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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Registrant meets the conditions set forth in General Instruction H (1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

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

Commission file number: 0-31248

ALLSTATE LIFE INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

Illinois (State of Incorporation)	**36-2554642** (I.R.S. Employer Identification No.)
3100 Sanders Road **Northbrook, Illinois** (Address of principal executive offices)	**60062** (Zip code)

Registrant's telephone number, including area code: **847/402-5000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

As of July 31, 2003, the registrant had 23,800 common shares, $227 par value, outstanding, all of which are held by Allstate Insurance Company.

ALLSTATE LIFE INSURANCE COMPANY
INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2003

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
	(Unaudited)		**(Unaudited)**	
Revenues				
Premiums	$ 204	$ 266	$ 521	$ 497
Contract charges	219	217	428	430
Net investment income	762	742	1,525	1,452
Realized capital gains and losses	(42)	(32)	(87)	(117)
	1,143	1,193	2,387	2,262
Costs and expenses				
Contract benefits	378	391	845	736
Interest credited to contractholder funds	440	418	872	814
Amortization of deferred policy acquisition costs	85	105	257	192
Operating costs and expenses	118	120	239	228
	1,021	1,034	2,213	1,970
Income from operations before income tax expense	122	159	174	292
Income tax expense	37	52	50	98
Net income	$ 85	$ 107	$ 124	$ 194

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions, except par value data)	**June 30, 2003**	**December 31, 2002**
	(Unaudited)	
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $45,521 and $41,723)	$ 49,868	$ 44,805
Mortgage loans	6,110	5,883
Equity securities	160	183
Short-term	1,654	839
Policy loans	683	692
Other	308	268
Total investments	58,783	52,670
Cash	400	252
Deferred policy acquisition costs	2,765	2,915
Reinsurance recoverables, net	1,114	1,061
Accrued investment income	557	534

Other assets		384		289
Separate Accounts		11,823		11,125
Total assets	$	75,826	$	68,846
Liabilities				
Contractholder funds	$	41,393	$	38,858
Reserve for life-contingent contract benefits		10,525		9,747
Unearned premiums		9		10
Payable to affiliates, net		189		80
Other liabilities and accrued expenses		4,195		1,956
Deferred income taxes		905		708
Separate Accounts		11,823		11,125
Total liabilities		69,039		62,484
Commitments and Contingent Liabilities (Note 3)				
Shareholder's Equity				
Redeemable preferred stock—series A, $100 par value, 1,500,000 shares authorized, 851,830 and 930,650 shares issued and outstanding		85		93
Common stock, $227 par value, 23,800 shares authorized and outstanding		5		5
Additional capital paid-in		1,067		1,067
Retained income		4,199		4,145
Accumulated other comprehensive income:				
Unrealized net capital gains and losses and net gains and losses on derivative financial instruments		1,431		1,052
Total accumulated other comprehensive income		1,431		1,052
Total shareholder's equity		6,787		6,362
Total liabilities and shareholder's equity	$	75,826	$	68,846

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,			
(in millions)		2003		2002
	(Unaudited)			
Cash flows from operating activities				
Net income	$	124	$	194
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization and other non-cash items		(83)		(104)
Realized capital gains and losses		87		117
Interest credited to contractholder funds		872		814
Changes in:				
Contract benefit and other insurance reserves		42		9
Unearned premiums		(1)		1
Deferred policy acquisition costs		(83)		(113)
Reinsurance recoverables		(55)		(54)
Income taxes payable		33		8
Other operating assets and liabilities		242		49
Net cash provided by operating activities		1,178		921
Cash flows from investing activities				
Proceeds from sales				
Fixed income securities		3,803		3,454
Equity securities		50		38
Investment collections				
Fixed income securities		2,283		1,909
Mortgage loans		275		259
Investment purchases				

Fixed income securities	(9,328)	(8,575)
Equity securities	(20)	(90)
Mortgage loans	(479)	(339)
Change in short-term investments, net	521	(280)
Change in other investments, net	(44)	(58)
Net cash used in investing activities	(2,939)	(3,682)
Cash flows from financing activities		
Increase in short-term borrowings	95	—
Proceeds from (redemption) issuance of redeemable preferred stock	(8)	14
Capital contributions	—	150
Contractholder fund deposits	4,303	4,629
Contractholder fund withdrawals	(2,480)	(1,932)
Dividends paid	(1)	(45)
Net cash provided by financing activities	1,909	2,816
Net increase in cash	148	55
Cash at beginning of the period	252	130
Cash at end of period	$ 400	$ 185

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (together with ALIC, the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation").

The condensed consolidated financial statements and notes as of June 30, 2003, and for the three-month and six-month periods ended June 30, 2003 and 2002, are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

In 2003, the Company changed the structure of its internal organization in a manner that caused the composition of its reportable segments to change. The resulting single segment of the Company is defined based upon the manner in which financial information is used internally to evaluate performance and determine the allocation of resources.

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities, totaled $34 million and $78 million for the six months ended June 30, 2003 and 2002, respectively.

In June 2003, the Company paid a $69 million dividend of investment securities to AIC.

Pending accounting standards

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities". FIN 46 addresses issues related to the consolidation of variable interest entities ("VIEs"). The effective date of this interpretation is the first fiscal year or interim period beginning after June 15, 2003. The Company has one unconsolidated special purpose entity ("SPE") and one consolidated SPE that fall within the scope of FIN 46. The unconsolidated SPE is used to issue Global Medium Term Notes ("GMTNs") to unrelated third parties. The consolidated SPE is used to issue Euro Medium Term Notes ("EMTNs"). The SPE used to issue GMTNs will likely not require consolidation as described below. The Company believes the SPE currently consolidated under existing authoritative accounting guidance will be deconsolidated under FIN 46 as described below.

ALIC issues funding agreements to the SPE (which the Company believes would be considered a VIE under FIN 46) used to issue GMTNs to unrelated third parties. The Company believes the GMTNs and certain equity interests issued by the SPE, to the extent they are exposed to all the risks and rewards of the funding agreements that collateralize the GMTNs, would be considered variable interests in a VIE. Applying the FIN 46 consolidation model, any entity exposed to a majority of the residual risks or possessing rights to a majority of the residual returns of the VIE is required to consolidate the entity. Because the Company owns none of the variable interests issued by the VIE it should not be required to consolidate the SPE but rather would continue to classify funding agreements issued to the VIE as a component of Contractholder funds. The same FIN 46 consolidation determination will apply to the Company's EMTN program as of July 1, 2003, and consistent with the GMTN program, will result in the deconsolidation of the EMTNs and recognition of the funding agreements issued to the VIE as a component of Contractholder funds, which is equivalent to the existing accounting for this program.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". The statement amends, clarifies and codifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and utilized for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The statement applies only to certain derivative contracts and embedded derivatives entered into after June 30, 2003. The impact of adopting those provisions of the statement will not be material to the Company's Consolidated Statements of Operations or Financial Position.

In July 2003, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-01 entitled "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". The accounting guidance contained in the SOP applies to several of the Company's insurance products and product features. The effective date of the SOP is for fiscal years beginning after December 15, 2003, with earlier adoption encouraged. If adopted early, the provisions of the SOP must be applied as of the beginning of the fiscal year. Accordingly, if the SOP were adopted during an interim period of 2003, prior interim periods would be restated. A provision of the SOP requires the establishment of a liability in addition to the account balance for contracts and contract features that provide guaranteed death or other insurance benefits and guaranteed income benefits. These liabilities are not currently recognized by the Company, and their establishment may have a material impact on the Condensed Consolidated Statements of Operations depending on the market conditions at the time of adoption, but is not expected to have a material impact on the Company's Condensed Consolidated Statements of Financial Position.

Proposed standards

The Emerging Issues Task Force ("EITF") issued Topic No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which attempts to define other-than-temporary impairment and highlight its application to investment securities accounted for under both SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stocks". The current issue summary, which has yet to be finalized, proposes that if, at the evaluation date, the fair value of an investment security is less than its carrying value then an impairment exists for which a determination must be made as to whether that impairment is other-than-temporary. If it is determined that an impairment is other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's carrying value and its fair value at the reporting date. In its most recent deliberations, the EITF discussed different models to assess whether impairment is other-than-temporary for different types of investments (e.g. SFAS 115 marketable equity securities, SFAS 115 debt securities, and equity and cost method investments subject to APB Opinion No. 18). Due to the uncertainty of the final model or models that may be adopted, the estimated impact to the Company's Condensed Consolidated Statements of Operations and Financial Position is presently not determinable.

2. Reinsurance

The Company purchases reinsurance to limit aggregate and single losses on large risks. The Company follows a comprehensive evaluation process involving credit scoring and capacity to select reinsurers. The Company continues to have primary liability as the direct insurer for risks reinsured. Estimating amounts of reinsurance recoverable is impacted by the uncertainties involved in the

establishment of loss reserves. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company cedes a portion of the mortality risk on certain term life policies with a pool of non-affiliated reinsurers.

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. No single reinsurer had a material obligation to the Company nor is the Company's business substantially dependent upon any reinsurance contract.

The effects of reinsurance on premiums are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Premiums				
Direct	$ 284	$ 331	681	$ 629
Assumed				
Affiliate	4	9	8	18
Non-affiliate	21	20	42	37
Ceded—non-affiliate	(105)	(94)	(210)	(187)
Premiums, net of reinsurance	$ 204	$ 266	521	$ 497

The effects of reinsurance on contract benefits are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Contract benefits				
Direct	$ 453	$ 461	983	$ 898

Assumed				
Affiliate	2	4	2	9
Non-affiliate	10	12	20	20
Ceded				
Non-affiliate	(87)	(86)	(160)	(191)
Contract benefits, net of reinsurance	$ 378	$ 391	845	$ 736

3. Regulation, Legal Proceedings and Guarantees

Regulation

The Company is subject to changing social, economic and regulatory conditions. State and federal regulatory initiatives and proceedings have varied and have included efforts to remove barriers preventing banks from engaging in the securities and insurance businesses, to change tax laws affecting the taxation of insurance companies and the tax treatment of insurance products which may impact the relative desirability of various personal investment products and to expand overall regulation. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Legal proceedings

Legal proceedings involving Allstate agencies and AIC may impact the Company, even when the Company is not directly involved, because the Company sells its products through a variety of

distribution channels including Allstate agencies. Consequently, information about the more significant of these proceedings is provided below.

AIC is defending various lawsuits involving worker classification issues. Examples of these lawsuits include a number of putative class actions challenging the overtime exemption claimed by AIC under the Fair Labor Standards Act or state wage and hour laws. These class actions mirror similar lawsuits filed recently against other carriers in the industry and other employers. Another example involves the worker classification of staff working in agencies. In this putative class action, plaintiffs seek damages under the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act alleging that agency secretaries were terminated as employees by AIC and rehired by agencies though outside staffing vendors for the purpose of avoiding the payment of employee benefits. A putative nationwide class action filed by former employee agents also includes a worker classification issue; these agents are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. AIC has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

AIC is also defending certain matters relating to its agency program reorganization announced in 1999. These matters include an investigation by the U.S. Department of Labor and a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") with respect to allegations of retaliation under the Age Discrimination in Employment Act, the Americans with Disabilities Act and Title VII of the Civil Rights Act of 1964. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, breach of contract and age discrimination. AIC has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, AIC is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the EEOC with respect to allegations of age discrimination and retaliation. AIC is cooperating fully with the agency investigation and will continue to vigorously defend these and other claims related to the life agency program reorganization. The outcome of these disputes is currently uncertain.

The Company is defending various lawsuits and regulatory proceedings that allege that it engaged in business or sales practices inconsistent with state or federal law. The Company has been vigorously defending these matters but their outcome is currently uncertain.

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

Guarantees

The Company owns certain fixed income securities which contain credit default swaps or credit guarantees which contain obligations to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event of a specified credit event, the Company's maximum amount at risk, assuming the value of the referenced credits become worthless, is $112 million at June 30, 2003. The credit default swaps and credit guarantees contained in these fixed income securities expire at various times during the next four years.

Lincoln Benefit Life Company ("LBL"), a wholly owned subsidiary of ALIC has issued universal life insurance contracts to third parties who finance the premium payments on the universal life insurance contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance which is fully collateralized by the cash surrender value of the universal life insurance contracts. At June 30, 2003, the amount due under the commercial paper program is $299 million and the cash surrender value of the policies is $306 million. The repayment guarantee expires April 30, 2006.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Because the obligated amounts of the indemnifications are not explicitly stated in many cases, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

In addition, the Company and its subsidiaries indemnify their respective directors, officers and other individuals serving at the request of the Company as a director or officer or in a similar capacity in another entity to the extent provided in their charters and by-laws. Since these indemnifications are generally not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount due under these indemnifications.

The aggregate liability balance related to all guarantees was not material as of June 30, 2003.

4. Other Comprehensive Income

The components of other comprehensive income on a pretax and after-tax basis are as follows:

	Three months ended June 30,					
	2003			2002		
(in millions)	Pretax	Tax	After-tax	Pretax	Tax	After-tax
Unrealized net capital gains and losses and net gains and losses on derivative financial instruments						
Unrealized holding gains (losses) arising during the period	$ 391	$ (137)	$ 254	$ 134	$ (47)	$ 87
Less: reclassification adjustments	(43)	15	(28)	39	(14)	25
Unrealized net capital gains (losses)	434	(152)	282	95	(33)	62
Net gains (losses) on derivative financial instruments arising during the period	—	—	—	(3)	1	(2)
Less: reclassification adjustments	(1)	—	(1)	—	—	—
Net gains (losses) on derivative financial instruments	(1)	—	(1)	(3)	1	(2)
Other comprehensive income (loss)	$ 433	$ (152)	281	$ 92	$ (32)	60
Net income			85			107
Comprehensive income			$ 366			$ 167

The components of other comprehensive income on a pretax and after-tax basis are as follows:

	Six months ended June 30,					
	2003			2002		
(in millions)	Pretax	tax	After-Tax	Pretax	Tax	After-tax
Unrealized net capital gains and losses and net gains and losses on derivative financial instruments						
Unrealized holding gains (losses) arising during the period	$ 486	$ (170)	$ 316	$ 174	$ (61)	$ 113
Less: reclassification adjustments	(99)	35	(64)	120	(42)	78
Unrealized net capital gains (losses)	585	(205)	380	54	(19)	35
Net gains (losses) on derivative financial instruments arising during the period	—	—	—	(3)	1	(2)
Less: reclassification adjustments	(1)	—	(1)	—	—	—
Net gains (losses) on derivative financial instruments	(1)	—	(1)	(3)	1	(2)
Other comprehensive income (loss)	$ 584	$ (205)	379	$ 51	$ (18)	33
Net income			124			194

Comprehensive income	$ 503	$ 227

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Shareholder of
Allstate Life Insurance Company:

We have reviewed the accompanying condensed consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries (the "Company", an affiliate of The Allstate Corporation) as of June 30, 2003, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2003 and 2002, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2003 and 2002. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries as of December 31, 2002, and the related consolidated statements of operations and comprehensive income, shareholder's equity, and cash flows for the year then ended, not presented herein. In our report dated February 5, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois
August 14, 2003

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

The following discussion highlights significant factors influencing results of operations and changes in financial position of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (together with ALIC, the "Company"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of the Allstate Life Insurance Company Annual Report on Form 10-K for 2002.

In 2003, the Company changed the structure of its internal organization in a manner that caused the composition of its reportable segments to change. Accordingly, the Company has restated prior periods to conform to this change. The resulting single segment of the Company is defined based upon the manner in which financial information is used internally to evaluate performance and determine the allocation of resources.

HIGHLIGHTS

- Net income decreased $22 million or 20.6% in the second quarter of 2003 to $85 million from $107 million in the second quarter of 2002 due to reduced mortality and investment margins partly offset by lower amortization of deferred policy acquisition costs ("DAC"). Net income decreased $70 million or 36.1% in the first six months of 2003 to $124 million compared to the first six months of 2002 due to a lower mortality margin and accelerated amortization of DAC totaling $53 million after-tax and other contractual arrangements, partially offset by lower realized capital losses.

- Investments increased $6.11 billion or 11.6% compared to December 31, 2002, comprised of $4.85 billion due to positive cash flows from fixed annuity and institutional product deposits and increased securities lending and dollar roll program activity, and $1.26 billion due to unrealized net capital gains on fixed income securities.

- Separate Accounts assets increased 6.3% as of June 30, 2003 compared to December 31, 2002 due primarily to improved equity market performance and new deposits, partially offset by surrenders.

CONSOLIDATED NET INCOME

Summarized financial data and key operating measures are presented in the following table.

	Three Months Ended	Six Months Ended

(in millions)	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Premiums	$ 204	$ 266	$ 521	$ 497
Contract charges	219	217	428	430
Net investment income	762	742	1,525	1,452
Contract benefits	(378)	(391)	(845)	(736)
Interest credited to contractholder funds	(440)	(418)	(872)	(814)
Amortization of DAC	(73)	(95)	(232)	(188)
Operating costs and expenses	(118)	(120)	(239)	(228)
Income tax expense	(56)	(66)	(90)	(140)
Realized capital gains and losses, after-tax(1)	(35)	(28)	(72)	(79)
Net income	$ 85	$ 107	$ 124	$ 194
Investments	58,783	49,639	58,783	49,639
Separate Accounts assets	11,823	12,655	11,823	12,655
Investments, including Separate Accounts assets	$ 70,606	$ 62,294	$ 70,606	$ 62,294

(1) Realized capital gains and losses are reconciled in the table on page 18.

CONSOLIDATED REVENUES

(in millions)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Premiums	$ 204	$ 266	$ 521	$ 497
Contract charges	219	217	428	430
Net investment income	762	742	1,525	1,452
Realized capital gains and losses	(42)	(32)	(87)	(117)
Total consolidated revenues	$ 1,143	$ 1,193	$ 2,387	$ 2,262

Total consolidated revenues decreased 4.2% in the second quarter of 2003 compared to the second quarter of 2002. The decrease was due to lower Premiums partly offset by increased Net investment income. Total consolidated revenues increased 5.5% in the first six months of 2003 compared to the first six months of 2002. The increase was due to higher Net investment income, decreased net realized capital losses and increased Premiums.

OPERATIONS

Premiums included in the Condensed Consolidated Statements of Operations, represent premiums generated from traditional life and other insurance products and immediate annuities with life contingencies which have significant mortality or morbidity risk.

Contract charges are generated from interest-sensitive life products, variable annuities, fixed annuities and other investment products for which deposits are classified as Contractholder funds or Separate Accounts liabilities. Contract charges are assessed against the contractholder account balance for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

The following table summarizes Premiums and Contract charges.

(in millions)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Premiums				
Life insurance				
Traditional life	$ 96	$ 103	$ 187	$ 197
Other	40	57	83	114
Total life insurance	136	160	270	311
Annuities				
Fixed annuities—immediate annuities with life contingencies	68	106	251	186
Total annuities	68	106	251	186

Total Premiums	204	266	521	497
Contract charges				
Life insurance				
Interest-sensitive life	154	151	304	299
Other	1	2	3	3
Total life insurance	155	153	307	302
Annuities				
Fixed annuities—deferred	6	4	9	8
Fixed annuities—immediate annuities without life contingencies	5	4	9	8
Variable annuities	50	56	97	109
Total annuities	61	64	115	125
Institutional products	3	—	6	3
Total Contract charges	219	217	428	430
Total Premiums and Contract charges	$ 423	$ 483	$ 949	$ 927

Total Premiums decreased 23.3% to $204 million in the second quarter of 2003 from $266 million in the second quarter of 2002. The decline is due to lower sales of immediate annuities with life contingencies, the discontinuance of direct-marketed credit life insurance and reduced traditional whole life premiums due to lower business in force. The decline in sales of immediate annuities with life contingencies is due to consumer preference and market and competitive conditions that drive the level and mix of immediate annuities sold with or without life contingencies.

Total Contract charges were $219 million in the second quarter of 2003 compared to $217 million in the second quarter of 2002. Higher interest-sensitive life insurance contract charges offset a decline in variable annuities. Variable annuity average account values during the second quarter of 2003 were lower than the average account values during the second quarter of 2002, as poor equity market performance during the prior year and surrenders offset growth from new business.

For the first six months of 2003, Premiums and Contract charges increased 2.4% compared to the first six months of 2002. The increase is due to increased sales of immediate annuities, partially offset by the discontinuance of direct-marketed credit life insurance and a decline in traditional whole life insurance premiums due to lower business inforce.

The following table summarizes Premiums and Contract charges by distribution channel.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Premiums				
Allstate agencies	$ 56	$ 58	$ 109	$ 113
Specialized brokers	68	107	251	187
Independent agents	7	15	14	27
Direct marketing	73	86	147	170
Total Premiums	204	266	521	497
Contract charges				
Allstate agencies	108	110	217	216
Specialized brokers	9	4	16	12
Independent agents	56	51	105	101
Financial services firms (financial institutions and broker/dealers)	46	52	90	101
Total Contract charges	219	217	428	430
Total Premiums and Contract charges	$ 423	$ 483	$ 949	$ 927

Policy and contractholder obligations, included on the Condensed Consolidated Statements of Financial Position, reflect the trends in the Company's product deposits and sales of insurance products. The following table shows the balances of these obligations.

June 30,	December 31,	June 30,	December 31,

(in millions)		2003		2002		2002		2001
Reserve for life-contingent contract benefits	$	10,525	$	9,747	$	8,834	$	8,632
Contractholder funds		41,393		38,858		35,795		32,301
Separate Accounts		11,823		11,125		12,655		13,587

The following table shows changes in these obligations.

	Change from March 31 to June 30,				Change from prior year-end to June 30,			
(in millions)		2003		2002		2003		2002
Reserve for life-contingent contract benefits	$	487	$	250	$	778	$	202
Contractholder funds		1,513		2,020		2,535		3,494
Separate Accounts		1,270		(1,144)		698		(932)

Reserve for life-contingent contract benefits increased at a higher rate in the second quarter of 2003 and the first six months of 2003 compared to the same periods in the prior year primarily due to sales of immediate annuities with life contingencies, partially offset by benefit payments.

Contractholder funds increased at a lower rate in the second quarter of 2003 and the first six months of 2003 compared to the same periods in the prior year primarily due to lower deposits and higher maturities of funding agreements backing medium term notes, partially offset by higher deposits from fixed annuities. Deposits from funding agreements backing medium term notes reflect management's assessment of market conditions and are only pursued when profit expectations can be met, therefore the level of deposits fluctuates significantly from period to period. The increase in Contractholder funds due to fixed annuities reflects deposits and interest credited to contracts, partially

offset by surrenders and maturities of in-force contracts during both periods. Fixed annuities include the Allstate® Treasury-Linked Annuity and, although management constrained deposits of the Allstate® Treasury-Linked Annuity due to the low interest rate environment, deposits in the second quarter of 2003 were comparable to the first quarter of 2003. The Allstate® Treasury-Linked Annuity was introduced late in the first quarter of 2002, resulting in significant increases in deposits during 2003 relative to the prior year.

Separate Accounts increased in the second quarter of 2003 and in the first six months of 2003 after declining in the comparable periods last year. These increases were due to favorable equity market performance compared to the prior year and variable annuity deposits, partially offset by surrenders and withdrawals. The level of variable annuity deposits declined in both periods when compared to prior year, reflecting consumers' preferences for fixed rate guarantees over variable annuities during this period of uncertain equity market performance. The ongoing introduction of the Allstate® Advisor Variable annuity suite of products and the improved equity market performance in the second quarter of 2003 have resulted in six sequential monthly increases in variable annuity deposits in 2003. Monthly variable annuity deposits are now at a level comparable to the end of the second quarter of last year.

Net investment income increased 2.7% in the second quarter and 5.0% in the first six months of 2003 compared to the same periods last year. The increase in both periods was due to higher portfolio balances resulting from positive cash flows from product sales and deposits, partially offset by lower portfolio yields. Lower portfolio yields result when new investments are made at rates lower than the current portfolio yields reflecting the low interest rate environment. The portfolio balance as of June 30, 2003, excluding assets invested in Separate Accounts and unrealized net capital gains on fixed income securities, increased 13.5% from June 30, 2002.

Analysis of net income is presented in the following table.

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		2003		2002		2003		2002
Investment margin	$	193	$	203	$	397	$	396
Mortality margin		75		104		163		226
Maintenance charges		81		89		160		170
Surrender charges		18		20		37		37
Amortization of DAC		(73)		(95)		(232)		(188)
Operating costs and expenses		(118)		(120)		(239)		(228)
Income tax expense		(56)		(66)		(90)		(140)
Realized capital gains and losses, after-tax		(35)		(28)		(72)		(79)
Net income	$	85	$	107	$	124	$	194

Investment margin, which represents the excess of investment income earned over interest credited to policyholders and contractholders and interest expense, decreased 4.9% in the second quarter of 2003 compared to the same period in 2002 and increased 0.3% in the first six months of 2003 compared to the first six months of 2002. Management actions to reduce crediting rates on in-force contracts with discretionary crediting rates have partially offset the decline in the Company's investment portfolio yield. These actions, however, have not been sufficient to offset the overall portfolio yield decline as crediting rates on certain of the Company's products cannot be adjusted and reductions in the yield on assets supporting the Company's capital, traditional life and other products directly impact investment margin.

For interest-sensitive fixed annuities and life products where management has the ability to modify crediting rates, the rolling weighted average interest crediting rate is approximately 100 basis points above the long-term underlying guaranteed rate as of June 30, 2003.

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the three months ended June 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2003	2002	2003	2002	2003	2002
Interest-sensitive life	6.9%	7.3%	4.9%	5.4%	2.0%	1.9%
Fixed annuities—deferred	6.4	7.2	4.7	5.2	1.7	2.0
Fixed annuities—immediate	7.9	8.3	7.2	7.4	0.7	0.9
Institutional—fixed rate contracts	6.7	7.8	6.1	6.3	0.6	1.5
Institutional—floating rate contracts	2.6	3.1	1.6	2.2	1.0	0.9
Investments supporting capital, traditional life and other products	6.0	7.3	N/A	N/A	N/A	N/A

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the six months ended June 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2003	2002	2003	2002	2003	2002
Interest-sensitive life	7.0%	7.3%	4.9%	5.1%	2.1%	2.2%
Fixed annuities—deferred	6.6	7.2	4.7	5.3	1.9	1.9
Fixed annuities—immediate	7.9	8.2	7.2	7.4	0.7	0.8
Institutional—fixed rate contracts	6.7	7.6	6.1	6.5	0.6	1.1
Institutional—floating rate contracts	2.6	3.2	1.6	2.2	1.0	1.0
Investments supporting capital, traditional life and other products	6.1	7.2	N/A	N/A	N/A	N/A

The following table summarizes Contractholder funds and the Reserve for life-contingent contract benefits associated with the weighted average investment yield and weighted average interest crediting rates at June 30.

(in millions)	2003	2002
Interest-sensitive life	$ 6,091	$ 5,764
Fixed annuities—deferred	23,282	18,235
Fixed annuities—immediate	9,788	9,152
Institutional—fixed rate contracts	1,917	2,607
Institutional—floating rate contracts	6,706	6,194
	47,784	41,952
FAS 115/133 market value adjustment	1,803	510
Ceded reserves	(287)	(295)
Life-contingent contracts and other	2,618	2,462
Total Contractholder funds and Reserve for life-contingent contract benefits	$ 51,918	$ 44,629

The following table summarizes investment margin by product group.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2003	2002	2003	2002
Life insurance	$ 40	$ 51	$ 81	$ 95
Annuities	130	128	267	250
Institutional products	23	24	49	51
Investment margin	$ 193	$ 203	$ 397	$ 396

Mortality margin, which represents premiums and cost of insurance charges less related policy benefits was $29 million or 27.9% lower in the second quarter of 2003 compared to the second quarter of 2002. Variable annuity guaranteed minimum death benefits ("GMDB") payments and mortality losses on life contingent immediate annuities drove the decrease as these factors more than offset the growth from new business. GMDB payments of $27 million net of reinsurance, hedging losses and other contractual arrangements ("net GMDB payments") in the second quarter of 2003 increased $18 million compared to the same period in 2002 and increased $6 million compared to the first quarter of 2003.

The overall objective of the GMDB hedging program, the results of which are included in net GMDB payments, is to reduce the impact of changing equity markets on the mortality margin. For example, in rising equity markets, the Company's GMDB exposure declines, however the hedging program is expected to result in realized losses. Hedging losses were $7 million in the second quarter of 2003 compared to hedging gains of $6 million in the second quarter of 2002 and $2 million in the first quarter of 2003.

For the first six months of 2003, mortality margin was $63 million or 27.9% below the first six months of 2002. GMDBs in the first six months of 2003 compared to the same period of 2002 represents $44 million of this decline. In addition to the unfavorable variable annuity product performance in the first six months of 2003, a high level of life claims in the first quarter of 2003 offset the expected growth in the mortality margin during the first six months from new business.

The following table summarizes mortality margin by product group.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Life insurance	$ 114	$ 123	$ 230	$ 244
Annuities	(39)	(25)	(67)	(20)
Institutional products	—	6	—	2
Mortality margin	$ 75	$ 104	$ 163	$ 226

Amortization of DAC for Allstate Financial decreased 23.2% in the second quarter of 2003 compared to the same period in 2002 as lower than expected margins, primarily from the unfavorable mortality results on variable annuities, slowed the DAC amortization. Amortization of DAC increased 23.4% in the first six months of 2003 compared to the first six months of 2002 due to the acceleration of amortization, commonly known as DAC unlocking, in the first quarter of 2003 and ongoing growth of business, partially offset by lower than expected margins.

Operating costs and expenses decreased 1.7% during the second quarter of 2003 compared to the second quarter of 2002. Although investments in technology and employee related benefit expenses

were higher in the second quarter of 2003, the increase was more than offset by lower litigation expenses. Operating costs and expenses increased 4.8% during the first six months of 2003 compared to the same period of 2002 due to increased employee related benefit expenses and continuing investments in technology.

Realized capital gains and losses are presented in the following table. After-tax realized capital gains and losses are presented net of the effects of DAC amortization to the extent that such amortization effects resulted from the recognition of realized capital gains and losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Investment write-downs	$ (61)	$ (33)	$ (118)	$ (59)
Sales				
Fixed income and equity securities	38	1	51	(41)
Other	2	2	4	6
Total sales	40	3	55	(35)
Valuation of derivative instruments	(17)	(4)	(22)	(26)
Settlement of derivative instruments	(4)	2	(2)	3
Realized capital gains and losses, pretax	(42)	(32)	(87)	(117)
Reclassification of amortization of DAC	(11)	(10)	(25)	(4)
Income tax benefit	18	14	40	42
Realized capital gains and losses, after-tax	$ (35)	$ (28)	$ (72)	$ (79)

For further discussion of realized capital gains and losses, see "Investments".

INVESTMENTS

The composition of the investment portfolio at June 30, 2003 is presented in the table below.

(in millions)	**Investments**	**Percent to total**
Fixed income securities(1)	$ 49,868	84.8%
Mortgage loans	6,110	10.4
Equity securities	160	0.3
Short-term	1,654	2.8

Policy loans		683	1.2
Other including derivatives		308	0.5
Total	$	58,783	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost for these securities was $45.52 billion.

Total investments increased to $58.78 billion at June 30, 2003 from $52.67 billion at December 31, 2002 due to positive cash flows from operating and financing activities, increased funds associated with securities lending and dollar roll programs and increased unrealized gains on fixed income securities.

Total investment balances related to funds associated with securities lending and dollar roll programs increased to $2.96 billion at June 30, 2003 from $1.24 billion at December 31, 2002.

The Unrealized net capital gains on fixed income and equity securities at June 30, 2003 were $4.35 billion, an increase of $1.28 million or 41.5% since December 31, 2002. The net unrealized gain for the fixed income portfolio totaled $4.35 billion, comprised of $4.60 billion of unrealized gains and $249 million of unrealized losses at June 30, 2003, compared to a net unrealized gain for the fixed income portfolio totaling $3.08 billion at December 31, 2002, comprised of $3.48 billion of unrealized gains and $393 million of unrealized losses. At June 30, 2003, the unrealized losses for the fixed income portfolio were concentrated in the corporate fixed income portfolio. Corporate fixed income net unrealized gains totaled $2.56 billion, comprised of $2.73 billion of unrealized gains and $171 million of unrealized losses. The unrealized losses for the corporate fixed income portfolio were concentrated in the transportation, basic industry, public utilities and capital goods sectors. These sectors comprised $100 million or 58.5% of the unrealized losses and $1.04 billion or 38.1% of unrealized gains in the corporate fixed income portfolio.

The net unrealized gain for the equity portfolio totaled $4 million, comprised of $7 million of unrealized gains and $3 million of unrealized losses at June 30, 2003, compared to net unrealized losses in the equity portfolio totaling $8 million at December 31, 2002, comprised of $4 million of unrealized gains and $12 million of unrealized losses.

Securities with an unrealized loss greater than or equal to 20% of cost for equity securities or amortized cost for fixed income securities for a period of six or more consecutive months but less than 12 consecutive months had unrealized losses of $31 million at June 30, 2003, compared to $46 million of unrealized losses at December 31, 2002. This decrease was primarily related to decreased unrealized losses in this category for the utility sector, partially offset by an increase in unrealized losses in the transportation sector. There were no securities with an unrealized loss greater than or equal to 20% of cost for equity securities or amortized cost for fixed income securities for 12 or more consecutive months at June 30, 2003 compared to $5 million at December 31, 2002.

Approximately 92.7% of the Company's fixed income securities portfolio is rated investment grade, which is defined by the Company as a security having a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2, a Moody's equivalent rating of Aaa, Aa, A or Baa, a Standard & Poor's equivalent rating of AAA, AA, A or BBB, or a comparable Company internal rating.

The Company monitors the quality of its fixed income portfolio, in part, by categorizing certain investments as problem, restructured or potential problem. Problem fixed income securities are securities in default with respect to principal and/or interest and/or securities issued by companies that have gone into bankruptcy subsequent to the Company's acquisition of the security. Restructured fixed income securities have modified terms and conditions that were not at current market rates or terms at the time of the restructuring. Potential problem fixed income securities are current with respect to contractual principal and/or interest, but because of other facts and circumstances, management has serious concerns regarding the borrower's ability to pay future principal and interest in accordance with the contractual terms of the security, which causes management to believe these securities may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities.

(in millions)	**June 30, 2003**			**December 31, 2002**		
	Amortized cost	**Fair value**	**Percent of total Fixed Income portfolio**	**Amortized cost**	**Fair value**	**Percent of Total Fixed Income portfolio**
Problem	$ 165	$ 155	0.3%	$ 232	$ 218	0.5%
Restructured	36	39	0.1	10	10	—
Potential problem	328	315	0.6	486	423	0.9
Total net carrying value	$ 529	$ 509	1.0%	$ 728	$ 651	1.4%
Cumulative write-downs recognized	$ 321			$ 368		

As of June 30, 2003, the balance of fixed income securities that the Company categorizes as problem and potential problem declined from the balance as of year-end 2002. The decrease was related to the sale of holdings in these categories due to specific developments in the first six months of the year causing a change in the Company's outlook and intent to hold those securities, and an improvement in conditions for certain other holdings previously classified in these categories. The Company expects the eventual recovery of these securities but evaluated each security through its watch list process at June 30, 2003 and recorded write-downs where appropriate. Approximately $20 million of net unrealized losses at June 30, 2003 are related to securities that the Company has included in the problem, restructured or potential problem categories. These securities represent 1.0% of the fixed income portfolio. The Company concluded, through its watch list monitoring process, that these unrealized losses were temporary in nature. While it is possible for these balances to increase in the future if economic conditions are unfavorable, the total amount of securities in these categories is expected to remain a relatively low percentage of the total fixed income securities portfolio.

The components of realized capital gains and losses are described in the table on page 18. Sales of fixed income securities in the second quarter and first six months of 2003 resulted from actions taken to reduce credit exposure to certain issuers or industries and to provide liquidity for the purchase of investments that better meet certain investment objectives.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources consist of shareholder's equity. The following table summarizes the Company's capital resources.

(in millions)	**June 30, 2003**	**December 31, 2002**
Redeemable preferred stock	$ 85	$ 93
Common stock, retained income and other shareholder's equity items	5,271	5,217
Accumulated other comprehensive income	1,431	1,052
Total shareholder's equity	$ 6,787	$ 6,362

Shareholder's equity increased $425 million in the second quarter of 2003 when compared to year-end 2002 due to increases in net unrealized capital gains and net income partially offset by a dividend of investment securities to Allstate Insurance Company ("AIC") of $69 million. The balance of Redeemable preferred stock declined during the first six months of 2003 due to the reduction of investment by a strategic alliance partner.

Debt The Company has an inter-company loan agreement with The Allstate Corporation (the "Corporation") whereby the amount of inter-company loans available is at the discretion of the

Corporation. The maximum amount of loans the Corporation can have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. At June 30, 2003, the Corporation had outstanding commercial paper borrowings of $95 million that were allocated to the Company under the inter-company loan agreement to cover short-term cash needs. There was no debt outstanding at December 31, 2002.

Financial Ratings and Strength In June 2003, Standard & Poor's revised the insurance financial strength rating of ALIC and its rated subsidiaries and affiliates from AA+ to AA and revised the rating outlook from negative to stable. Standard & Poor's stated that the rating change was due to several factors including their negative outlook on the life insurance industry, the recent decline in ALIC's Net income and their view that a subsidiary's rating cannot exceed the rating of its parent. ALIC's rating is now the same rating as AIC, its parent. Moody's and A.M. Best's insurance financial strength rating of ALIC and AIC remains unchanged. In reaffirming the A+ ratings of ALIC and AIC, A.M. Best assigned a positive rating outlook for these companies' ratings.

Liquidity

The Company's operations typically generate substantial positive cash flows from operations as most premiums and deposits are received in advance of the time when benefit payments are required. These positive operating cash flows are expected to continue to meet the liquidity requirements of the Company.

Dividends to ALIC from its insurance subsidiaries and dividends ALIC can pay to AIC are subject to restriction under the insurance company holding act of the insurance company's state of domicile. The payment of dividends by ALIC is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. In the twelve-month period ending June 30, 2003, ALIC has paid $69 million in common stock dividends. Based on the greater of 2002 statutory net income or 10% of statutory surplus, the maximum amount of dividends ALIC will be able to pay without prior Illinois Department of Insurance approval at a given point in time during 2003 is $315 million, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of inter-company lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

ALIC's insurance subsidiaries are domiciled in Illinois, New York, Arizona and Nebraska. Except for those domiciled in New York and one in Nebraska, ALIC has 100% inter-company reinsurance agreements in place with its insurance subsidiaries. Only invested assets supporting capital and relating to Separate Accounts remain in these subsidiaries.

A portion of the Company's diversified product portfolio, primarily fixed annuity and interest-sensitive life insurance products, is subject to discretionary surrender and withdrawal by contractholders. The total amount of surrenders and withdrawals for the three-month and six-month periods ending June 30, 2003 were $545 million and $1.03 billion, net of surrender charges, compared with $468 million and $963 million for the same periods last year. The total amount of surrenders and withdrawals for the first six months of 2003 represented 2.5% of the Contractholder funds balance at June 30, 2003, compared to 2.7% in the first six months of last year.

The Corporation has access to additional borrowing to support liquidity as follows:

- The Corporation has a commercial paper program with a borrowing limit of $1.00 billion to cover short-term cash needs. As of June 30, 2003, the remaining borrowing capacity under the commercial paper program was $905 million, however, the outstanding balance fluctuates daily.

- The Corporation has a primary credit facility and two additional credit facilities totaling $1.20 billion as potential sources of funds to meet short-term liquidity requirements: the primary

$575 million five-year revolving line of credit expiring in 2006, a $575 million 364-day revolving line of credit expiring in the second quarter of 2004 and a $50 million one-year revolving line of credit expiring and subsequently renewing in the third quarter of 2003. The rights to borrow on the five-year and 364-day lines of credit are subject to requirements that are customary for facilities of this size, type and purpose. For example, the Corporation's ratio of total debt to total capital (as defined in the agreements) cannot exceed a designated level. This requirement is currently being met and management expects to continue to meet it in the future. There were no borrowings under any of these lines of credit during the first six months of 2003. The total amount outstanding at any point in time under the combination of the commercial paper program and the three credit facilities is limited to $1.20 billion.

- The Corporation has the right to issue up to an additional $800 million of debt securities, preferred stock, trust preferred securities or debt warrants utilizing the shelf registration statement filed with the SEC in June 2000.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's use of off-balance sheet arrangements is limited to a special purpose entity ("SPE") used to issue global medium-term notes ("GMTNs") to institutional investors. Management of the Company has not invested in this SPE.

At June 30, 2003, this SPE had assets of $2.89 billion, liabilities of $2.80 billion and unrelated third party equity of $90 million. The funding agreements issued by the Company to the SPE, and which serve as collateral for the notes issued by the SPE, are reported on the Company's Condensed Consolidated Statements of Financial Position as a component of Contractholder funds.

The Company is in the process of assessing if this SPE meets the criteria to be considered a variable interest entity pursuant to the pending accounting guidance of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" and will require consolidation. Based on this assessment, this SPE will likely not require consolidation.

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "expects," "will," "anticipates," "estimates," "intends," "believes," "likely" and other words with similar meanings. These statements may address, among other things, the Company's strategy for growth, product development, regulatory approvals, market position, expenses, financial results and reserves. Management believes that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. In addition to the normal risks of business, the Company is subject to significant risks and uncertainties, including those listed below which apply to it as an insurance business and a provider of other financial services.

RISK FACTORS

The following risk factor should be considered in addition to the risk factors identified in the Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Forward-Looking Statements and Risk Factors Affecting The Company," in Part II Item 7 of the Company's Form 10-K filed March 31, 2003.

- When analyzing fixed income and equity investment securities for the existence of other-than-temporary impairments, the Company focuses on several factors including the length of time and amount by which the securities' cost or amortized cost for equity or fixed income securities, respectively, exceeds the securities' fair value. The Emerging Issues Task Force ("EITF"), a task force that assists the FASB in identifying, discussing, and resolving accounting and reporting issues within the framework of existing authoritative accounting literature, is currently deliberating Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The EITF's current issue summary, which has yet to be finalized, proposes that if, at the evaluation date, the fair value of an investment security is less than its carrying value then an impairment exists for which a determination must be made as to whether that impairment is other-than-temporary. In the event the EITF enacts this summary as its final conclusion, the Company may be required to recognize certain pre-tax unrealized losses as realized losses. The estimated impact to the Company's Condensed Consolidated Statements of Operations and Financial Position is not determinable until such time as a final conclusion is reached.

Item 4. Controls and Procedures

With the participation of our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. However, the design of any system of controls and procedures is based in part upon assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and are effective at the "reasonable assurance" level.

During the last fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The discussion "Regulation, Legal Proceedings and Guarantees" in Part I, Item 1, Note 3 of this Form 10-Q is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

An Exhibit Index has been filed as part of this report on page E-1.

(b) A Current Report on Form 8-K was filed during the second quarter of 2003 on the following date for the item indicated:

June 16, Item 5 Other Events—reporting a ratings change by Standard & Poor's Rating Services for rated members of Allstate Financial, including the registrant.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Allstate Life Insurance Company
(Registrant)

August 14, 2003 By: /s/ SAMUEL H. PILCH

Samuel H. Pilch
(chief accounting officer and duly
authorized officer of the Registrant)

Exhibit No.	Description
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated August 14, 2003, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer
32	Section 1350 Certifications

QuickLinks

EXHIBIT 15

To the Board of Directors and Shareholder of
Allstate Life Insurance Company:

We have reviewed, in accordance with standards established by the American Institute of Certified Public Accountants, the unaudited interim condensed consolidated financial statements of Allstate Life Insurance Company and subsidiaries for the three-month and six-month periods ended June 30, 2003 and 2002, as indicated in our report dated August 14, 2003; because we did not perform an audit, we expressed no opinion on such financial statements.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003, is incorporated by reference in the following Registration Statements:

Forms S-3 Registration Nos.	Forms N-4 Registration Nos.
333-100068	333-102934
333-102319	333-72017
333-102325	333-31288
333-104789	333-96115
333-105208	
333-105331	

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/Deloitte & Touche LLP

Chicago, Illinois
August 14, 2003

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CERTIFICATIONS

EXHIBIT 31.1

I, Casey J. Sylla, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2003

By: /s/ CASEY J. SYLLA

Casey J. Sylla
Chairman of the Board and President

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EXHIBIT 31.2

I, Steven E. Shebik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2003

By: /s/ STEVEN E. SHEBIK

Steven E. Shebik
Senior Vice President and Chief Financial Officer

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EXHIBIT 32

CERTIFICATIONS PURSUANT TO 18 UNITED STATES CODE §1350

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended June 30, 2003 of Allstate Life Insurance Company filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of Allstate Life Insurance Company.

August 14, 2003

By: /s/ CASEY J. SYLLA

Casey J. Sylla
Chairman of the Board and President

By: /s/ STEVEN E. SHEBIK

Steven E. Shebik
Senior Vice President and Chief Financial Officer

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CERTIFICATIONS PURSUANT TO 18 UNITED STATES CODE §1350