effect of changes in accounting principle, after-tax	2.07	1.62	2.97	3.40
Cumulative effect of changes in accounting principle, after-tax	(0.47)	(0.01)		
Net income (loss)	1.60	1.61	2.97	3.40
Dividends declared per share(4)	0.84	0.76	0.68	0.60
Consolidated Financial Position(3)				
Investments	$ 90,650	$ 79,876	$ 74,483	$ 69,645
Total assets	117,426	109,175	104,808	98,119
Reserves for claims and claims expense, and life-contingent contract benefits and contractholder funds	67,697	59,194	54,197	50,610
Debt	4,240	3,921	3,331	2,851
Mandatorily redeemable preferred securities of subsidiary trusts	200	200	750	964
Shareholders' equity(5)	17,438	17,196	17,451	16,601
Shareholders' equity per diluted share(4)(5)	24.75	24.08	23.80	21.05
Property-Liability Operations				
Premiums written	$ 23,917	$ 22,609	$ 21,858	$ 20,389
Premiums earned	23,361	22,197	21,871	20,112
Net investment income	1,656	1,745	1,814	1,761
Operating income (loss)(1)	1,629	1,052	1,537	1,717
Realized capital gains and losses, after-tax	(314)	(83)	326	609
Gain (loss) on dispositions of operations, after-tax	6	(40)		(14)
Equity in net income of unconsolidated subsidiary, after-tax				
Income (loss) before cumulative effect of changes in accounting principle, after-tax	1,321	929	1,863	2,312
Cumulative effect of changes in accounting principle, after-tax	(48)	(3)		
Net income (loss)	1,273	926	1,863	2,312
Operating ratios				
Claims and claims expense ("loss") ratio	75.6	79.0	75.0	73.0
Expense ratio	23.3	23.9	24.2	24.4
Combined ratio	98.9	102.9	99.2	97.4

Allstate Financial Operations				
Premiums and contract charges	$ 2,293	$ 2,230	$ 2,205	$ 1,623
Net investment income	3,126	2,968	2,715	2,260
Operating income[(1)]	556	527	520	384
Realized capital gains and losses, after-tax	(291)	(158)	(51)	101
(Loss) gain on dispositions of operations, after-tax	(4)			
Income from continuing operations before cumulative effect of changes in accounting, after-tax	261	369	469	485
Cumulative effect of changes in accounting principle, after-tax	(283)	(6)		
Net (loss) income	(22)	363	469	485
Premiums and deposits[(2)]	11,834	10,605	12,245	8,497
Investments including Separate Accounts	66,389	59,653	55,552	48,301

(1) Operating income (loss) 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 (loss) is "Income before dividends on preferred securities, equity in net income of unconsolidated subsidiary 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 dispositions 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 such effects resulted from the recognition of Realized capital gains and losses. Management believes that the supplemental Operating income (loss) information presented above allows for a more complete analysis of results of operations. Further information and a reconciliation of Operating income to Net income appear in the Definitions of Non-GAAP and Operating Measures section beginning on page D-3.

(2) 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 including the net new deposits of Allstate Bank, which are accounted for by Allstate as liabilities rather than as revenue. 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 beginning on page D-3.

1998	1997	1996	1995	1994	1993	1992
$ 20,826	$ 20,106	$ 19,702	$ 18,908	$ 17,566	$ 17,118	$ 16,670
3,890	3,861	3,813	3,627	3,343	3,269	3,153
1,163	982	784	258	200	215	161
25,879	24,949	24,299	22,793	21,109	20,602	19,984
2,573	2,429	1,600	1,587	268	1,083	(718)
694	638	510	168	130	140	106
56	43	(60)	93			
(39)	(39)	(4)				
10	34	29	56	86	79	112
3,294	3,105	2,075	1,904	484	1,302	(500)
						(325)
3,294	3,105	2,075	1,904	484	1,302	(825)
3.94	3.56	2.31	2.12	0.54	1.49	(0.58)
						(0.38)
3.94	3.56	2.31	2.12	0.54	1.49	(0.96)

3.96	3.58	2.33	2.12	0.54	1.49	(0.58)
						(0.38)
3.96	3.58	2.33	2.12	0.54	1.49	(0.96)
0.54	0.48	0.43	0.39	0.36	0.18	

$ 66,525	$ 62,548	$ 58,329	$ 56,505	$ 47,227	$ 47,932	$ 40,971
87,691	80,918	74,508	70,029	60,988	58,994	51,817
45,615	44,874	43,789	42,904	39,961	37,275	35,776
1,746	1,696	1,386	1,228	869	850	1,800
750	750	750				
17,240	15,610	13,452	12,680	8,426	10,300	5,383
21.00	18.28	15.14	14.09	9.37	11.45	8.52

$ 19,515	$ 18,789	$ 18,586	$ 17,965	$ 16,739	$ 16,292	$ 15,774
19,307	18,604	18,366	17,540	16,513	16,039	15,542
1,723	1,746	1,758	1,630	1,515	1,406	1,420
2,211	2,079	1,266	1,301	81	963	(867)
514	511	490	158	145	146	166
25	46	(60)	93			
10	34	29	56	86	79	112
2,760	2,670	1,725	1,608	312	1,188	(589)
						(311)
2,760	2,670	1,725	1,608	312	1,188	(900)
70.4	71.7	78.9	78.1	88.0	79.7	97.4
22.8	22.3	21.6	22.3	23.3	23.5	24.0
93.2	94.0	100.5	100.4	111.3	103.2	121.4

$ 1,519	$ 1,502	$ 1,336	$ 1,368	$ 1,053	$ 1,079	$ 1,128
2,115	2,085	2,045	1,992	1,827	1,858	1,733
392	377	368	327	226	169	149
158	123	20	10	(15)	(6)	(60)
	(3)					
550	497	388	337	211	163	89
						(14)
550	497	388	337	211	163	75
5,902	4,946	5,157	4,874	4,539	4,086	3,851
41,863	37,341	33,588	31,065	26,197	24,909	21,829

(3) Consolidated financial position for 1993 and thereafter are not comparable to prior years due the to adoption of new accounting rules for fixed income and equity securities.

(4) Per share amounts for years prior to 1998 have been restated for a 2-for-1 stock split in 1998.

(5) Shareholders' equity is presented pro forma for 1992 reflecting the formation of The Allstate Corporation.

(6) Net income (loss) per share is presented pro forma for 1993 and 1992.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (the "Company" or "Allstate"). It should be read in conjunction with the consolidated financial statements and related notes beginning on page D-90, and the 11-year summary of selected financial data on pages D-1 and D-2. Further analysis of the Company's insurance segments is provided in Property-Liability Operations (which includes the Allstate Protection (previously called Personal Property and Casualty or PP&C) and Discontinued Lines and Coverages segments) and the Allstate Financial Operations (which represents the Allstate Financial segment) sections of Management's Discussion and Analysis ("MD&A"). The segments are defined based upon the components of the Company for which financial information is used internally to evaluate segment performance and determine the allocation of resources.

DEFINITIONS OF NON-GAAP AND OPERATING MEASURES

In addition to information presented in the consolidated financial statements, Allstate uses information other than that determined using accounting principles generally accepted in the United States ("GAAP") to analyze and report its financial position and results of operations. Management believes that these non-GAAP and operating measures, when used in conjunction with the consolidated financial statements, can improve the understandability of the financial statements and allow investors to evaluate the information used by management to analyze company performance.

Operating income is a non-GAAP measure used by Allstate management to supplement its evaluation of Net income. Operating income is "Income before dividends on preferred securities and cumulative effect of change 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.

Management believes that the supplemental Operating income (loss) information presented below allows for a more complete analysis of results of operations. The net effect of Realized capital gains and losses have been excluded due to their volatility between periods and because such data is often excluded when evaluating the overall financial performance of insurers. Operating income (loss) should not be considered as a substitute for any GAAP measure of performance. This method of calculating Operating income (loss) may be different from the method used by other companies and therefore comparability may be limited. A reconciliation of Operating income to Net income for the years ended December 31, is presented in the following tables.

	Consolidated			Per diluted share		
(in millions, except per share data)	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Operating income	$ 2,075	$ 1,492	$ 2,004	$ 2.92	$ 2.06	$ 2.68
Realized capital gains and losses	(929)	(358)	425			
Reclassification of DAC amortization	(2)	(17)	(38)			
Income tax benefit (expense)	329	135	(139)			
Realized capital gains and losses, after-tax	(602)	(240)	248	(0.85)	(0.33)	0.33
Gain (loss) on disposition of operations, after-tax	2	(40)			(0.06)	
Dividends on preferred securities of subsidiary trust(s), after-tax	(10)	(45)	(41)	(0.01)	(0.06)	(0.06)
Cumulative effect of change in accounting principle, after-tax	(331)	(9)		(0.46)	(0.01)	
Net income (loss)	$ 1,134	$ 1,158	$ 2,211	$ 1.60	$ 1.60	$ 2.95

(in millions)	Property-Liability 2002	Property-Liability 2001	Property-Liability 2000	Allstate Financial 2002	Allstate Financial 2001	Allstate Financial 2000	Consolidated 2002	Consolidated 2001	Consolidated 2000
Operating income	$ 1,629	$ 1,052	$ 1,537	$ 556	$ 527	$ 520	$ 2,075	$ 1,492	$ 2,004
Realized capital gains and losses	(496)	(133)	506	(437)	(227)	(40)	(929)	(358)	425
Reclassification of DAC amortization				(2)	(17)	(38)	(2)	(17)	(38)
Income tax benefit (expense)	182	50	(180)	148	86	27	329	135	(139)
Realized capital gains and losses, after-tax	(314)	(83)	326	(291)	(158)	(51)	(602)	(240)	248
Gain (loss) on disposition of operations, after-tax	6	(40)		(4)			2	(40)	
Dividends on preferred securities of subsidiary trust(s), after-tax							(10)	(45)	(41)
Cumulative effect of change in accounting principle, after-tax	(48)	(3)		(283)	(6)		(331)	(9)	
Net income (loss)	$ 1,273	$ 926	$ 1,863	$ (22)	$ 363	$ 469	$ 1,134	$ 1,158	$ 2,211

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. The portion of Premiums written applicable to the unexpired terms of the policies is recorded as Unearned premiums on the Company's Consolidated Statements of Financial Position. The following table reflects the Unearned premium balance at December 31, for each product type, and the timeframe in which the Company expects to recognize these premiums as earned.

			% earned after			
(in millions)	2002	2001	90 days	180 days	270 days	360 days
Standard auto	$ 3,839	$ 3,683	70%	96%	99%	100%
Non-standard auto	627	691	72%	98%	99%	100%
Homeowners	2,716	2,323	43%	75%	94%	100%
Commercial	386	360	44%	76%	94%	100%
Involuntary	109	94	42%	74%	95%	100%
Other personal lines	700	774	44%	76%	94%	100%
Total Allstate Protection Unearned premiums	$ 8,377	$ 7,925				

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. The effects of Net investment income, Realized capital gains and losses and certain other items have been excluded from these measures in order to analyze the profitability of the insurance business without taking into account any investment results, and because such data is often excluded when evaluating the overall financial performance and profitability of property and casualty insurers. These underwriting results should not be considered as a substitute for any GAAP measure of performance. A reconciliation of Property-Liability underwriting results to Net income is provided in the table on page D-12. Allstate's method of calculating underwriting results may be different from the method used by other companies and therefore comparability may be limited.

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 including the net new deposits of Allstate Bank, which are accounted for by Allstate as liabilities rather than as revenue. Allstate's method of calculating Premiums and deposits may be different from the method used by other companies to measure sales and therefore comparability may be limited.

The following table illustrates where Premiums and deposits are reflected in the consolidated financial statements.

(in millions)	2002	2001	2000
Life and annuity premiums[(1)]	$ 1,371	$ 1,345	$ 1,344
Deposits to contractholder funds[(2)]	9,484	7,970	8,393
Deposits to separate accounts and other	979	1,290	2,508
Total Premiums and deposits	$ 11,834	$ 10,605	$ 12,245

(1) Life and annuity contract charges in the amount of $922 million, $885 million and $861 million for 2002, 2001, and 2000, respectively, which are also revenues recognized for GAAP, have been excluded from the table above, but are a component of the Consolidated Statements of Operations line item Life and annuity premium and contract charges.

(2) Derived directly from the Consolidated Statements of Cash Flows.

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. New sales of financial products by Allstate exclusive agencies totaled an estimated $1.61 billion for the twelve months ended December 31, 2002 compared to $702 million and $414 million in 2001 and 2000, respectively.

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2002 HIGHLIGHTS

Net income totaled $1.13 billion compared to $1.16 billion in 2001.

Operating income increased 39.1% to $2.08 billion due to higher profitability levels in both Property-Liability and Allstate Financial. (Further information and a reconciliation of Operating income to Net income appear in the Definitions of Non-GAAP and Operating Measures section of the MD&A.)

Achieved 5.8% growth in Property-Liability Premiums written by aggressively pursuing rate adequacy and re-underwriting under-performing books of business. Higher premiums, coupled with lower claim frequency resulted in improved profitability. The combined ratio improved 4.0 points to 98.9 from 102.9 in 2001. (Further information and a table reflecting how Premiums written are recognized as Premiums earned appear in the Definitions of Non-GAAP and Operating Measures section of the MD&A.)

Expanded the distribution of Allstate Financial's products by Allstate agents and other distributors, and enhanced the product offerings.

Deteriorating credit quality and declines in the equity markets caused realized capital losses to increase 150.8% to $602 million, after-tax.

Implemented Statement of Financial Accounting Standard ("SFAS") No. 142 "Goodwill and Other Intangible Assets" resulting in a goodwill impairment totaling $331 million, after-tax.

Repurchased shares of stock totaling $446 million during 2002 and $8.33 billion in the last eight years.

CONSOLIDATED NET INCOME

For the years ended December 31, (in millions, except per share data)	**2002**	**2001**	**2000**
Net income	$ 1,134	$ 1,158	$ 2,211
Net income per share (diluted)	1.60	1.60	2.95
Realized capital gains and losses, after-tax	(602)	(240)	248
Cumulative effect of change in accounting principle, after-tax	(331)	(9)	
Cash dividends declared per share	.84	.76	.68

Allstate experienced a 2.1% decline in net income for 2002 as compared to last year. The decrease in net income for 2002 is due to higher realized capital losses and the cumulative effect of a change in accounting principle, partially offset by increased operating results in both the Property-Liability and the Allstate Financial businesses. The Property-Liability business experienced increased Premiums earned, improved claim frequency, a decrease in catastrophe losses and a favorable impact of an adjustment for prior year tax liabilities. Partially offsetting these items was the reestimates of prior year claim reserves. Allstate Financial experienced an increase in investment margin and a favorable impact of an adjustment for prior year tax liabilities, partially offset by the acceleration in amortization of deferred policy acquisition costs, often called "DAC unlocking". The increase in realized capital losses is the result of the impact of poor economic and market conditions affecting the valuation of securities sold and the valuation of security holdings. Net income per diluted share in 2002 was consistent with 2001 levels as the effects of share repurchases offset the decline in net income.

The change in accounting principle relates to the Company's adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." As required by this statement, the Company ceased amortizing goodwill and completed its adoption of a fair value appraisal method for goodwill in 2002. Amortization of goodwill totaled $54 million in 2001 and $53 million in 2000. The fair value appraisal of goodwill resulted in an impairment totaling $331 million after-tax, which was recorded as a cumulative effect of a change in accounting principle. For a further explanation of the impact of adopting SFAS No. 142, see Note 2 of the consolidated financial statements.

Net income decreased 47.6% in 2001 due primarily to realized capital losses and decreased operating results in Property-Liability. Net income per diluted share decreased 45.8% in 2001 as the decline in net income was partially offset by the effects of share repurchases.

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CONSOLIDATED REVENUES

For the years ended December 31, (in millions)	**2002**	**2001**	**2000**
Property-liability insurance premiums earned	$ 23,361	$ 22,197	$ 21,871
Life and annuity premiums and contract charges	2,293	2,230	2,205
Net investment income	4,854	4,796	4,633
Realized capital gains and losses	(929)	(358)	425
Total consolidated revenues	$ 29,579	$ 28,865	$ 29,134

Consolidated revenues increased 2.5% in 2002 when compared to 2001. Higher Premiums earned in Property-Liability and increased Life and annuity premiums and contract charges in Allstate Financial were partially offset by increased realized capital losses during the year. Net investment income increased during 2002 as compared to 2001 due to higher investment balances partially offset by declines in investment yields.

Consolidated revenues decreased 0.9% in 2001 when compared to 2000. Higher Premiums earned in Property-Liability and increased Life and annuity premiums and contract charges in Allstate Financial were more than offset by realized capital losses during the year, compared to realized capital gains in 2000. Net investment income increased during 2001 as compared to 2000 due primarily to higher Allstate Financial investment balances, partially offset by decreased Property-Liability investment balances and investment yields.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company has identified five of its accounting policies that, due to their nature, have required management to make assumptions and estimates that are significant to the consolidated financial statements at December 31, 2002. It is reasonably likely that changes in these assumptions and estimates could occur from period to period, and have a material impact on the Company's consolidated financial statements. Management has discussed these critical accounting estimates with the audit committee of the board of directors, and the audit committee has reviewed the Company's MD&A disclosures relating to these policies.

A brief summary of each of these critical accounting policies follows. For a more complete discussion of the judgments and other factors affecting the measurement of these policies, see the referenced sections of the MD&A. There is also a complete summary of the Company's significant accounting policies in Note 2 of the consolidated financial statements.

Investments Fixed income securities include bonds, mortgage-backed and asset-backed securities, and redeemable preferred stocks. All fixed income and equity securities are carried at fair value and are classified as available for sale. The fair value of publicly traded fixed income and equity securities is based on independent market quotations. The fair value of non-publicly traded securities, primarily privately placed corporate obligations, is based on either widely accepted pricing valuation models which utilize internally developed ratings and independent third party data (e.g., term structures and current publicly traded bond prices) as inputs or independent third party pricing sources. The valuation models use indicative information such as ratings, industry, coupon, and maturity along with related third party data and publicly traded bond prices to determine security specific spreads. These spreads are then adjusted for illiquidity based on historical analysis and broker surveys. Periodic changes in fair values are reported as a component of Accumulated other comprehensive income on the Consolidated Statements of Financial Position and are reclassified to Net income only when supported by the consummation of a transaction with an unrelated third party, or when declines in fair values are deemed other than temporary.

The Company writes down to fair value a fixed income or equity security that is classified as other than temporarily impaired in the period the security is deemed to be other than temporarily impaired. The assessment of other than temporary impairment is performed on a case-by-case basis considering a wide range of factors. Inherent in the Company's evaluation of a particular security are assumptions and estimates

about the operations of the issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are:

- The Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value;
- The recoverability of principal and interest;
- The duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed income securities;
- The financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and
- The specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity.

There are a number of risks and uncertainties inherent in the process of monitoring impairments and determining if impairment is other than temporary. These risks and uncertainties include the risks that:

The economic outlook is worse than anticipated and has a greater adverse impact on a particular issuer than anticipated;

The Company's assessment of a particular issuer's ability to meet all of its contractual obligations changes based on changes in the facts and circumstances related to that issuer; and

New information is obtained or facts and circumstances change that cause a change in the Company's ability or intent to hold a security to maturity or until it recovers in value.

These risks and uncertainties could result in a charge 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 impact on Shareholders' equity since the majority of the portfolio is held at fair value and as a result, the related unrealized gain (loss), net of tax, would already be reflected as Accumulated other comprehensive income in Shareholders' equity. For a further discussion of these policies, and quantification of the impact of these estimates and assumptions, see the Investments, Market Risk and Forward-looking Statements and Risk Factors Affecting Allstate sections of the MD&A.

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

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value, or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset, liability or an unrecognized firm commitment attributable to a particular risk. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the methodology used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk, or in the case of a cash flow hedge, the exposure to changes in the hedged transaction's variability in cash flows attributable to the hedged risk. The Company does not currently exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges is reported in Realized capital gains and losses on the Consolidated Statements of Operations. For the years ended December 31, 2002 and 2001, the hedge ineffectiveness reported as Realized capital gains and losses amounted to losses of $15 million and gains of $6 million, respectively.

Derivatives are accounted for on a fair value basis, and reported as Other investments, Other assets, Other liabilities and accrued expenses or Contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The fair value of the Company's exchange traded derivative contracts is based on independent market quotations. The fair value of non-exchange traded derivative contracts is based on either independent third party pricing sources or widely accepted pricing valuation models which utilize independent third party data as inputs. The change in the fair value of derivatives embedded in assets and subject to bifurcation is reported as Realized capital gains and losses. The change in the fair value of derivatives embedded in liabilities and subject to bifurcation is reported as Realized capital gains and losses or Life and annuity contract benefits. For further discussion of these policies, and quantification of the impact of these estimates and assumptions, see the Investments, Market Risk and Forward-looking Statements and Risk Factors Affecting Allstate sections of the MD&A.

Deferred policy acquisition costs ("DAC") Allstate establishes a deferred asset for certain costs that vary with and are primarily related to acquiring business.

For property-liability contracts these costs, principally agents' remuneration, premium taxes and inspection costs, are deferred and amortized to income as premiums are earned. Amortization of DAC is reflected on the Consolidated Statements of Operations. For further discussion of Allstate's Property-Liability DAC policy, and quantification of the impact of these estimates and assumptions, see the Allstate Protection Segment and Forward-looking Statements and Risk Factors Affecting Allstate sections of the MD&A.

For life insurance and investment-oriented business these costs, principally agents' and brokers' remuneration, certain underwriting costs and direct mail solicitation expenses, are deferred and amortized to income. Amortization of DAC is reflected on the Consolidated Statements of Operations. All other acquisition expenses are charged to operations as incurred, impacting Operating costs and expenses on the Consolidated

Statements of Operations.

For traditional life insurance and other premium paying contracts, such as immediate annuities with life contingencies and limited payment contracts, these costs are amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Assumptions relating to estimated revenue, as well as to all other aspects of DAC and reserve calculations, are determined based upon conditions as of the date of policy issue and are generally not revised during the life of the policy. Any deviations from projected business inforce, resulting from actual policy terminations differing from expected levels, and any estimated premium deficiencies change the rate of amortization in the period such events occur. Generally, the amortization period for these contracts approximates the estimated lives of the contracts.

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

For interest-sensitive life, variable annuities and investment contracts, DAC is amortized in relation to the present value of estimated gross profits ("EGP") on such business over the estimated lives of the contracts. Generally, the amortization period ranges from 15-30 years, however an assumed surrender rate is also used which results in the majority of deferred costs being amortized over the surrender charge period. The rate of amortization during this term is matched to the pattern of EGP. EGP consists of the following components: margins from mortality, including guaranteed minimum death and income benefits, investment margin, including realized capital gains and losses, contract administration, surrender and other contract charges, less maintenance expenses. The estimation of EGP requires judgment, including the forecasting of highly uncertain events such as the level of surrenders at the end of a surrender charge period and, in some cases, future equity market performance. In estimating the impact of highly uncertain events, the Company considers historical experience as well as current trends.

In particular, a significant degree of judgment is involved with estimating future levels of EGP for the Company's variable annuity contracts as future fee income and guaranteed minimum death benefits ("GMDBs") are highly sensitive to equity market performance. The Company's variable annuity DAC

amortization methodology includes a long-term market return assumption for account values of approximately 9.25%, or 8.0% after average mortality and expense fees of 1.25%. When market returns vary from the 8.0% long-term expectation or mean, the Company assumes a reversion to the mean over a seven-year period, which includes two prior years and five future years. The assumed returns over this period are limited to a range between 0% to 13.25% after mortality and expense fees. The costs associated with GMDBs are included in EGP. Generally, less DAC is amortized during periods in which the GMDBs are higher than projected. However, if projected GMDBs cause DAC to be not fully recoverable, DAC will be written down to an amount deemed recoverable.

The Company currently performs quarterly reviews of recoverability for interest-sensitive life, variable annuities and investment contracts in the aggregate using current assumptions. Future volatility in the equity markets of similar or greater magnitude may result in disproportionate changes in the amortization of DAC.

If a change in the amount of EGP is significant, it could result in the unamortized DAC not being recoverable, resulting in a charge which is reflected as a component of Amortization of DAC. For quantification of the impact of these estimates and assumptions on Allstate Financial, see the Allstate Financial Segment and Forward-looking Statements and Risk Factors Affecting Allstate sections of the MD&A.

Reserves for Property-Liability insurance claims and claims expense The underwriting results of Property-Liability are significantly influenced by estimates of the Reserve for property-liability insurance claims and claims expense. 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 reporting date.

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

Because reserves are based on estimations of future losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate costs of losses may vary materially from recorded amounts, which are based on management's best estimates of future losses. Allstate regularly updates its reserve estimates as new information becomes available and as events unfold that may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in Property-Liability claims and claims expenses in the Consolidated Statements of Operations in the period such changes are determinable.

Management believes its net loss reserves for Allstate Protection exposures are appropriately established based on available facts, technology, laws and regulations.

Establishing net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, evolving and expanding theories of liability, the risks inherent in major litigation, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, estimating the extent and timing of any contractual liability, and other uncertainties. There are complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage.

Management believes these issues are not likely to be resolved in the near future, and the ultimate cost may vary materially from the amounts currently recorded resulting in an increase in loss reserves.

Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. 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.

For further discussion of these policies, and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see the Property-Liability Claims and Claims Expense Reserves and Forward-looking Statements and Risk Factors Affecting Allstate sections of the MD&A.

Life insurance reserves Reserves for life-contingent contract benefits, which relate to traditional life insurance, group retirement annuities and immediate annuities with life contingencies, are computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. Mortality, morbidity and policy termination assumptions are based on Company and industry experience prevailing at the time of issue. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium paying period. Future investment yield assumptions are determined at the time of issue based upon prevailing investment yields as well as forecasted reinvestment yields. To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, the related increase in reserve is recorded as a reduction in Unrealized net capital gains and losses included in Accumulated other comprehensive income. For further discussion of these policies see the Forward-looking Statements and Risk Factors Affecting Allstate section of the MD&A.

PROPERTY-LIABILITY 2002 HIGHLIGHTS

- Premiums written increased 5.8% in 2002 due to rate increases in standard auto and homeowners. This was partially offset by declines in the number of policies inforce, with non-standard auto declining the fastest, due to a strategy to improve profitability and attract higher lifetime value customers.

- The continued implementation of Strategic Risk Management ("SRM"), a multi-phase strategy that integrates tier-based pricing, underwriting and marketing decisions, resulting in a higher percentage of high lifetime value customers who are expected to provide above-average profitability over the course of their relationship with the Company. At December 31, 2002, SRM had been implemented in most states.

Underwriting income totaled $263 million compared to an underwriting loss of $651 million in 2001, with a combined ratio improvement of 4.0 points to 98.9, as earned premium growth, favorable claim frequency and lower catastrophe losses were partially offset by higher severity of current year claims and prior year reserve reestimates. (Further information about Underwriting income appears in the Definitions of Non-GAAP and Operating Measures section of the MD&A.).

PROPERTY-LIABILITY OPERATIONS

Overview The Company's Property-Liability operations consist of two business segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection is comprised of two lines of business, the Allstate brand and Ivantage, and 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 represents business no longer written by Allstate and includes the results from asbestos, environmental and other discontinued lines exposures, and certain commercial and other businesses in run-off. Such groupings of financial information are consistent with that used by management for evaluating segment performance and determining the allocation of resources.

Summarized financial data and key operating ratios for Allstate's Property-Liability operations for the years ended December 31, are presented in the following table.

(in millions, except ratios)	2002	2001	2000
Premiums written	$ 23,917	$ 22,609	$ 21,858
Premiums earned	$ 23,361	$ 22,197	$ 21,871
Claims and claims expense ("losses")	17,657	17,532	16,395
Amortization of DAC	3,216	3,060	3,008
Operating costs and expenses	2,108	2,114	2,200
Amortization of goodwill		21	23
Restructuring and related charges	117	121	72
Underwriting income (loss)	263	(651)	173
Net investment income	1,656	1,745	1,814
Income tax expense on operations	290	42	450
Operating income	1,629	1,052	1,537
Realized capital gains and losses, after-tax	(314)	(83)	326
Gain (loss) on disposition of operations, after-tax	6	(40)	
Cumulative effect of change in accounting principle, after-tax	(48)	(3)	
Net income	$ 1,273	$ 926	$ 1,863
Catastrophe losses	$ 731	$ 894	$ 967
Operating ratios			
Claims and claims expense ("loss") ratio	75.6	79.0	75.0
Expense ratio	23.3	23.9	24.2
Combined ratio	98.9	102.9	99.2
Effect of catastrophe losses on loss ratio	3.1	4.0	4.4
Effect of restructuring and related charges on expense ratio	0.5	0.5	0.3

(in millions, except ratios)	2002	2001	2000

ALLSTATE PROTECTION SEGMENT

Overview The Company's goal for the Allstate Protection segment is to improve and sustain the profitability of standard auto, non-standard auto and homeowners insurance products. A key focus is to attract and retain high lifetime value customers, who will potentially provide above-average profitability over the course of their relationship, through the Company's utilization of SRM. The Company also continues to enhance technology to integrate Allstate's distribution channels, improve customer service, facilitate the introduction of new products and services and reduce infrastructure costs related to supporting agencies and handling claims. To align with current field agency management compensation and the overall strategies of the Allstate brand, beginning in 2003, components of agency compensation will be based upon profitability, growth and cross-selling of Allstate Protection and Allstate Financial products. These actions and others are designed to optimize the effectiveness of the distribution and service channels by taking actions to encourage the productivity of exclusive agencies and to enhance The Good Hands® Network.

The Ivantage business sells private passenger auto and homeowners insurance to individuals through independent agencies. Ivantage includes standard auto and homeowners products with the Encompass℠ brand name and non-standard auto products with the Deerbrook® brand name. The strategy for Ivantage focuses on profit improvement actions for both Encompass and Deerbrook, and growing Deerbrook, in part by using SRM, in select markets.

In most states, the Company has rating plans that separate the voluntary personal auto insurance business into two categories for pricing or underwriting purposes or both: the standard market and the non-standard market. Generally, standard auto customers are expected to have lower risks of loss than non-standard auto customers. However, because of the Company's implementation of SRM and its related change in underwriting and selection criteria, and customers' changing risk profiles, the mix of business between standard auto and non-standard auto risk characteristics will change.

Tier-based pricing and underwriting produces a broader range of premiums that is more refined than the range generated by the standard/non-standard model alone and enables Allstate to improve its competitive position with potentially profitable customers. Because it's focused on new business, SRM today accounts for only about 25% of total Premiums written. This amount is expected to increase to approximately 67% in 5 years.

The initial results of new policies written using SRM continue to indicate that the Allstate brand standard auto and homeowners businesses have experienced an increase in retention, a shift toward more customers who are considered high lifetime value and lower loss ratios. Based on the SRM implementation dates for non-standard auto, and other initiatives currently in place in that business, the SRM results are not yet determinable, however, overall results are showing favorable trends.

The Company's strategy for homeowners is to target customers whose risk of loss provides the best opportunity for profitable growth. The homeowners strategy also includes managing exposure on policies in areas where the potential loss from catastrophes exceeds acceptable levels. Management believes that it is important to offer homeowners insurance as part of its broad-based financial services offerings.

Homeowners product pricing is typically intended to establish acceptable long-term returns, as determined by management, over a period of years. Losses, including losses from catastrophic events and weather-related losses (such as wind, hail, lightning and freeze events not meeting the Company's 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 incorporated into the product pricing. Accordingly, the homeowners products are more capital intensive than other personal lines of business.

Premiums written by brand for the Allstate Protection segment are shown in the following table. Allstate brand policy periods are typically 6 months for auto and 12 months for homeowners. Encompass auto and homeowners policy periods are typically 12 months. Deerbrook auto policy periods are typically 6 months.

(in millions)	2002	2001	2000
Allstate brand:			
Standard auto	$ 12,825	$ 12,115	$ 11,314
Non-standard auto	2,337	2,625	2,957
Homeowners	4,653	3,943	3,677
Commercial lines	776	725	665
Involuntary auto	206	171	67
Other personal lines	1,226	1,217	1,193
Total Allstate brand	22,023	20,796	19,873
Ivantage:			
Standard auto	1,195	1,190	1,253
Non-standard auto	114	46	148
Homeowners	484	456	441
Involuntary auto	4	17	21
Other personal lines	90	96	120
Total Ivantage	1,887	1,805	1,983
Total Premiums written	$ 23,910	$ 22,601	$ 21,856

The following table presents Allstate Protection Premiums written by product, showing new and renewal business.

(in millions)	2002	2001	2000
New business premiums:			
Standard auto	$ 1,064	$ 1,212	$ 1,088
Non-standard auto	460	511	572
Homeowners	524	474	449
Other	463	477	395
Total new business premiums	2,511	2,674	2,504
Renewal business premiums:			
Standard auto	12,956	12,093	11,479
Non-standard auto	1,991	2,160	2,533
Homeowners	4,613	3,925	3,669
Other	1,839	1,749	1,671
Total renewal business premiums	21,399	19,927	19,352
Total Premiums written	$ 23,910	$ 22,601	$ 21,856

Standard auto Premiums written increased 5.4% for Allstate Protection to $14.02 billion in 2002 from $13.31 billion in 2001, following a 5.9% increase in 2001 from $12.57 billion in 2000.

Allstate brand	2002	2001
New business premiums	$941 million	$1.09 billion
New business premiums (% change)	(13.7)	16.5
Renewal business premiums	$11.88 billion	$11.03 billion
Renewal ratio	88.5	90.2

Allstate brand	**2002**	**2001**
Policies inforce (% change)	(3.5)	3.6
Average premium (% change)	8.6	2.8

The declines in Allstate brand standard auto new business premiums, renewal ratio and policies inforce are due primarily to administrative and risk management actions taken to improve the standard auto loss ratio. These actions include implementing premium rate increases, down payment requirements and other underwriting changes in several large standard auto premium states such as California, Texas and Florida. Excluding these states, Allstate brand new business premiums declined 2.1% in 2002 compared to 2001, policies inforce declined 0.9% in 2002 compared to 2001 and the renewal ratio at year-end 2002 was 89.5, a decline of 0.8 points from year-end 2001. The increase in average gross premium during 2002 and 2001 was due to higher average renewal premiums in both years. The Company expects that the improved profit position in standard auto that emerged during 2002, combined with a more modest need for rate increases in the future, will allow pursuit of a broader marketing approach in most of the U.S. and could result in sequential growth of policies inforce in standard auto in the second half of 2003. The pursuit of a broader marketing approach could be delayed due to the time needed to obtain regulatory approvals, inherent delays to obtain rate changes in certain jurisdictions or other regulatory developments.

Ivantage brand	**2002**
New business premiums	$123 million
New business premiums (% change)	0.8
Renewal business premiums	$1.07 billion
Renewal ratio	82.9
Policies inforce (% change)	(7.3)
Average premium (% change)	6.5

Ivantage standard auto Premiums written decreased 5.0% in 2001 when compared to 2000 due to profit improvement actions resulting in fewer new and renewal policies inforce, partially offset by increased average premium per policy. The renewal ratio for Ivantage was 80.3 at year end 2001.

Increases in standard auto average premium per policy were due to rate actions taken in both the Allstate brand and Ivantage during 2002 and 2001, and to a lesser degree due to a normal shift to newer and more expensive autos by Allstate brand policyholders. The following table shows the net rate changes that were approved during 2002.

	# of States	**Weighted Average Rate Change (%)**
Allstate brand	39	6.4
Ivantage (Encompass)	34	6.4

Non-standard auto Premiums written decreased 8.2% for Allstate Protection to $2.45 billion in 2002 from $2.67 billion in 2001, following a 14.0% decrease in 2001 from $3.11 billion at year-end 2000.

Allstate brand	**2002**	**2001**
New business premiums	$384 million	$499 million
New business premiums (% change)	(23.0)	(8.4)
Renewal business premiums	$1.95 billion	$2.13 billion
Renewal ratio	73.1	71.9
Policies inforce (% change)	(20.6)	(18.1)
Average premium (% change)	12.2	6.9

The increase in Allstate brand average gross premium during 2002 and 2001 was due primarily to higher average renewal premiums in both years.

Ivantage brand	**2002**
New business premiums	$76 million
Renewal business premiums	$38 million
Renewal ratio	53.0
Policies inforce (% change)	170.4

Ivantage brand	**2002**
Average premium (% change)	14.9

Fluctuations in non-standard auto premiums during 2002 and 2001 were primarily due to the implementation of programs to address adverse profitability trends for both the Allstate brand and Ivantage. These programs vary by state and include changes such as additional premium down payment requirements, tightening underwriting requirements, rate increases, policy non-renewal where permitted and certain other administrative actions. A continued decline in Allstate brand non-standard auto policies inforce is expected as the Company continues to evaluate opportunities to sustain profitability in certain large markets such as the states of New York, Texas, and Florida. Ivantage experienced growth in the current year due to Deerbrook's re-entry into the non-standard market in 19 states as of December 31, 2002.

Increases in non-standard auto average premium per policy were due to rate actions taken for both the Allstate brand and Ivantage during 2002 and 2001, some in connection with the implementation of SRM. The following table shows the net rate changes that were approved during 2002.

	# of States	**Weighted Average Rate Change (%)**
Allstate brand	38*	11.1
Ivantage (Encompass)	22	9.1

* includes Washington D.C.

Homeowners Premiums written increased 16.8% for Allstate Protection to $5.14 billion in 2002 from $4.40 billion in 2001, following a 6.8% increase in 2001 from $4.12 billion in 2000.

Allstate brand	**2002**	**2001**
New business premiums	$493 million	$449 million
New business premiums (% change)	9.8	6.6
Renewal business premiums	$4.16 billion	$3.49 billion
Renewal ratio	87.9	88.8
Policies inforce (% change)	(0.5)	2.2
Average premium (% change)	19.8	5.4

The increase in Allstate brand average gross premium during 2002 and 2001 was primarily due to renewal premiums in both years.

Ivantage	**2002**
New business premiums	$31 million
New business premiums (% change)	24.0
Renewal business premiums	$453 million
Renewal ratio	86.6
Policies inforce (% change)	(6.2)
Average premium (% change)	13.1

Ivantage homeowners premiums increased 3.4% in 2001 when compared to 2000 due to increased average premium per policy, partially offset by fewer policies inforce. The renewal ratio for Ivantage was 85.1 at year end 2001.

Increases in homeowners average premium per policy were due to rate actions taken for both the Allstate brand and Ivantage during 2002 and 2001, some in connection with the implementation of SRM. The following table shows the net rate changes that were approved during 2002.

	# of States	**Weighted Average Rate Change (%)**
Allstate brand	44*	17.1

	# of States	Weighted Average Rate Change (%)
Ivantage (Encompass)	35	13.9

*

includes Washington D.C.

Unearned premiums The rate changes taken during 2002 and 2001 will generally be recognized as premiums are earned over a period of 6 to 24 months following the rate change, and policy renewal premiums will also be at the usually higher changed rate. During this period, Premiums written at a higher rate will cause an increase in the balance of Unearned premiums on Allstate's Consolidated Statements of Financial Position. The balance of Unearned premium applicable to the Company's Allstate Protection business totaled $8.38 billion and $7.93 billion at December 31, 2002 and 2001, respectively.

Underwriting results for Allstate Protection are shown in the following table.

(in millions)	2002	2001	2000
Premiums written	$ 23,910	$ 22,601	$ 21,856
Premiums earned	$ 23,351	$ 22,182	$ 21,868
Claims and claims expense ("losses")	17,424	17,506	16,386
Amortization of DAC	3,216	3,060	3,008
Other costs and expenses	2,097	2,102	2,193
Amortization of goodwill		21	23
Restructuring and related charges	117	120	71
Underwriting income (loss)	$ 497	$ (627)	$ 187
Catastrophe losses	$ 731	$ 894	$ 967
Underwriting income (loss) by brand			
Allstate brand	$ 681	$ (298)	$ 501
Ivantage	(184)	(329)	(314)
Underwriting income (loss)	$ 497	$ (627)	$ 187

Allstate Protection experienced Underwriting income of $497 million during 2002 compared to an Underwriting loss of $627 million in 2001. The Underwriting income in 2002 was due to Underwriting income in the Allstate brand partially offset by an Underwriting loss in Ivantage. Underwriting income was the result of increased Premiums earned, lower catastrophe losses and declines in auto and homeowners claim frequency (rate of claim occurrence), the elimination of the Amortization of goodwill due to a change in accounting principle and a reduction in Operating costs and expenses, partially offset by increased current year claim severity (average cost per claim) and prior year reserve reestimates. The Underwriting loss in 2001 was due to Underwriting losses in both the Allstate brand and Ivantage, related to higher losses during the year as compared to 2000, partially offset by increased Premiums earned and decreased Other costs and expenses. Higher losses in 2001 were due to increases in standard auto and homeowners frequency and auto and homeowners claim severity in the current year, in part due to increased weather-related claims such as wind, hail, lightning, freeze and water losses, which include mold losses, not meeting the criteria to be declared a catastrophe, and prior year reserve reestimates. For further discussion and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

Changes in auto current year claim severity are generally influenced by inflation in the medical and auto repair sectors of the economy. The Company mitigates these effects through various loss management programs. For a further discussion, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A. 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. Allstate's rate of increase in incurred injury claim severity during 2002 and

2001 was generally higher than the relevant medical cost indices. Management believes the Company's claim settlement initiatives, such as improvements to the claim settlement process, medical management programs, the use of special investigative units to detect fraud and handle suspect claims, litigation management and defense strategies, as well as various loss management initiatives underway, contribute positively to the mitigation of injury severity trends. However, auto injury claim severity increased in 2002 and 2001, more than offsetting the success of the Company's loss mitigation programs. Severity will continue to be adversely affected if inflationary pressures on medical costs outweigh the benefit

of claim settlement initiatives, therefore the Company will continue to pursue its claim mitigation programs and profitability actions such as rate increases.

For auto physical damage coverages, the Company monitors its rate of increase in average cost per claim against a weighted average of the Body Work price index and the Used Car price index. In 2002, the Company's rate of increase in incurred physical damage current year claim severity was generally higher than the relevant indices, whereas in 2001, Allstate's rate of increase in physical damage coverage current year claim severity trended favorably to the relevant indices. Management believes that results can be favorably impacted by the application of enhanced claim settlement practices for auto physical damage claims. Accordingly, the Company continues to pursue various loss management initiatives that it expects to contribute positively to the mitigation of physical damage severity trends. However, during 2002 the increase in auto physical damage claim severity more than offset the success of the Company's loss mitigation programs. By December 31, 2002, policy language had been implemented for the Allstate brand in a majority of states in the U.S. reaffirming that its collision and comprehensive coverages do not include inherent diminished value claims.

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, and other economic and environmental factors. The Company employs various management programs to mitigate the effect of these factors, however homeowners severity increased in 2002 and 2001, more than offsetting the success of the Company's loss mitigation programs. Additional losses were also incurred in both years due to a significant volume of mold claims in Texas, totaling approximately $326 million for 2002, primarily in the first half of the year, compared to $184 million in 2001. Allstate has implemented policy language in Texas that limits exposure to mold claims to $5,000 for specified remediation of mold that results from a covered water loss. In addition, the majority of states have also approved this policy language to date. The Company has also taken numerous actions that it expects to contribute to profitable trends in the homeowners loss ratio.

Another analytical measure that reflects the segment's, line of business' or product's profitability is its loss ratio, which is the percentage of losses to Premiums earned. Premiums earned and loss ratios by product are shown in the following table.

(in millions, except ratios)	2002	2001	2000
Premiums earned			
Allstate brand:			
Standard auto	$ 12,667	$ 11,846	$ 11,237
Non-standard auto	2,413	2,689	3,053
Homeowners	4,275	3,799	3,577
Other	2,147	2,027	1,894
Total Allstate brand	21,502	20,361	19,761
Ivantage:			

(in millions, except ratios)	2002	2001	2000
Standard auto	1,194	1,209	1,307
Non-standard auto	89	53	198
Homeowners	470	460	473
Other	96	99	129
Total Ivantage	1,849	1,821	2,107
Total Allstate Protection Premiums earned	$ 23,351	$ 22,182	$ 21,868
Allstate Protection loss ratio			
Standard auto	75.2	76.5	71.2
Non-standard auto	73.7	82.9	94.5
Homeowners	75.8	85.1	69.8
Other	69.4	76.6	77.1
Total Allstate Protection loss ratio	74.6	78.9	74.9
Allstate Protection expense ratio	23.3	23.9	24.2
Allstate Protection combined ratio	97.9	102.8	99.1
Loss ratios by brand			
Allstate brand:			
Standard auto	74.9	75.4	70.3
Non-standard auto	72.4	83.0	91.8
Homeowners	75.8	85.3	69.2
Other	70.7	75.0	75.2
Total Allstate brand loss ratio	74.4	78.2	73.9
Allstate brand expense ratio	22.5	23.2	23.6
Allstate brand combined ratio	96.9	101.4	97.5
Ivantage:			
Standard auto (Encompass)	79.1	86.4	79.0
Non-standard auto (Deerbrook)	109.0	81.1	135.4
Homeowners (Encompass)	75.1	82.8	74.2
Other	40.6	109.1	105.4
Total Ivantage loss ratio	77.5	86.6	84.9
Ivantage expense ratio	32.5	31.5	30.0
Ivantage combined ratio	110.0	118.1	114.9

Standard auto loss ratio for Allstate Protection decreased 1.3 points in 2002 below 2001 levels after increasing 5.3 points in 2001 over 2000 levels. The decline in 2002 was primarily due to increased Premiums

earned, lower catastrophe losses and lower claim frequency, partially offset by higher severity. The increase in 2001 was primarily due to higher losses resulting from claim severity and frequency, partially offset by increased Premiums earned.

Non-standard auto loss ratio for Allstate Protection decreased 9.2 points in 2002 below 2001 levels, and decreased 11.6 points in 2001 below 2000 levels. The decline in 2002 was due to lower claim frequency, partially offset by lower Premiums earned and an increase in Ivantage losses. The decline in 2001 was due to lower claim frequency and severity, partially offset by lower Premiums earned. Decreased claim frequency and Premiums earned were primarily due to the implementation of specific non-standard auto programs to address adverse profitability trends.

When the insurance industry tightens underwriting standards in the voluntary market, the amount of business written by the involuntary market tends to increase. The underwriting results of Allstate's involuntary business tend to be adverse to the Company, and are included as Other.

Homeowners loss ratio for Allstate Protection decreased 9.3 points in 2002 below 2001 levels, after increasing 15.3 points in 2001 from 2000 levels. The decline in 2002 was due to higher Premiums earned and lower catastrophe losses, partially offset by increased reserve estimates related to prior years and higher mold-related claims in the state of Texas. The increase in 2001 was primarily due to higher claim severity and frequency, in part related to the emergence of mold-related claims in the state of Texas during the year, higher late reported weather-related losses, and increased reserves for the 1994 Northridge earthquake, partially offset by increased Premiums earned.

Examples of the actions Allstate took during 2002 and 2001 to improve the homeowners loss ratio included market or state-specific product designs, underwriting and rating changes, discontinuation of specific coverages, specific policy language clarifying coverage for mold claims and loss management initiatives. These actions are intended to improve the profitability of this business, particularly in states such as Texas and Illinois, which are among the largest homeowners premium states experiencing adverse trends. These actions have been implemented and will be completely recognized in the financial results for 2003. However, their recognition may be masked in any one period due to the volatility in underwriting results caused by losses from events such as a catastrophe.

Expense ratio for Allstate Protection declined in 2002 from 2001 levels due to various expense management initiatives partially offset by an increase in periodic pension costs. Expense ratio declined in 2001 from 2000 levels due to the successful completion of the $600 million cost reduction program, as well as other actions. The impact of the reduction program on the expense ratio was partially offset in 2001 and 2000 by the Company's investment in various initiatives, such as The Good Hands Network, and increased advertising and technology investments.

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

	2002	2001	2000
Allstate brand:			
Amortization of DAC	13.3	13.2	13.4
Other costs and expenses	8.7	9.4	9.8
Amortization of goodwill		0.1	0.1
Restructuring and related charges	0.5	0.5	0.3
Allstate brand expense ratio	22.5	23.2	23.6
Ivantage:			
Amortization of DAC	19.8	20.2	17.3
Other costs and expenses	12.6	10.7	12.6
Amortization of goodwill		0.6	
Restructuring and related charges	0.1		0.1
Ivantage expense ratio	32.5	31.5	30.0

The expense ratio for the standard auto business generally approximates the total Allstate Protection expense ratio of 23.3 in 2002, 23.9 in 2001 and 24.2 in 2000. The expense ratio for the non-standard auto business generally is 2 to 3 points 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 expense ratio for the homeowners business generally is 1 point higher than the total Allstate Protection expense ratio due to higher agent commission rates as compared to standard auto. The Ivantage expense ratio is higher on average than the expense ratio of the Allstate brand due to higher commission rates, integration expenses, expenditures for technology and expenses related to the administration of certain assigned risk plans. For example, the Ivantage expense ratio increased 1.2 points during 2002 due to an increase in the expenses related to an assigned risk plan.

Restructuring charges incurred by Allstate Protection during 2002 totaled $117 million compared to $120 million in 2001 and $71 million in 2000. The restructuring charges incurred during 2002 and 2001 were primarily the result of a program to realign the Company's field claim offices to fewer, larger office locations; centralization of the Auto Express function to a few large offices that handle claim reporting, processing and settlement of non-complex auto claims; the re-design of Customer Information Centers and other back-office operations; and a non-cash charge resulting from pension benefit payments made in connection with agents retiring who were involved in the agency restructuring program announced in 1999.

The restructuring charges incurred during 2000 were primarily the result of implementing a cost reduction program announced in 1999, relating to the reorganization of agency programs to a single exclusive agency independent contractor program, the elimination of certain employee positions and the consolidation of operations and facilities. For a more detailed discussion of these charges, see Note 12 to the consolidated financial statements.

Allstate Protection Operating income was also favorably impacted in 2002 by a $93 million adjustment for prior year tax liabilities that resulted primarily from Internal Revenue Service developments and examination of tax returns.

DAC Allstate establishes 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 consistently with the timeframes in which Unearned premiums are recognized as earned.

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

(in millions)	**2002**	**2001**
Standard auto	$ 529	$ 519
Non-standard auto	75	84
Homeowners	387	334
Commercial	56	53
Involuntary	7	3
Other personal lines	126	142
Total Allstate Protection DAC	$ 1,180	$ 1,135

Catastrophe Losses are an inherent risk of the property-liability insurance industry which have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in Allstate's results of operations and financial position. A "catastrophe" is defined by Allstate 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 earthquakes, wildfires, tornadoes, hailstorms, hurricanes, tropical storms, high winds and winter storms. Allstate is also exposed to human-made catastrophic events, such as certain acts of terrorism or certain industrial accidents. The nature and level of any catastrophe in any period cannot be predicted.

Allstate includes catastrophe losses in claims and claims expense, thus impacting both the underwriting results and loss ratios. During 2002, catastrophe losses totaled $731 million, compared to catastrophe losses of $894 million in 2001 and $967 million in 2000.

The impact of catastrophe losses on the loss ratio is shown in the following table.

	2002	**2001**	**2000**
Effect of catastrophe losses on loss ratio			
Allstate brand:			
Standard auto	0.7	1.1	1.3
Non-standard auto	0.3	0.7	1.1

	2002	2001	2000
Homeowners	12.0	15.2	17.3
Other	3.3	3.7	3.6
Total Allstate brand	3.2	3.9	4.4
Ivantage:			
Standard auto	0.5	1.0	1.1
Non-standard auto			0.6
Homeowners	10.4	13.7	17.5
Other	3.1	8.1	3.8
Total Ivantage	3.1	4.6	5.0
Total	3.1	4.0	4.4

Allstate has limited, over time, its aggregate insurance exposures in certain regions subject to high levels of natural catastrophes. These limits include restrictions on the amount and location of new business production, limitations on the availability of certain policy coverages, policy brokering and increased participation in catastrophe pools. Allstate has also requested and received rate increases and has expanded its use of increased hurricane, tropical cyclone and earthquake deductibles in certain regions subject to high levels of catastrophes. However, these initiatives are somewhat mitigated by requirements of state insurance laws and regulations, as well as by competitive considerations.

For Allstate, areas of potential catastrophe losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Allstate Floridian Insurance Company ("Floridian") and Allstate Floridian Indemnity Company ("AFI") sell and service Allstate's Florida residential property policies, and have access to reimbursements on certain qualifying Florida hurricanes, as well as exposure to assessments from the Florida Hurricane Catastrophe Fund ("FHCF"). In addition, Floridian and AFI are subject to assessments from Citizens Property Insurance Corporation ("Citizens") which was created by the state of Florida to provide coverage for losses to property owners unable to obtain coverage in the private insurance market. The Company has also mitigated its ultimate exposure to hurricanes through policy brokering; examples include the Company's brokering of insurance coverage in areas of Florida where Floridian and AFI do not write homeowners insurance, and in Hawaii for hurricane insurance coverage to a non-affiliated company.

FHCF provides the Company's subsidiaries, such as Floridian and AFI, access to reimbursements for 90% of hurricane losses in excess of approximately the first $309 million for each hurricane, up to an aggregate of $800 million (90% of approximately $889 million) in a single hurricane season, and $1.60 billion total reimbursement over two hurricane seasons.

The FHCF has the authority to issue bonds to pay its obligations to participating insurers. The bonds issued by the FHCF are funded by assessments on all property and casualty Premiums written in the state, except accident and health insurance. These assessments are limited to 4% of premiums in the first year of assessment, and up to a total of 6% of premiums for assessments in the second and subsequent years. However, it is unlikely that the first year assessment would exceed 2% because of the current capital adequacy of the FHCF. Insurers may recoup assessments immediately through increases in all property and casualty policyholder rates. A rate filing or any portion of a rate change attributable entirely to an assessment is deemed approved when made with the State of Florida Department of Insurance (the

"Department"), subject to the Department's statutory authority to review the "adequacy" of any rate at any time.

Citizens levies regular assessments on participating companies if its deficit in any calendar year is less than or equal to 10% of Florida property premiums industry-wide for that year. An insurer may recoup a regular assessment through a surcharge to policyholders subject to a cap on the amount that can be charged in any one year. If the deficit exceeds 10%, Citizens can also fund the deficit through the issuance of bonds. The costs of these bonds are then funded through a regular assessment in the first year following the deficit and emergency assessments in subsequent years. Companies are required to collect the emergency assessments directly from residential property policyholders and remit these monies to Citizens as they are collected. Participating companies are obligated to purchase any unsold bonds issued by Citizens. The insurer must file any recoupment surcharge with the Department at least 15 days prior to imposing the surcharge on any policies. The surcharge may be used automatically after the expiration of the 15 days, unless the Department has notified the insurer in writing that any of its calculations are incorrect.

While the statutes are designed so that the ultimate cost is borne by the policyholders, the exposure to assessments from facilities such as the FHCF and Citizens, and the availability of recoveries from these facilities, may not offset each other in the financial statements in the same period. This would be due to the ultimate timing of the assessments and recoupments, as well as the possibility of policies not being renewed in subsequent years.

Exposure to certain potential losses from earthquakes in California is limited by the Company's participation in the California Earthquake Authority ("CEA"), which provides insurance for California earthquake losses. Other areas in the United States where Allstate faces exposure to potential earthquake losses include areas surrounding the New Madrid fault system in the Midwest and faults in and surrounding Seattle, Washington and Charleston, South Carolina.

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

Should losses arising from an earthquake cause a deficit in the CEA, additional funds needed to operate the CEA would be obtained through assessments on participating insurance companies, payments received under reinsurance agreements and bond issuances funded by future policyholder assessments. Participating insurers are required to pay an assessment, not to exceed $2.18 billion, if the capital of the CEA falls below $350 million. Participating insurers are required to pay a second assessment, not to exceed $1.46 billion, if aggregate CEA earthquake losses exceed $5.9 billion and the capital of the CEA falls below $350 million. At December 31, 2002, the CEA's capital balance was approximately $1.31 billion. If the CEA assesses its member insurers for any amount, the amount of future assessments on members is reduced by the amounts previously assessed. To date, the CEA has not assessed member insurers beyond the initial assessment paid by participating insurers beginning in 1996. The authority of the CEA to assess participating insurers for the first assessment expires when it has completed twelve years of operation, at year end 2008. All future assessments on participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. As of December 31, 2001, the Company had a 23.5% share of the CEA. Allstate does not expect its CEA market share to materially change. At this share, the maximum possible CEA assessment on the Company would be $855 million. However, Allstate does not expect its portion of these additional contingent assessments, if any, to exceed $513 million, its share of the first assessment, as the likelihood of an event exceeding the CEA claims paying capacity of $5.9 billion, and therefore incurring the second assessment, is remote. Management believes Allstate's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

While management believes the Company's natural event catastrophe management initiatives have reduced the potential magnitude of possible future losses, the Company continues to be contingently responsible for assessments by the CEA and various Florida facilities, and to be exposed to catastrophes that may materially impact results of operations and financial position. For example, the Company's historical catastrophe experience includes losses relating to Hurricane Andrew in 1992 totaling $2.3 billion and the

Northridge earthquake of 1994 totaling $2.0 billion. The next largest hurricane experienced by the Company was Hurricane Hugo in 1989 with losses totaling 11.2% of Hurricane Andrew's losses, and the next largest earthquake experienced by the Company was the San Francisco earthquake of 1989 with losses totaling 7.4% of the Northridge earthquake's losses.

Since 1992, the average annual impact of catastrophes on the Company's total loss ratio was 6.3 pts. Excluding losses from Hurricane Andrew, California earthquakes and Hawaii hurricanes during that period (since the exposure for these catastrophes is now substantially covered by an industry reinsurance or insurance mechanism, i.e. CEA and various Florida facilities), the average annual impact of all other catastrophes on the Company's total loss ratio was 3.8 pts. Comparatively, the average annual impact of catastrophes on the homeowners loss ratio over the last ten years, excluding losses from Hurricane Andrew, California earthquakes and Hawaii hurricanes during that period, was 16.4 pts. The average annual catastrophe impact on the homeowners loss ratio in jurisdictions deemed to have hurricane exposure (those jurisdictions bordering the eastern and gulf coasts) was 16.8 pts, and in all other states the impact was 15.8 pts over this ten-year period. Comparatively, during 2002, catastrophes in the states deemed to have hurricane exposure had an impact of 11.3 pts on the homeowners loss ratio, while in all other states catastrophes had an impact of 11.4 pts. The total catastrophe impact on the homeowners loss ratio was 11.3 pts during 2002.

Allstate continues to evaluate alternative business strategies to more effectively manage its exposure to catastrophe losses, including rate increases. In 2002, Allstate received approval for homeowners rate increases in 17 states deemed to have hurricane exposure and Washington D.C. with a weighted average rate change in those jurisdictions of 14.5%. In addition, Allstate received approval for homeowners rate increases in 31 other states with a weighted average rate change of 18.2%.

Because reserves are based on estimations of future losses, the establishment of appropriate reserves for losses incurred from catastrophes, as for all outstanding property-liability claims, is an inherently uncertain process. The ultimate cost of losses may vary materially from the recorded amounts, which are based on management's best estimates of future losses. Catastrophe reserve estimates are regularly reviewed and updated, using the most current information and estimation techniques. Any resulting reestimates, which may be material, are reflected in current operations.

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

Allstate continues to support the enactment of federal legislation that would reduce the impact of catastrophic events. Allstate cannot predict whether such legislation will be enacted or the effect on Allstate if it were to be enacted.

Allstate Protection Outlook

Strategies for Allstate Protection profitability include continuing to seek approval for rate changes for all Allstate Protection products in all jurisdictions as deemed necessary, and to pursue other actions such as modifying underwriting processes, to achieve its targeted level of profitability. This level is generally considered to be a combined ratio of 95.0 to 98.0. This strategy will not be compromised as the Company pursues a broader marketing approach in most of the U.S. during 2003, including underwriting to higher risk tiers as defined by SRM. This strategy could also contribute to a sequential quarterly increase in policies inforce for standard auto and homeowners in the second half of 2003. The pursuit of a broader marketing approach could be delayed due to the time needed to obtain regulatory approvals, inherent delays to obtain rate changes in certain jurisdictions or other regulatory developments.

Allstate Protection also expects to grow Premiums written and increase policies inforce in the future through strategies for increased retention, an increase in the number of agents and support staff, and with marketing programs designed to focus on customers that will enable Allstate to achieve its targeted returns.

During 2002, Allstate introduced changes in the exclusive agent sales organizational structure and incentives that will be implemented in 2003. These changes are designed to promote sales of broader product offerings and to promote profitable growth.

Allstate Protection will continue to pursue profitability actions in Ivantage and the Canadian Allstate brand business during 2003.

Severity and reserve reestimates are expected to continue to be adversely affected if inflationary pressures outweigh the benefit of claim settlement initiatives.

Allstate continues to examine its expense structure for additional areas where costs may be reduced. The efficacy of these reduction efforts, however, is difficult to predict due to external factors that also impact the expense ratio. These external factors include items such as the stock market impact on pension expense, other benefit expenses and the probability of future guaranty fund assessments. Also, the efficacy of these reduction efforts may be offset by other initiatives such as increased marketing and technology expenses.

DISCONTINUED LINES AND COVERAGES SEGMENT

Overview Discontinued Lines and Coverages represents business no longer written by Allstate and includes results from asbestos, environmental and other discontinued lines exposures, and certain commercial and other businesses in run-off. Allstate has assigned management of this segment to a designated group of professionals with expertise in claims handling, policy coverage interpretation and exposure identification with respect to its discontinued businesses.

Summarized underwriting results for the years ended December 31, for the Discontinued Lines and Coverages segment are presented in the following table.

(in millions)	2002	2001	2000
Premiums earned	$ 10	$ 15	$ 3
Claims and claims expense	233	26	9
Other costs and expenses	11	12	7
Restructuring and related charges		1	1
Underwriting loss	$ (234)	$ (24)	$ (14)

During 2002, the Company's annual "ground up" review of reserves for asbestos, environmental, and other discontinued lines exposures resulted in an increase in reserves totaling $231 million, including increases for asbestos of $121 million, environmental of $26 million, other discontinued lines of $45 million, and costs of administering claim settlements and miscellaneous run-off exposures of $39 million. The cost of administering claims settlements, included in Claims and claims expense for the Discontinued Lines and Coverages segment, totaled $22 million, $18 million and $15 million for the years ended December 31, 2002, 2001 and 2000, respectively. Reserves estimates for claims incurred but not yet reported represent approximately 53.5% of total reserves.

During 2001, the Company's annual review of reserves for environmental, asbestos and other discontinued lines exposures resulted in an increase in reserves for asbestos of $94 million, offset by favorable reserve reestimates for environmental exposures of $45 million and other discontinued lines of $23 million.

See the Property-Liability Claims and Claims Expense Reserves discussion for a more detailed description of Allstate's reserving practices.

Discontinued Lines and Coverages Outlook

Allstate expects to continue to see increases in future asbestos losses. These increases are expected due to the potential adverse impact of information becoming known relating to new and additional claims, or the impact of resolving unsettled claims based on unanticipated events such as litigation, or

potential legislative, judicial and regulatory actions. Management believes because of Allstate's annual "ground up" review, reserves are appropriately established.

PROPERTY-LIABILITY INVESTMENT RESULTS

Pre-tax Net investment income decreased 5.1% in 2002 from the prior year, after decreasing 3.8% in 2001 when compared to 2000. In 2002, the decrease was due to lower portfolio yields and lower income from partnership interests, partially offset by higher portfolio balances due to cash flows from operations and investment activities. During 2002, the Company sold approximately $1 billion of the Property-Liability equity securities portfolio. The proceeds were invested in fixed income securities, also increasing Net investment income during 2002. In 2001, the decrease was due to reduced portfolio balances and lower portfolio yields. Lower portfolio balances were due to dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation, and lower cash flow from operations as a result of underwriting losses.

The following table describes the average pre-tax investment yields[1] for the year ended December 31.

	2002	2001	2000
Fixed income securities: tax-exempt	5.6%	5.7%	5.8%
Fixed income securities: tax-exempt equivalent	8.2	8.3	8.5
Fixed income securities: taxable	6.5	6.6	7.2
Equity securities	3.9	5.4	5.2

	2002	2001	2000
Mortgage loans	5.8	7.0	7.1
Total portfolio	5.6	6.0	6.2

(1)
Pre-tax yield is calculated as annualized investment income (including dividend income in the case of equity securities) divided by the average of the beginning and end of period investment balances. Amortized cost basis is used to calculate the average investment balance for fixed income securities.

After-tax realized capital losses were $314 million in 2002 compared to after-tax realized capital losses of $83 million in 2001 and after-tax net realized capital gains of $326 million in 2000. The following table describes the factors driving the realized capital gains and losses results.

(in millions)	2002	2001	2000
Investment write-downs	$ (96)	$ (81)	$ (30)
Sales	(202)	36	348
Valuation of derivative instruments	(16)	(38)	8
Total realized capital gains and losses, after-tax	$ (314)	$ (83)	$ 326

The increases in after-tax net realized capital losses related to sales in 2002 when compared to the prior year. The increase in losses on sales was primarily due to sales of equities during a volatile and declining market and an interest rate futures program which is used to manage the Property-Liability interest rate risk exposure relative to its duration target. During 2002, short futures positions were in place which reduced the Property-Liability portfolio duration by as much as 0.3 and produced a pre-tax realized loss of $195 million for the year ended December 31, 2002.

As a component of overall interest rate risk management, these realized futures losses are most appropriately considered in conjunction with the pre-tax unrealized gains on the Property-Liability fixed income portfolio. These gains totaled $1.76 billion at December 31, 2002 compared to $843 million at December 31, 2001. Viewed in the aggregate, these results best reflect the full impact of the decline in rates on portfolio values. The interest rate futures program performed as expected given the decline in interest rates and enabled the management of the interest rate exposure.

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

Investment Outlook

The Property-Liability investment portfolio relies upon positive cash flows to support investment purchases. While these cash inflows increased during 2002, the increase in invested balances was not sufficient to offset the effect of lower yields. Cash flow available for investment can be impacted by volatility in underwriting results, the level of dividends paid by AIC to The Allstate Corporation and capital contributions to Allstate Life Insurance Company ("ALIC"). The amount of cash flow available to invest directly impacts the amount of Property-Liability Net investment income.

Allstate expects to experience lower investment yields due, in part, to the reinvestment of proceeds from security prepayments, calls and maturities, and the investment of cash flows from operations, in securities yielding less than the average portfolio rate.

Net investment income is expected to have a smaller component of income from partnership interests in the future, which has historically caused volatility in Net investment income results.

ALLSTATE CANADA

Allstate Protection includes property and casualty insurance sold in Canada. The underwriting results of the Canadian business are included in the Allstate brand results. The impact to the Property-Liability results are presented separately in the following table.

(in millions, except ratios)	2002	2001	2000
Premiums written			
Standard auto	$ 295	$ 269	$ 244
Non-standard auto	104	111	91
Homeowners	69	64	60
Other	28	33	35
Total Canada	$ 496	$ 477	$ 430
Premiums earned			
Standard auto	$ 281	$ 252	$ 220
Non-standard auto	108	100	75
Homeowners	66	58	55
Other	28	31	40
Total Canada	$ 483	$ 441	$ 390
Loss ratio			
Standard auto	99.2	94.4	83.5
Non-standard auto	72.7	80.9	69.0
Homeowners	78.3	72.6	77.4
Other	81.9	72.1	77.9
Total Canada loss ratio	89.4	87.0	79.3
Canada expense ratio	25.1	27.0	30.8
Canada combined ratio	114.5	114.0	110.1

The increase in the total Canada loss ratio is related to reestimates of prior year standard auto and homeowner reserves. The following table shows the net rate changes that were approved for Allstate Canada during 2002.

	# of Jurisdictions	Weighted Average Rate Change (%)
Standard auto	5	12.2
Non-standard auto	5	9.2
Homeowners	6	5.3

PROPERTY-LIABILITY DISPOSITIONS

During 2002, the Company disposed of two non-operating companies. Because they were non-operating, there was no impact to underwriting results. During 2001, Property-Liability completed the disposition of several of its international operations, resulting in the recognition of a $40 million after-tax loss on dispositions and a $50 million tax-benefit, not previously recognized, attributable to the inception-to-date operating losses of these subsidiaries.

The underwriting results of the international business disposed of in 2001 are presented in the following table.

	2001	2000

(in millions)		
Premiums written		
Standard auto	$ 52	$ 29
Other	3	5
Total	$ 55	$ 34
Premiums earned		
Standard auto	$ 33	$ 22
Other	3	5
Total	$ 36	$ 27
Loss ratio		
Standard auto	103.4	94.1
Other	70.4	64.7
Total loss ratio	100.8	88.5
Expense ratio	152.8	288.9
Combined ratio	253.6	377.4

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Underwriting results of Property-Liability are significantly influenced by estimates of property-liability claims and claims expense reserves (see also Note 7 to the consolidated financial statements). These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR claims, as of the reporting date.

Reserves are established for claims as they occur for each line of business based on estimates of the ultimate cost to settle the claims. The actual loss results are compared to prior estimates, and differences are recorded as reserve reestimates. The primary actuarial technique used to estimate reserves and provide for losses is 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 set 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.

In the chain ladder estimation technique, a ratio (development factor) is calculated which compares current 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 times the current experience to estimate the development of losses of each accident year from the current time period into the next time period. The development factors for the next time periods for each accident year are compounded over the remaining calendar years to calculate an estimate of ultimate losses for each accident year. Occasionally, unusual aberrations in loss patterns are caused by factors such as changes in claim reporting or settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analysis of alternate development factor selections is performed to evaluate the effect on these factors, and

actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses. Paid losses are then subtracted from estimated ultimate losses to determine the indicated reserves. The difference between indicated reserves and recorded reserves is the amount of reserve reestimate.

Reserves are reestimated quarterly. When new development factors are calculated from actual losses, and they differ from estimated development factors used in previous reserve estimates, assumptions about future losses and required reserves are revised based on the new development factors. Changes to reserves are recorded in the period in which development factor changes result in reserve reestimates.

Over one-thousand actuarial estimates of the types described above are prepared each quarter to monitor losses for each line of insurance, its major components (coverages and perils), major states, or groups of states, for reported losses and for IBNR. Often, several different estimates are prepared for each detailed component, incorporating alternative analysis of changing claim settlement patterns and other influences on losses, from which reserve management selects its best estimate for each component, occasionally incorporating additional analysis and actuarial judgment, as described above. These estimates also incorporate the historical impact of inflation into reserve estimates, the implicit assumption being that a multi-year average development factor represents an adequate provision. Based on its review of these estimates, reserve management's 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 balances carried on the Company's Consolidated Statements of Financial Position.

The facts and circumstances leading to management's reestimate 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 different than that predicted by the estimated development factors used in prior reserve estimates. At December 31, 2002, the impact of a reserve re-estimation resulting in a one percent increase in the Company's net reserves would be a decrease of $98 million in Net income. A reserve re-estimation resulting in a one percent decrease in net reserves would increase Net income by $98 million.

At each reporting date, the highest degree of uncertainty in estimates of future losses (and the greatest likelihood of reserve reestimation variability) exists relative to the claims remaining to be settled from the two most recent accident years. For private passenger auto insurance, the typical annual percentage payout of reserves (estimated losses) for an accident year after the end of its first calendar year is approximately 46% in the 12 to 24 month period, 20% in the 24 to 36 month period, 14% in the 36 to 48 month period, 9% in the 48-60 month period, and the remaining 11% is paid in the years following 60 months of development. The greatest degree of uncertainty exists in the current accident year. This is because at the end of the first 12 months of the current accident year, it contains the greatest proportion of losses that have not been reported or settled, and must be estimated as of the current reporting date. Most of these losses relate to damaged property and to medical care for losses such as damaged automobiles and injuries from accidents. The settlement of losses in the subsequent 12 to 24 month period is very significant because a large portion of the total losses of an accident year (approximately 46% of the remainder to be paid) are settled in this period. Losses paid subsequently typically relate to claims that are more difficult to settle such as serious injuries or litigation. After incorporating the results that occur in this time frame into updated detailed actuarial estimates for each component (state, line, coverage, etc.), the trends inherent in the settlement of claims emerge more clearly, and larger reestimates tend to occur than those that must be made in subsequent periods.

For similar reasons, the first prior accident year has greater uncertainty associated with its reserve estimates. The degree of uncertainty and potential variability of reserve reestimates for an accident year diminishes over time as a greater proportion of its losses are settled.

The table below shows net reserves as of December 31, 2002, 2001 and 2000 for Allstate brand, Ivantage and Discontinued Lines and Coverages lines of business.

(in millions)	**2002**	**2001**	**2000**
Allstate brand	$ 12,361	$ 12,092	$ 12,324
Ivantage	1,227	1,247	1,277
Total Allstate Protection	$ 13,588	$ 13,339	$ 13,601
Discontinued Lines and Coverages	1,430	1,494	1,624
Total Property-Liability	$ 15,018	$ 14,833	$ 15,225

The table below shows net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2000 through 2002 and the effect of reestimates in each year.

	2002	**2001**	**2000**

(in millions)	2002 Jan 1 Reserves	2002 Reserve Reestimate	2001 Jan 1 Reserves	2001 Reserve Reestimate	2000 Jan 1 Reserves	2000 Reserve Reestimate
Allstate brand	$ 12,092	$ 386	$ 12,324	$ 226	$ 13,076	$ (776)
Ivantage	1,247	68	1,277	90	1,212	45
Total Allstate Protection	$ 13,339	$ 454	$ 13,601	$ 316	$ 14,288	$ (731)
Discontinued Lines and Coverages	1,494	231	1,624	26	1,873	9
Total Property-Liability	$ 14,833	$ 685	$ 15,225	$ 342	$ 16,161	$ (722)

The impact of these reestimates on the Consolidated Statements of Operations is shown in the table below.

(in millions)	2002	2001	2000
Reserve reestimates (after-tax)	$ (445)	$ (222)	$ 469
Net income	1,134	1,158	2,211
Reserve reestimates as a % of Net income	(39.2)%	(19.2)%	21.2%

Allstate Protection

The table below shows net reserves as of December 31, 2002, 2001 and 2000 for the Allstate Protection lines of business.

(in millions)	2002	2001	2000
Auto	$ 10,378	$ 10,339	$ 10,829
Homeowners	1,664	1,488	1,315
Other Lines	1,546	1,512	1,457
Total Allstate Protection	$ 13,588	$ 13,339	$ 13,601

The table below shows Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2000 through 2002 and the effect of reestimates in each year.

(in millions)	2002 Jan 1 Reserves	2002 Reserve Reestimate	2001 Jan 1 Reserves	2001 Reserve Reestimate	2000 Jan 1 Reserves	2000 Reserve Reestimate
Auto	$ 10,339	$ 44	$ 10,829	$ (85)	$ 11,263	$ (600)
Homeowners	1,488	367	1,315	415	1,329	(112)
Other Lines	1,512	43	1,457	(14)	1,696	(19)
Total Allstate Protection	$ 13,339	$ 454	$ 13,601	$ 316	$ 14,288	$ (731)

The impact of these reestimates on the Allstate Protection Underwriting income (loss) is shown in the table below.

(in millions)	2002	2001	2000
Reserve reestimates	$ (454)	$ (316)	$ 731
Allstate Protection Underwriting income (loss)	497	(627)	187

(in millions)	2002	2001	2000
Reserve reestimates as a % of Allstate Protection Underwriting income (loss)	(91.3)%	50.4%	%

Increased auto reserve reestimates in 2002, primarily due to increasing severity trends for automobile repair and medical costs of $55 million for Ivantage operations and $17 million for Canadian operations were offset by reduced reserve reestimates for the Allstate brand. In 2001, auto reserve reestimates for the Allstate brand were a reduction of reserves totaling $361 million. The reduction was not as favorable as the impact of auto reserve reestimates in 2000 due to a reduced level of favorable severity trends when compared to the prior year. The favorable impact of Allstate brand auto reserve reestimates was largely offset by a $110 million greater volume of late reported unusual weather-related losses than expected from the end of the year 2000 which was reported in the year 2001, adverse results of class action and other litigation totaling $105 million, and increased reestimates of losses reported in prior years for the Ivantage and Canadian businesses totaling $42 million and $24 million respectively. Reserve reestimates due to class action and other litigation in 2001 were due to settlement of class action lawsuits related to diminished value coverage in Georgia, for uninsured motorists coverage in Alaska, and personal injury protection coverage in Pennsylvania, and for settlement of extra-contractual litigation related to bodily injury coverage in Florida. Favorable reserve reestimates for the Allstate brand in 2001 and 2000 resulted from lower severity of claim settlements than those expected in reserve estimates at the beginning of each year. This reestimate was primarily due to lower costs of auto injury claims, which represent approximately 80% of reserves. Favorable injury severity trends were largely due to more moderate medical cost inflation and the mitigating effects of the Company's loss management programs.

The impacts of more moderate medical cost inflation have emerged over time as actual claim settlements validate its magnitude. Beginning in the early 1990s, lower medical cost inflation rates, as evidenced by the consumer price index ("CPI") published by the Bureau of Labor Statistics for medical costs, have contributed to lower actual claim settlements than prior estimates. From 1991 through 1995, the medical CPI averaged 6.3%, and from 1996 through 2000, the average declined to 3.4%. The medical CPI is considered a viable indicator of the direction of injury claim costs because it is a measure of the change in various costs for medical services and supplies, including doctors' fees, emergency care, therapy and rehabilitation, and pharmaceuticals, all of which are covered claims for insureds. In 2002, the medical CPI increased to 4.7%, and most recent economic forecasts anticipate further increases in medical inflation. If this occurs, future reserve reestimates could be adversely impacted if actual results exceed reserve estimates.

The Company's loss management programs, called Claims Core Process Redesign ("CCPR"), have had a mitigating effect in a variety of aspects on injury severity trends. Since 1993, the Allstate brand has been improving its claim adjudication processes by implementing programs to accomplish better investigation of claims, consistent handling of soft tissue injury claims, more accurate valuation of damages, and more effective negotiation and defense practices. These improvements have also involved hiring additional staff, providing increased training, creating specialized units of expert employees to handle specific types of claims, and focusing attention and resources on handling specific types of claims such as soft tissue injury claims, claims with attorney involvement, and claims in litigation. These programs were intended to create an improved culture, focused on expert, efficient, and effective claim process management. Since 1993, growth of Allstate's injury claim costs has compared favorably to published insurance industry competitor results. This experience is substantially due to the claim adjudication process improvements, and is an additional factor contributing to reductions in reserve estimates. While changes to the claim settlement process have mitigated increases in severity trends on closed claims, these changes can impact historical patterns of losses, introducing a greater degree of statistical variability in actuarial reserve estimates for the remaining outstanding claims.

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The preceding 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 that 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.

Increased homeowners reserve reestimates in 2002 were primarily due to claim severity and late reported losses that were greater than the level anticipated in previous reserve estimates. This resulted in reserve reestimates including $78 million related to IBNR, $95 million related to claim severity and $169 million related to mold claims in Texas. In addition, reserves were increased $25 million for settlement of losses remaining from the 1994 Northridge earthquake. In March 2002, a new Texas homeowner policy form was implemented that restricted mold coverage from what had been provided by a previous broad state-mandated policy form. As a result, coverage provided and the incidence of losses for mold diminished in the second half of the year. Reserve reestimates in 2002 for the 1994 Northridge earthquake losses were to provide for higher than anticipated losses resulting from settlement of class action litigation and due to greater than expected additional losses and expenses caused by coverage afforded due to the passage of California's Senate Bill 1899 in 1999.

Increased homeowner reserve reestimates in 2001 were primarily due to $118 million of greater late reported unusual weather-related losses than expected from the end of the year 2000 which was reported in the year 2001, increases to severity of homeowners losses reported in prior years totaling $172 million, and $125 million for settlement of losses remaining from the 1994 Northridge earthquake. Reserve reestimates in 2001 for the 1994 Northridge earthquake losses were to provide for higher than anticipated losses resulting from settlement of class action litigation and due to greater than expected additional losses and expenses caused by coverage afforded due to the passage of California's Senate Bill 1899 in 1999.

Reserve reestimates for the Allstate Protection other lines of insurance in 2002, 2001 and 2000 were primarily the result of claim severity due to influences similar to those responsible for the Auto and Homeowners products.

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

Number of Claims	**2002**	**2001**	**2000**
Auto			
Pending, beginning of year	684,324	742,185	704,954
New	5,973,807	6,530,027	6,642,101
Total closed	(6,022,827)	(6,587,888)	(6,604,870)
Pending, end of year	635,304	684,324	742,185
Homeowners			
Pending, beginning of year	87,743	91,918	70,753
New	966,023	1,081,649	1,039,809
Total closed	(966,708)	(1,085,824)	(1,018,644)
Pending, end of year	87,058	87,743	91,918
Other lines			
Pending, beginning of year	53,851	56,457	55,843
New	386,453	428,269	426,027
Total closed	(387,187)	(430,875)	(425,413)
Pending, end of year	53,117	53,851	56,457
Total Allstate Protection			
Pending, beginning of year	825,918	890,560	831,550
New	7,326,283	8,039,945	8,107,937
Total closed	(7,376,722)	(8,104,587)	(8,048,927)
Pending, end of year	775,479	825,918	890,560

Management believes 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, Ivantage and Discontinued Lines and Coverages lines of business. Favorable reserve reestimates are shown in these tables in parenthesis.

2002 Prior year reserve reestimates

(in millions)	1992 & Prior	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total

Allstate brand	$ (3)	$ (6)	$ 25	$ 4	$ 1	$ (14)	$ (4)	$ 2	$ 57	$ 324	$ 386
Ivantage								17	23	28	68
Total Allstate Protection	(3)	(6)	25	4	1	(14)	(4)	19	80	352	454
Discontinued Lines and Coverages	231										231
Total Property-Liability	$ 228	$ (6)	$ 25	$ 4	$ 1	$ (14)	$ (4)	$ 19	$ 80	$ 352	$ 685

2001 Prior year reserve reestimates

(in millions)	1991 & Prior	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Allstate brand	$ (135)	$ (9)	$ 2	$ 111	$ 2	$ (3)	$ (9)	$ (60)	$ (21)	$ 348	$ 226
Ivantage									(13)	103	90
Total Allstate Protection	(135)	(9)	2	111	2	(3)	(9)	(60)	(34)	451	316
Discontinued Lines and Coverages	26										26
Total Property-Liability	$ (109)	$ (9)	$ 2	$ 111	$ 2	$ (3)	$ (9)	$ (60)	$ (34)	$ 451	$ 342

2000 Prior year reserve reestimates

(in millions)	1990 & Prior	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Allstate brand	$ 71	$ (26)	$ (11)	$ (40)	$ (36)	$ (125)	$ (104)	$ (103)	$ (103)	$ (299)	$ (776)
Ivantage									3	42	45
Total Allstate Protection	71	(26)	(11)	(40)	(36)	(125)	(104)	(103)	(100)	(257)	(731)
Discontinued Lines and Coverages	9										9
Total Property-Liability	$ 80	$ (26)	$ (11)	$ (40)	$ (36)	$ (125)	$ (104)	$ (103)	$ (100)	$ (257)	$ (722)

Allstate brand

The Allstate brand experienced $386 million of unfavorable prior year reserve reestimates in 2002. This was primarily due to $338 million of homeowners reestimates resulting from claim severity development and late reported losses that were greater than what was anticipated in previous reserve estimates, including $169 million related to mold claims in Texas, and $25 million for settlement of losses remaining from the 1994 Northridge earthquake. Reestimates of reserves from prior years for the auto and other businesses were about $48 million for the year, of which $20 million was for Canadian business reserves. These reestimates were primarily due to increasing inflationary pressures on auto severities and for some of the small non-auto products.

Reserve reestimates for the Allstate brand claims in 2001 included a $348 million increase in the 2000 accident year losses offset by a $122 million net favorable reestimates for all prior years. Approximately $197 million of unfavorable reestimates for 2000 accident year losses was the result of unusually bad weather experienced at year-end 2000, coupled with an unanticipated number of late reported claims. The remainder of the 2000 accident year loss reestimate was primarily attributable to increased severity for homeowner losses including mold-related losses in Texas. For accident years prior to 2000, the net reestimate of $122 million included $125 million of adverse reestimates for

Northridge-related losses and $105 million of other litigation-related adverse reestimates, offset by favorable reestimates.

For the Allstate brand, reserve reestimates in 2000 resulted in favorable reestimates due to lower severity of claim settlements than those expected in reserve estimates at the beginning of each year. This reestimate was primarily due to lower costs of auto injury claims, which represent approximately 80% of reserves. Favorable injury severity trends were largely due to more moderate medical cost inflation and the mitigating effects of the Company's loss management programs. There were only insignificant areas of unfavorable reestimates in 2000 within components of major lines of business, which were included in the net favorable reestimate.

The preceding 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 that 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 (loss) is shown in the table below.

(in millions)	**2002**	**2001**	**2000**
Reserve reestimates	$ (386)	$ (226)	$ 776
Allstate brand Underwriting income (loss)	681	(298)	501
Reserve reestimates as a % of Underwriting income (loss)	(56.7)%	75.8%	154.9%

Ivantage

Reserve reestimates in 2002, 2001, and 2000 were related to higher than anticipated claim settlement costs for auto and homeowner claims. In 2001, adverse reestimates also resulted from unusually bad weather experienced at year-end 2000 coupled with an unanticipated number of late reported claims.

The impact of these reestimates on the Ivantage Underwriting (loss) income is shown in the table below.

(in millions)	**2002**	**2001**	**2000**
Reserve reestimates	$ (68)	$ (90)	$ (45)
Ivantage Underwriting (loss) income	(184)	(329)	(314)