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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003**

**OR**

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

**Commission file number 1-11840**

# THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State of Incorporation) | **36-3871531**<br>(I.R.S. Employer Identification No.) |
| **2775 Sanders Road**<br>**Northbrook, Illinois**<br>(Address of principal executive offices) | **60062**<br>(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 ☒  No o

As of October 31, 2003, the registrant had 703,574,466 common shares, $.01 par value, outstanding.

**THE ALLSTATE CORPORATION**
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**
**September 30, 2003**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## THE ALLSTATE CORPORATION AND SUBSIDIARIES
## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| (in millions, except per share data) | Three months ended September 30, 2003 | Three months ended September 30, 2002 | Nine months ended September 30, 2003 | Nine months ended September 30, 2002 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| **Revenues** | | | | |
| Property-liability insurance premiums earned | $ 6,230 | $ 5,904 | $ 18,375 | $ 17,411 |
| Life and annuity premiums and contract charges | 538 | 512 | 1,710 | 1,632 |
| Net investment income | 1,256 | 1,242 | 3,712 | 3,624 |
| Realized capital gains and losses | 103 | (419) | 90 | (675) |
| | 8,127 | 7,239 | 23,887 | 21,992 |
| **Costs and expenses** | | | | |
| Property-liability insurance claims and claims expense | 4,506 | 4,391 | 13,184 | 13,253 |
| Life and annuity contract benefits | 424 | 388 | 1,380 | 1,213 |
| Interest credited to contractholder funds | 467 | 464 | 1,380 | 1,316 |
| Amortization of deferred policy acquisition costs | 1,015 | 966 | 2,989 | 2,777 |
| Operating costs and expenses | 716 | 710 | 2,197 | 2,008 |
| Restructuring and related charges | 19 | 40 | 56 | 95 |
| Interest expense | 70 | 67 | 204 | 204 |
| | 7,217 | 7,026 | 21,390 | 20,866 |
| **(Loss) gain on disposition of operations** | (12) | — | (9) | 7 |
| **Income from operations before income tax expense (benefit), dividends on preferred securities and cumulative effect of change in accounting principle, after-tax** | 898 | 213 | 2,488 | 1,133 |
| **Income tax expense (benefit)** | 206 | (37) | 538 | 108 |
| **Income before dividends on preferred securities and cumulative effect of change in accounting principle, after-tax** | 692 | 250 | 1,950 | 1,025 |
| **Dividends on preferred securities of subsidiary trust** | — | (2) | (5) | (7) |
| **Cumulative effect of change in accounting principle, after tax** | (1) | — | (1) | (331) |
| **Net income** | $ 691 | $ 248 | $ 1,944 | $ 687 |

| | | | | |
|---|---|---|---|---|
| **Earnings per share:** | | | | |
| **Net income per share—basic** | $ 0.98 | $ 0.35 | $ 2.76 | $ 0.97 |
| **Weighted average shares—basic** | 703.3 | 705.4 | 703.5 | 708.6 |
| **Net income per share—diluted** | $ 0.97 | $ 0.35 | $ 2.75 | $ 0.97 |
| **Weighted average shares—diluted** | 706.0 | 708.1 | 705.9 | 711.3 |

See notes to condensed consolidated financial statements.



## THE ALLSTATE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (in millions, except par value data) | September 30, 2003 | December 31, 2002 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Investments | | |
| Fixed income securities, at fair value (amortized cost $79,634 and $72,123) | $ 85,222 | $ 77,152 |
| Equity securities, at fair value (cost $3,886 and $3,223) | 4,744 | 3,683 |
| Mortgage loans | 6,426 | 6,092 |
| Short-term | 3,526 | 2,215 |
| Other | 1,581 | 1,508 |
| Total investments | 101,499 | 90,650 |
| Cash | 247 | 462 |
| Premium installment receivables, net | 4,455 | 4,075 |
| Deferred policy acquisition costs | 4,610 | 4,385 |
| Reinsurance recoverables, net | 3,113 | 2,883 |
| Accrued investment income | 1,033 | 946 |
| Property and equipment, net | 1,049 | 989 |
| Goodwill | 930 | 927 |
| Other assets | 1,149 | 984 |
| Separate Accounts | 12,177 | 11,125 |
| **Total assets** | $ 130,262 | $ 117,426 |
| **Liabilities** | | |
| Reserve for property-liability insurance claims and claims expense | $ 17,681 | $ 16,690 |
| Reserve for life-contingent contract benefits | 10,903 | 10,256 |
| Contractholder funds | 45,522 | 40,751 |
| Unearned premiums | 9,260 | 8,578 |
| Claim payments outstanding | 685 | 739 |
| Other liabilities and accrued expenses | 9,640 | 7,150 |
| Deferred income taxes | 656 | 259 |
| Short-term debt | — | 279 |
| Long-term debt | 4,378 | 3,961 |
| Separate Accounts | 12,177 | 11,125 |
| **Total liabilities** | 110,902 | 99,788 |
| **Commitments and Contingent Liabilities (Notes 3 and 5)** | | |
| **Mandatorily Redeemable Preferred Securities of Subsidiary Trust** | — | 200 |
| **Shareholders' equity** | | |
| Preferred stock, $1 par value, 25 million shares authorized, none issued | — | — |
| Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 703 million and 702 million shares outstanding | 9 | 9 |
| Additional capital paid-in | 2,612 | 2,599 |
| Retained income | 21,043 | 19,584 |
| Deferred compensation expense | (214) | (178) |
| Treasury stock, at cost (197 million and 198 million shares) | (6,291) | (6,309) |
| Accumulated other comprehensive income: | | |

| | | | | |
|---|---|---|---|---|
| Unrealized net capital gains and losses and net gains and losses on derivative financial instruments | | 3,037 | | 2,602 |
| Unrealized foreign currency translation adjustments | | (16) | | (49) |
| Minimum pension liability adjustment | | (820) | | (820) |
| **Total accumulated other comprehensive income** | | 2,201 | | 1,733 |
| **Total shareholders' equity** | | 19,360 | | 17,438 |
| **Total liabilities and shareholders' equity** | $ | 130,262 | $ | 117,426 |

See notes to condensed consolidated financial statements.



**THE ALLSTATE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| **(in millions)** | **2003** | | **2002** | |
| | **(Unaudited)** | | | |
| **Cash flows from operating activities** | | | | |
| Net income | $ | 1,944 | $ | 687 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation, amortization and other non-cash items | | 3 | | (50) |
| Realized capital gains and losses | | (90) | | 675 |
| Cumulative effect of change in accounting principle | | 1 | | 331 |
| Interest credited to contractholder funds | | 1,380 | | 1,316 |
| Changes in: | | | | |
| Policy benefit and other insurance reserves | | 1,050 | | 170 |
| Unearned premiums | | 635 | | 704 |
| Deferred policy acquisition costs | | (321) | | (252) |
| Premium installment receivables, net | | (360) | | (271) |
| Reinsurance recoverables, net | | (222) | | (142) |
| Income taxes payable | | 453 | | 224 |
| Other operating assets and liabilities | | 386 | | 87 |
| Net cash provided by operating activities | | 4,859 | | 3,479 |
| **Cash flows from investing activities** | | | | |
| Proceeds from sales | | | | |
| Fixed income securities | | 15,100 | | 13,784 |
| Equity securities | | 1,916 | | 3,085 |
| Investment collections | | | | |
| Fixed income securities | | 4,926 | | 3,734 |
| Mortgage loans | | 552 | | 447 |
| Investment purchases | | | | |
| Fixed income securities | | (26,930) | | (24,977) |
| Equity securities | | (2,520) | | (2,279) |
| Mortgage loans | | (874) | | (567) |
| Change in short-term investments, net | | 161 | | (97) |
| Change in other investments, net | | (55) | | (289) |
| Purchases of property and equipment, net | | (129) | | (151) |
| Net cash used in investing activities | | (7,853) | | (7,310) |
| **Cash flows from financing activities** | | | | |
| Change in short-term debt, net | | (279) | | 20 |
| Proceeds from issuance of long-term debt | | 400 | | 351 |
| Repayment of long-term debt | | (332) | | (87) |
| Contractholder fund deposits | | 7,845 | | 7,381 |
| Contractholder fund withdrawals | | (4,291) | | (2,899) |
| Dividends paid | | (472) | | (434) |
| Treasury stock purchases | | (112) | | (373) |
| Other | | 20 | | 40 |

| | | |
|---|---|---|
| Net cash provided by financing activities | 2,779 | 3,999 |
| **Net (decrease) increase in cash** | (215) | 168 |
| **Cash at beginning of period** | 462 | 263 |
| **Cash at end of period** | $ 247 | $ 431 |

See notes to condensed consolidated financial statements.



**THE ALLSTATE CORPORATION AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## 1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company, a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate").

The condensed consolidated financial statements and notes as of September 30, 2003, and for the three-month and nine-month periods ended September 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 Appendix D of the Notice of Annual Meeting and Proxy Statement dated March 28, 2003. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled $51 million and $129 million for the nine months ended September 30, 2003 and 2002, respectively.

**Adopted accounting standards**

*Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure"*

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure", which amends SFAS No. 123, "Accounting for Stock-Based Compensation". The amendment enables companies that choose to adopt the fair value based method to report the full effect of employee stock options in their financial statements immediately upon adoption. The statement sets forth clearer and more prominent disclosures about the cost of employee stock options and increases the frequency of those disclosures to include publication in quarterly financial statements. Beginning January 1, 2003, the Company began expensing the fair value of all stock options granted on or after January 1, 2003. Based on estimated 2003 stock option grants, the impact to the Company's Consolidated Statements of Operations for the year ending December 31, 2003 is expected to be approximately $7 million, after-tax.



The following table illustrates the effect on net income and earnings per share as if the fair value based method, adopted prospectively by the Company on January 1, 2003, had been applied to all outstanding and unvested awards in each period.

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| **(in millions, except per share data)** | **2003** | **2002** | **2003** | **2002** |
| Net income, as reported | $ 691 | $ 248 | $ 1,944 | $ 687 |
| Add: Employee stock option expense included in reported net income, after-tax | 1 | — | 5 | — |
| Deduct: Total employee stock option expense determined under fair value based method for all awards, after-tax | (10) | (10) | (32) | (30) |
| Pro forma net income | $ 682 | $ 238 | $ 1,917 | $ 657 |
| Earnings per share—Basic: | | | | |
| As reported | $ 0.98 | $ 0.35 | $ 2.76 | $ 0.97 |
| Pro forma | 0.97 | 0.34 | 2.72 | 0.93 |
| Earnings per share—Diluted: | | | | |
| As reported | $ 0.97 | $ 0.35 | $ 2.75 | $ 0.97 |
| Pro forma | 0.97 | 0.33 | 2.72 | 0.92 |

*FASB Interpretation No. 46*

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities". FIN 46 addresses whether certain types of entities, referred to as variable interest entities ("VIEs"), should be consolidated in a company's financial statements. A VIE is an entity in which the equity investors lack certain essential characteristics of a controlling financial interest or which lacks sufficient equity to finance its own activities without financial support provided by other entities. An enterprise must consolidate a VIE if it has a variable interest that will absorb a majority of the expected losses, receive a majority of the expected returns or both.

Adoption is required for relationships with VIEs entered into on or after February 1, 2003. For VIEs existing prior to that date, the effective date of the interpretation was delayed through the issuance of FASB Staff Position ("FSP") FIN 46-6, until the end of the first interim or annual period ending after December 15, 2003. However, FIN 46 may be applied before the end of the deferral period to some or all affected VIEs.

The Company elected to adopt FIN 46 in the third quarter of 2003 for existing VIEs with the exception of two asset management VIEs that fall within the scope of Proposed FSP FIN 46-c, "Impact of Kick-Out Rights Associated with the Decision Maker on the Computation of Expected Residual Returns under Paragraph 8(c) of FIN 46" and FIN 46-d, "Treatment of Fees Paid to Decision Makers and Guarantors as Described in Paragraph 8 in Determining Expected Losses and Expected Residual Returns of a Variable Interest Entity under FIN 46" which are anticipated to be effective no earlier than the fourth quarter of 2003 and address issues unique to asset management transactions. (See "Pending accounting standards" below for a discussion of those matters.)

Effective July 1, 2003, the Company has applied the guidance in FIN 46 on a prospective basis as follows:

- The Company is the primary beneficiary of a VIE used to acquire a headquarters office building and up to 38 automotive collision repair stores and, as a result, the VIE was consolidated as of July 1, 2003. The impact of consolidation was to increase Property and equipment, net and Long-term debt by $102 million. Beginning in the third quarter of 2003, payments previously reported as operating expense are classified as interest expense.

- Allstate issues funding agreements to a Special Purpose Entity ("SPE") (which is considered a VIE under FIN 46) used to issue Global Medium Term Notes ("GMTNs") to unrelated third parties. 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, are considered variable interests in a VIE. Because the Company



owns none of the variable interests issued by the VIE, it is not required to consolidate the VIE and will continue to classify funding agreements issued to the VIE as a component of Contractholder funds.

- Consistent with the GMTN program, the Company's Euro Medium Term Notes ("EMTN") program no longer requires consolidation. The impact of deconsolidation of the EMTNs resulted in the recognition of the funding agreements issued to the VIE as a component of Contractholder funds, which is equivalent to the previous accounting for this program.

- The Company is the primary beneficiary of a VIE that issued $200 million of Mandatorily redeemable preferred securities of subsidiary trust ("trust preferred securities"). The Company does not own any of the trust preferred securities which were issued to unrelated third parties and are considered the principal variable interests issued by the VIE. As a result, the VIE, which the Company previously consolidated, is no longer consolidated. The sole assets of the VIE are junior subordinated debentures issued by the Company with repayment terms identical to the trust preferred securities. Previously, the trust preferred securities were reported in the Condensed Consolidated Statements of Financial Position as Mandatorily redeemable preferred securities of subsidiary trust and the dividends were reported in the Condensed Consolidated Statements of Operations as Dividends on preferred securities of subsidiary trust. The impact of deconsolidation was to increase Long-term debt and decrease Mandatorily redeemable preferred securities of subsidiary trust by $200 million. Beginning in the third quarter of 2003, interest on the junior debentures will be recognized in Interest expense and the Company will no longer report Dividends on preferred securities of subsidiary trust.

- The Company determined it was the primary beneficiary of a previously unconsolidated structured investment security considered a VIE under FIN 46. As a result, the VIE was consolidated as of July 1, 2003 resulting in an increase in debt of $44 million in the third quarter 2003 condensed consolidated financial statements.

- The Company's debt-to equity ratio increased by approximately 1.78 percentage points as a result of these changes.

*SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"*

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". While this statement applies primarily to certain derivative contracts and embedded derivatives entered into or modified after June 30, 2003, it also codifies conclusions previously reached by the FASB at various dates on certain implementation issues. The impact of adopting the provisions of this statement were not material to the Company's Condensed Consolidated Statements of Operations or Financial Position.

**Pending Accounting Standards**

*FIN 46*

As discussed above, the effective date for certain provisions of FIN 46 are being delayed until two Proposed FSPs, "Impact of Kick-Out Rights Associated with the Decision Maker on the Computation of Expected Residual Returns under Paragraph 8(c) of FIN 46" ("Proposed FSP FIN 46-c") and "Treatment of Fees Paid to Decision Makers and Guarantors as Described in Paragraph 8 in Determining Expected Losses and Expected Residual Returns of a Variable Interest Entity under FIN 46" (Proposed FSP FIN 46-d), are issued. The proposed effective date for Proposed FSP FIN 46-c is the beginning of the first fiscal quarter the final FSP is posted, which is expected to be October 1, 2003 and the proposed effective date for Proposed FSP FIN 46-d is the beginning of the first fiscal quarter after the final FSP is posted, which is expected to be January 1, 2004.

The Company uses unconsolidated VIEs to hold assets under the management of an affiliate on behalf of third-party investors ("investment management VIEs"). The Company believes it has no ability to make independent decisions of an operating nature as a result of the existence of substantive kick-out rights (without cause) that exist in each of the investment management VIEs and therefore should not be considered a decision maker pursuant to the guidance in FIN

46 and Proposed FSPs FIN 46-c and FIN 46-d. Moreover, when analyzing the investment management VIEs in connection with the authoritative guidance provided in Emerging Issues Task Force ("EITF") 97-2, "Application of FASB Statement No. 94 and Accounting Principles Board ("APB") Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements", the Company does not believe it has a controlling financial interest in the investment management VIEs, a condition precedent to consolidation. Accordingly, the Company will continue to not consolidate its investment management VIEs pursuant to its evaluation of the requirements of currently effective authoritative accounting guidance.

In the event the Company is required to consolidate the investment management VIEs, the Company would recognize through consolidation, an estimated $718 million of assets, $701 million of liabilities, and $32 million of minority interest using amounts as of September 30, 2003. The Company's maximum exposure to loss from the investment management VIEs is its current carrying value of $9 million. The impact to the Company's debt-to-equity ratio would be an increase of approximately 3.7 percentage points; however, would not affect the Company's compliance with existing debt covenants.

*Statement of Position 03-01*

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 addresses three areas: separate accounts presentation and valuation, accounting for sales inducements such as bonus interest, and the classification and valuation of certain long duration liabilities. The effective date of the SOP is for fiscal years beginning after December 15, 2003, with earlier adoption encouraged.

Based on management's review of the SOP, the most significant impact to the Company is the provision of the SOP that 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. This liability will be based on models that involve numerous estimates and subjective judgments, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The Company does not currently recognize these liabilities. The Company is currently evaluating the provisions of the statement. The Company plans to adopt the provisions of the statement no later than January 1, 2004 and does not expect the effect to have a material impact on the Condensed Consolidated Statements of Operations. However, the amounts may vary based on market conditions. Adoption is not expected to have a material impact on the Company's Condensed Consolidated Statements of Financial Position.

**Proposed standards**

*EITF Topic No. 03-01*

The EITF discussed 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 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 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. Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of the common shares underlying outstanding stock options.

The computations of basic and diluted earnings per share are presented in the following table.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions, except per share data)** | **2003** | **2002** | **2003** | **2002** |
| Numerator (applicable to common shareholders): | | | | |
| Income before dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | $ 692 | $ 250 | $ 1,950 | $ 1,025 |
| Dividends on preferred securities of subsidiary trust | — | (2) | (5) | (7) |
| Cumulative effect of change in accounting principle, after-tax | (1) | — | (1) | (331) |
| Net income applicable to common shareholders | $ 691 | $ 248 | $ 1,944 | $ 687 |
| Denominator: | | | | |
| Weighted average common shares outstanding | 703.3 | 705.4 | 703.5 | 708.6 |
| Effect of potential dilutive securities: | | | | |
| Stock options | 2.7 | 2.7 | 2.4 | 2.7 |
| Weighted average common and dilutive potential common shares outstanding | 706.0 | 708.1 | 705.9 | 711.3 |

Earnings per share—Basic:

| | | | | |
|---|---|---|---|---|
| Income before dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | $ 0.99 | $ 0.36 | $ 2.77 | $ 1.45 |
| Dividends on preferred securities of subsidiary trust | — | (0.01) | — | (0.01) |
| Cumulative effect of change in accounting principle, after-tax | (0.01) | — | (0.01) | (0.47) |
| Net income applicable to common shareholders | $ 0.98 | $ 0.35 | $ 2.76 | $ 0.97 |
| Earnings per share—Diluted: | | | | |
| Income before dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | $ 0.98 | $ 0.36 | $ 2.76 | $ 1.45 |
| Dividends on preferred securities of subsidiary trust | — | (0.01) | — | (0.01) |
| Cumulative effect of change in accounting principle, after-tax | (0.01) | — | (0.01) | (0.47) |
| Net income applicable to common shareholders | $ 0.97 | $ 0.35 | $ 2.75 | $ 0.97 |

Options to purchase 8.9 million and 9.1 million Allstate common shares, with exercise prices ranging from $37.06 to $50.72 and $36.66 to $50.72, were outstanding at September 30, 2003 and 2002, respectively, but were not included in the computation of diluted earnings per share for the three-month periods ended September 30, 2003 and 2002 since inclusion of these options would have an anti-dilutive effect as the options' exercise prices exceeded the average market price of Allstate common shares in the three-month period. Options to purchase 11.3 million and 11.2 million Allstate common shares, with exercise prices ranging from $35.84 to $50.72 and $36.61 to $50.72, were outstanding at September 30, 2003 and 2002, respectively, but were not included in the computation of diluted earnings per share for the nine-month periods ended September 30, 2003 and 2002 since inclusion of these options would have an anti-dilutive effect.



## 3. Reserve for Property-Liability Insurance Claims and Claims Expense

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretations of circumstances and internal factors including the Company'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 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 the results of operations in the period such changes are determinable.

Management believes that the reserve for claims and claims expense, net of reinsurance recoverables, at September 30, 2003 is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by that date.

Allstate's reserves for asbestos claims were $1.10 billion and $635 million, net of reinsurance recoverables of $520 million and $269 million at September 30, 2003 and December 31, 2002, respectively. Reserves for environmental claims were $286 million and $304 million, net of reinsurance recoverables of $77 million and $89 million at September 30, 2003 and December 31, 2002, respectively. Approximately 58% and 54% of the total net asbestos and environmental reserves at September 30, 2003 and December 31, 2002, respectively, were for incurred but not reported estimated losses.

Allstate's reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. Management is unable to determine the effect, if any, that such legislation will have on results of operations or financial position.

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. However, due to the inconsistencies of court coverage decisions, unresolved legal issues regarding policy coverage, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, plaintiffs' evolving and expanded theories of liability, the risks inherent in major litigation, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, and estimating the extent and timing of any contractual liability, and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase or decrease in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. 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.



## 4. Reinsurance

Property-liability insurance premiums and life and annuity premiums and contract charges are net of the following reinsurance ceded:

| | Three months ended September 30, | Nine months ended September 30, |
|---|---|---|

| (in millions) | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Property-liability insurance premiums earned | $ 82 | $ 83 | $ 225 | $ 243 |
| Life and annuity premiums and contract charges | 114 | 123 | 353 | 353 |

Property-liability insurance claims and claims expense and life and annuity contract benefits are net of the following reinsurance recoveries:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2003 | 2002 | 2003 | 2002 |
| Property-liability insurance claims and claims expense | $ 229 | $ 117 | $ 378 | $ 235 |
| Life and annuity contract benefits | 97 | 109 | 272 | 318 |

## 5. 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 adversely influence and restrict premium rates and require the return of excess profits, to restrict the Company's ability to cancel policies, to impose underwriting standards, 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 either insurance products or competing non-insurance products that 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

There are two active nationwide class action lawsuits against Allstate regarding its specification of after-market (non-original equipment manufacturer) replacement parts in the repair of insured vehicles. One of these suits alleges that the specification of such parts constitutes breach of contract and fraud, and this suit mirrors to a large degree lawsuits filed against other carriers in the industry. The plaintiffs allege that after-market parts are not "of like kind and quality" as required by the insurance policy, and they are seeking actual and punitive damages. In the second lawsuit, plaintiffs allege that Allstate and three co-defendants have violated federal antitrust laws by conspiring to manipulate the price of auto physical damage coverages in such a way that not all savings realized by the use of aftermarket parts are passed on to the policyholders. The plaintiffs seek actual and treble damages. In November 2002, a nationwide class was certified in this case. The defendants filed a petition to appeal the certification, and the Eleventh Circuit Court of Appeals granted review of the certification. The Company has been vigorously defending both of these lawsuits, and their outcome is uncertain.

There are a number of statewide and nationwide class action lawsuits pending against Allstate alleging that its failure to pay "inherent diminished value" to insureds under the collision, comprehensive, uninsured motorist property damage, or auto property damage liability provisions of auto policies constitutes breach of contract and fraud. Plaintiffs define "inherent diminished value" as the difference between the market value of the insured automobile before an accident and the market value after repair. Plaintiffs allege that they are entitled to the payment of inherent diminished



value under the terms of the policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. These lawsuits are pending in various state and federal courts, and they are in various stages of development. A class has been certified in only one case, a multi-state class action. The Company has been vigorously defending these lawsuits and, since 1998, has been implementing policy language in a majority of states reaffirming that its collision and comprehensive coverages do not include diminished value claims. In addition, there are three statewide putative class action lawsuits pending against Allstate alleging that it improperly deducts betterment in connection with the repair of vehicles. The outcome of these disputes is currently uncertain.

There are a number of state and nationwide class action lawsuits pending in various state courts challenging the legal propriety of Allstate's medical bill review processes on a number of grounds, including, among other things, the manner in which Allstate determines reasonableness and necessity. One nationwide class action has been certified. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes result in a breach of the insurance policy as well as fraud. The Company denies those allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

A number of nationwide and statewide putative class actions are pending against Allstate, which challenge Allstate's use of certain automated database vendors in valuing total loss automobiles. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Plaintiffs allege that flaws in these databases result in valuations to the detriment of insureds. The plaintiffs are seeking actual and punitive damages. The lawsuits are in various stages of development and Allstate has been vigorously defending them, but the outcome of these disputes is currently uncertain.

One putative statewide and a number of putative nationwide class action lawsuits have been filed in various courts seeking actual and punitive damages from Allstate and alleging that Allstate violated the Fair Credit Reporting Act or state law by failing to provide appropriate notices to applicants and/or policyholders when adverse action was taken as a result of information in a consumer report or by ordering consumer reports without a permissible purpose. These cases are all pending in federal courts, and all but one, recently filed in federal court in Louisiana, have been centralized in the federal court in Nashville, Tennessee. The Company is also defending a putative nationwide class action that alleges that the Company discriminates against non-Caucasian policyholders, through underwriting and rate-making practices including the use of credit by charging them higher premiums. The Company is also defending two putative statewide class actions challenging its use of credit under certain state insurance statutes. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a number of putative class actions and one certified class action challenging the overtime exemption claimed by the Company 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 lawsuit 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 Allstate and rehired by agencies through 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. Allstate has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is also defending certain matters relating to the Company's 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. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, Allstate is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the



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EEOC with respect to allegations of age discrimination and retaliation. Allstate 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.

**Shared markets**

As a condition of maintaining its licenses to write personal property and casualty insurance in various states, the Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the results of operations.

**Guarantees**

The Company provides residual value guarantees on leased automobiles. If all outstanding leases were terminated effective September 30, 2003, the Company's maximum potential amount of future payments, assuming the automobiles have no residual value, is $21 million at September 30, 2003. The term of each residual value guarantee is equal to the term of the underlying lease which range from less than one year to three years. Historically, the Company has not made any material payments pursuant to these 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 $110 million at September 30, 2003. The credit default swaps and credit guarantees contained in these fixed income securities expire at various times during the next seven 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 September 30, 2003, the amount due under the commercial paper program is $300 million and the cash surrender value of the policies is $308 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.



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In addition, the Company and its subsidiaries indemnify their respective directors, officers, non-officer employees 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 September 30, 2003.

**6. Business Segments**

Summarized revenue data for each of the Company's business segments are as follows:

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|

| (in millions) | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Revenues** | | | | |
| *Property-Liability* | | | | |
| Premiums earned | | | | |
| Allstate Protection | $ 6,228 | $ 5,902 | $ 18,364 | $ 17,403 |
| Discontinued Lines and Coverages | 2 | 2 | 11 | 8 |
| Total premiums earned | 6,230 | 5,904 | 18,375 | 17,411 |
| Net investment income | 417 | 429 | 1,242 | 1,256 |
| Realized capital gains and losses | 109 | (251) | 177 | (380) |
| Total Property-Liability | 6,756 | 6,082 | 19,794 | 18,287 |
| *Allstate Financial* | | | | |
| Premiums and contract charges | 538 | 512 | 1,710 | 1,632 |
| Net investment income | 823 | 794 | 2,424 | 2,313 |
| Realized capital gains and losses | (3) | (164) | (83) | (288) |
| Total Allstate Financial | 1,358 | 1,142 | 4,051 | 3,657 |
| *Corporate and Other* | | | | |
| Service fees | 3 | 7 | 10 | 29 |
| Net investment income | 16 | 19 | 46 | 55 |
| Realized capital gains and losses | (3) | (4) | (4) | (7) |
| Total Corporate and Other before reclassification of service fees | 16 | 22 | 52 | 77 |
| Reclassification of service fees (1) | (3) | (7) | (10) | (29) |
| Total Corporate and Other | 13 | 15 | 42 | 48 |
| Consolidated Revenues | $ 8,127 | $ 7,239 | $ 23,887 | $ 21,992 |

(1) For presentation in the Condensed Consolidated Statement of Operations, service fees of the Corporate and Other segment are reclassified to Operating costs and expenses.



Summarized financial performance data for each of the Company's reportable segments are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2003(2) | 2002 | 2003(2) | 2002 |
| **Income from operations before income tax expense (benefit), dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax** | | | | |
| *Property-Liability* | | | | |
| Underwriting income | | | | |
| Allstate Protection | $ 726 | $ 269 | $ 1,411 | $ 301 |
| Discontinued Lines and Coverages | (471) | (158) | (562) | (168) |
| Total underwriting income | 255 | 111 | 849 | 133 |
| Net investment income | 417 | 429 | 1,242 | 1,256 |
| Realized capital gains and losses | 109 | (251) | 177 | (380) |
| Gain on disposition of operations | 2 | — | 5 | 7 |
| Property-Liability income from operations before income tax expense (benefit), dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | 783 | 289 | 2,273 | 1,016 |
| *Allstate Financial* | | | | |
| Premiums and contract charges | 538 | 512 | 1,710 | 1,632 |
| Net investment income | 823 | 794 | 2,424 | 2,313 |
| Realized capital gains and losses | (3) | (164) | (83) | (288) |
| Contract benefits | 424 | 388 | 1,380 | 1,213 |
| Interest credited to contractholder funds | 467 | 464 | 1,380 | 1,316 |
| Operating costs and expenses and amortization of deferred policy acquisition costs | 279 | 312 | 897 | 850 |
| Restructuring charges | 1 | — | 1 | 1 |
| Loss on disposition of operations | 14 | — | 14 | — |
| Allstate Financial income (loss) from operations before income tax expense (benefit), dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | 173 | (22) | 379 | 277 |
| *Corporate and Other* | | | | |
| Service fees (1) | 3 | 7 | 10 | 29 |
| Net investment income | 16 | 19 | 46 | 55 |

| | | | | |
|---|---|---|---|---|
| Realized capital gains and losses | (3) | (4) | (4) | (7) |
| Operating costs and expenses | 74 | 76 | 216 | 237 |
| Corporate and Other loss from operations before income tax expense (benefit), dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | (58) | (54) | (164) | (160) |
| Consolidated income from operations before income tax expense (benefit), dividends on preferred securities of subsidiary trust and cumulative effect of change in accounting principle, after-tax | $ 898 | $ 213 | $ 2,488 | $ 1,133 |

(1) For presentation in the Condensed Consolidated Statement of Operations, service fees of the Corporate and Other segment are reclassified to Operating costs and expenses.

(2) Upon adoption of FIN 46 effective July 1, 2003, dividends on preferred securities of subsidiary trust are classified as interest expense. No reclassifications of prior periods were made.



## 7. Other Comprehensive Income

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

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | | | 2002 | | |
| **(in millions)** | **Pretax** | **Tax** | **After-tax** | **Pretax** | **Tax** | **After-tax** |
| *Unrealized capital gains and losses* | | | | | | |
| Unrealized holding gains (losses) arising during the period | $ (616) | $ 215 | $ (401) | $ 461 | $ (161) | $ 300 |
| Less: reclassification adjustments | 82 | (29) | 53 | (422) | 148 | (274) |
| Unrealized net capital gains (losses) | (698) | 244 | (454) | 883 | (309) | 574 |
| Net gains (losses) on derivative instruments arising during the period | — | — | — | 3 | (1) | 2 |
| Less: reclassification adjustment for derivative instruments | — | — | — | — | — | — |
| Unrealized net capital gains (losses) and net gains (losses) on derivative instruments | (698) | 244 | (454) | 886 | (310) | 576 |
| *Unrealized foreign currency translation adjustments* | 15 | (5) | 10 | (20) | 7 | (13) |
| *Unrealized minimum pension liability adjustments* | — | — | — | — | — | — |
| Other comprehensive income (loss) | $ (683) | $ 239 | (444) | $ 866 | $ (303) | 563 |
| Net income | | | 691 | | | 248 |
| Comprehensive income (loss) | | | $ 247 | | | $ 811 |

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

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | | | 2002 | | |
| **(in millions)** | **Pretax** | **Tax** | **After-tax** | **Pretax** | **Tax** | **After-tax** |
| *Unrealized capital gains and losses* | | | | | | |
| Unrealized holding gains (losses) arising during the period | $ 749 | $ (262) | $ 487 | $ 400 | $ (140) | $ 260 |
| Less: reclassification adjustments | 83 | (29) | 54 | (609) | 213 | (396) |
| Unrealized net capital gains (losses) | 666 | (233) | 433 | 1,009 | (353) | 656 |
| Net gains (losses) on derivative instruments arising during the period | 1 | — | 1 | 2 | (1) | 1 |
| Less: reclassification adjustment for derivative instruments | (1) | — | (1) | — | — | — |
| Unrealized net capital gains (losses) and net gains (losses) on derivative instruments | 668 | (233) | 435 | 1,011 | (354) | 657 |
| *Unrealized foreign currency translation adjustments* | 51 | (18) | 33 | (9) | 3 | (6) |
| *Unrealized minimum pension liability adjustments* | — | — | — | — | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other comprehensive income (loss) | $ 719 | $ (251) | 468 | $ 1,002 | $ (351) | 651 |
| Net income | | | 1,944 | | | 687 |
| Comprehensive income (loss) | | | $ 2,412 | | | $ 1,338 |



## 8. Company Restructuring

In the first nine months of 2003, the Company recorded restructuring and related charges of $56 million pretax ($36 million after-tax). The charges include employee termination and relocation benefits and a non-cash charge resulting from pension benefit payments made to agents in connection with the 1999 reorganization of employee agents to a single exclusive agency independent contractor program.

In 2001, the Company announced new strategic initiatives to improve the efficiency of its claims handling and certain other back-office processes primarily through a consolidation and reconfiguration of field claim offices, customer information centers and satellite offices. This restructuring program involves a reduction of the total number of field claim offices and an increase in the average size per claim office. In addition, two customer information centers and two satellite offices were closed. As part of the program, employees working in facilities to be closed will elect to either relocate or collect severance benefits. The Company anticipates the plan will produce approximately $140 million of annual pretax expense reductions. The implementation of the plan is expected to be substantially complete by year-end 2003.

The Company completed its program announced on November 10, 1999 to aggressively expand its selling and service capabilities and reduce current annual expenses by approximately $600 million. The reduction in expenses was achieved through field realignment, the reorganization of employee agents to a single exclusive agency independent contractor program, the closing of a field support center and four regional offices, and reduced employee related expenses and professional services as a result of reductions in force, attrition and consolidations.

As a result of the 1999 program, Allstate established a $69 million restructuring liability during the fourth quarter of 1999 for certain employee termination costs and qualified exit costs. Additionally, during 2001, an additional $96 million was accrued in connection with the new program for certain employee termination costs and qualified exit costs.

The following table illustrates the inception to date change in the restructuring liability at September 30, 2003:

| (in millions) | Employee Costs | Exit Costs | Total liability |
|---|---|---|---|
| Balance at December 31, 1999 | $ 59 | $ 10 | $ 69 |
| 1999 program adjustments: | | | |
| Net adjustments to liability | — | 11 | 11 |
| Payments applied against the liability | (53) | (18) | (71) |
| Incremental post-retirement benefits classified with OPEB liability | (6) | — | (6) |
| 1999 program liability at September 30, 2003 | — | 3 | 3 |
| 2001 program adjustments: | | | |
| Addition to liability for 2001 program | 17 | 79 | 96 |
| Net adjustments to liability | 7 | 2 | 9 |
| Payments applied against the liability | (20) | (59) | (79) |
| 2001 program liability at September 30, 2003 | 4 | 22 | 26 |
| Other programs: | | | |
| Addition to liability for other programs | 9 | 2 | 11 |
| Payments applied against the liability | (6) | — | (6) |
| Other programs liability at September 30, 2003 | 3 | 2 | 5 |
| Balance at September 30, 2003 | $ 7 | $ 27 | $ 34 |

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties.



## 9. Shareholder Rights Agreement

On November 11, 2003, the Company announced it would terminate the Rights Agreement entered into in February 1999 and buy back the share purchase rights (the "Rights") at the redemption price of $0.01 per Right (approximately $7 million), payable on January 2, 2004. The Rights Agreement, under which all shareholders received a dividend distribution of one Right on each outstanding share of the Company's common stock, would have expired on February 12, 2009.

**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

To the Board of Directors and Shareholders of The Allstate Corporation:

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the "Company") as of September 30, 2003, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2003 and 2002, and the condensed consolidated statements of cash flows for the nine-month periods ended September 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 The Allstate Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended, not presented herein. In our report dated February 5, 2003, which report includes an explanatory paragraph as to a change in the Company's method of accounting for goodwill and other intangible assets in 2002, 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
November 12, 2003



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002**

**The following discussion highlights significant factors influencing results of operations and changes in financial position of The Allstate Corporation (the "Company" or "Allstate"). 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 Corporation Annual Report on Form 10-K for 2002 and in Appendix D of the Notice of Annual Meeting and Proxy Statement dated March 28, 2003.**

**The Company has four reporting segments: Allstate Protection, Discontinued Lines and Coverages, Allstate Financial and Corporate and Other. Property-Liability operations include the Allstate Protection and the Discontinued Lines and Coverages segments.**

**HIGHLIGHTS**

- Net income increased by $443 million to $691 million in the third quarter of 2003 from $248 million in the third quarter of 2002, despite a $282 million increase in catastrophe losses. Net income increased $1.26 billion to $1.94 billion for the first nine months of 2003 from $687 million for the first nine months of 2002 even though catastrophe losses of $1.08 billion were $583 million higher than the same period of 2002. Increases in both periods were driven by realized capital gains versus realized capital losses in the prior year and improved underwriting results in the Property-Liability business. The increase in Net income for the nine months ended September 30, 2003 was also due to the 2002 impact of the $331 million, after-tax, cumulative effect of a change in accounting principle related to the accounting for goodwill. Net income per diluted share increased to $0.97 in the third quarter of 2003 from $0.35 in the third quarter of last year, and to $2.75 in the first nine months of 2003 from $0.97 in the first nine months of last year.

- Property-Liability Underwriting income, a measure that is not based on generally accepted accounting principles ("GAAP") and is defined and reconciled to Net income on page 21, increased $144 million to $255 million in the third quarter of 2003 from $111 million in the third quarter of 2002. Underwriting income increased $716 million to $849 million in the first nine months of 2003 from $133 million for the first nine months of 2002. Higher premiums earned, continued favorable auto and homeowners loss frequencies and favorable Allstate Protection prior year reserve reestimates drove the improvement and were partially offset by prior year reserve strengthening in the Discontinued Lines and Coverages segment and higher catastrophes in both periods.



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**CONSOLIDATED NET INCOME**

Summarized financial data and Net income by business unit are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| Property-liability insurance premiums | $ 6,230 | $ 5,904 | $ 18,375 | $ 17,411 |

| | | | | |
|---|---|---|---|---|
| Life and annuity premiums and contract charges | 538 | 512 | 1,710 | 1,632 |
| Net investment income | 1,256 | 1,242 | 3,712 | 3,624 |
| Property-liability insurance claims and claims expense | (4,506) | (4,391) | (13,184) | (13,253) |
| Life and annuity contract benefits | (424) | (388) | (1,380) | (1,213) |
| Interest credited to contractholder funds | (467) | (464) | (1,380) | (1,316) |
| Amortization of deferred policy acquisition costs ("DAC") | (1,009) | (971) | (2,958) | (2,779) |
| Operating costs and expenses | (716) | (710) | (2,197) | (2,008) |
| Restructuring and related charges | (19) | (40) | (56) | (95) |
| Interest expense | (70) | (67) | (204) | (204) |
| Income tax expense | (175) | (111) | (528) | (342) |
| Realized capital gains and losses, after-tax | 62 | (266) | 46 | (437) |
| (Loss) gain on disposition of operations, after-tax | (8) | — | (6) | 5 |
| Dividends on preferred securities of subsidiary trust | — | (2) | (5) | (7) |
| Cumulative effect of change in accounting principle, after-tax | (1) | — | (1) | (331) |
| Net income | $ 691 | $ 248 | $ 1,944 | $ 687 |
| Property-Liability | $ 603 | $ 270 | $ 1,769 | $ 856 |
| Allstate Financial | 119 | 9 | 267 | (77) |
| Corporate and Other | (31) | (31) | (92) | (92) |
| Total consolidated net income | $ 691 | $ 248 | $ 1,944 | $ 687 |

**CONSOLIDATED REVENUES**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| Property-liability insurance premiums | $ 6,230 | $ 5,904 | $ 18,375 | $ 17,411 |
| Life and annuity premiums and contract charges | 538 | 512 | 1,710 | 1,632 |
| Net investment income | 1,256 | 1,242 | 3,712 | 3,624 |
| Realized capital gains and losses | 103 | (419) | 90 | (675) |
| Total consolidated revenues | $ 8,127 | $ 7,239 | $ 23,887 | $ 21,992 |

Consolidated revenues increased 12.3% in the third quarter of 2003 when compared to the third quarter of 2002 and increased 8.6% for the nine months ended September 30, 2003 from the first nine months of 2002. The increases were primarily due to higher Property-Liability insurance premiums and Realized capital gains versus Realized capital losses in the same periods of 2002.



**PROPERTY-LIABILITY HIGHLIGHTS**

- Premiums written, an operating measure that is defined and reconciled to Premiums earned on page 22, increased 5.1% in the third quarter of 2003 over the third quarter of 2002 and 5.1% in the first nine months of 2003 over the first nine months of 2002 primarily due to rate increases that drove higher average premiums. Allstate brand standard auto and homeowners new business premiums written increased 32.7% and 54.8%, respectively, in the third quarter of 2003, and 12.4% and 39.3%, respectively, in the first nine months of 2003, over the same periods of 2002.

- Underwriting income increased $144 million to $255 million in the third quarter of 2003 from $111 million in the third quarter in 2002. Underwriting income increased $716 million to $849 million in the first nine months of 2003 from $133 million in the first nine months in 2002. Higher premiums earned, continued favorable auto and homeowners loss frequencies and favorable Allstate Protection prior year reserve reestimates drove the improvement and were partially offset by prior year reserve strengthening in the Discontinued Lines and Coverages segment and higher catastrophes in both periods. The combined ratio improved 2.2 points in the third quarter of 2003 compared to the third quarter of last year, and 3.8 points in the first nine months of 2003 compared to the same period last year.

- Catastrophe losses increased $282 million to $378 million in the third quarter of 2003 from $96 million in the third quarter of 2002 and increased $583 million to $1.08 billion in the first nine months of 2003 from $494 million for the first nine months of 2002.

- Asbestos reserves were strengthened by $442 million in the third quarter 2003 and $514 million in the first nine months of 2003, significantly improving the three-year average survival ratio.

**PROPERTY-LIABILITY OPERATIONS**

Summarized financial data, key operating ratios and a reconciliation of Underwriting income to Net income are presented in the following table.

Underwriting income is Premiums earned, less Claims and claims expense ("losses"), Amortization of DAC, Operating costs and expenses and Restructuring and related charges as determined using GAAP. Management uses this measure in its evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Underwriting income (loss) should not be considered as a substitute for Net income and does not reflect the overall profitability of the business. Net income is the most directly comparable GAAP measure.

| (in millions, except ratios) | Three Months Ended September 30, 2003 | Three Months Ended September 30, 2002 | Nine Months Ended September 30, 2003 | Nine Months Ended September 30, 2002 |
|---|---|---|---|---|
| Premiums written | $ 6,629 | $ 6,305 | $ 18,988 | $ 18,063 |
| Premiums earned | $ 6,230 | $ 5,904 | $ 18,375 | $ 17,411 |
| Claims and claims expense ("losses") | (4,506) | (4,391) | (13,184) | (13,253) |
| Amortization of DAC | (905) | (814) | (2,590) | (2,399) |
| Operating costs and expenses | (546) | (548) | (1,697) | (1,532) |
| Restructuring and related charges | (18) | (40) | (55) | (94) |
| Underwriting income | 255 | 111 | 849 | 133 |
| Net investment income | 417 | 429 | 1,242 | 1,256 |
| Income tax expense | (139) | (110) | (444) | (250) |
| Realized capital gains and losses, after-tax | 70 | (160) | 120 | (240) |
| Gain on disposition of operations, after-tax | 1 | — | 3 | 5 |
| Cumulative effect of a change in accounting principle, after-tax | (1) | — | (1) | (48) |
| Net income | $ 603 | $ 270 | $ 1,769 | $ 856 |
| Catastrophe losses | $ 378 | $ 96 | $ 1,077 | $ 494 |
| Operating ratios | | | | |
| Claims and claims expense ("loss") ratio | 72.3 | 74.4 | 71.8 | 76.1 |
| Expense ratio | 23.6 | 23.7 | 23.6 | 23.1 |
| Combined ratio | 95.9 | 98.1 | 95.4 | 99.2 |
| Effect of catastrophe losses on loss ratio | 6.1 | 1.6 | 5.9 | 2.8 |
| Effect of restructuring and related charges on expense ratio | 0.3 | 0.7 | 0.3 | 0.5 |
| Effect of Discontinued Lines and Coverages on combined ratio | 7.6 | 2.7 | 3.1 | 0.9 |

## ALLSTATE PROTECTION SEGMENT

**Premiums written**, an operating measure, is the amount of premiums charged for policies issued during a period. Premiums earned is a GAAP measure. Premiums are considered earned 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 Condensed Consolidated Statements of Financial Position.



The following table presents the reconciliation of Premiums written to Premiums earned for the three months and nine months ended September 30.

| (in millions) | Three Months Ended September 30, 2003 | Three Months Ended September 30, 2002 | Nine Months Ended September 30, 2003 | Nine Months Ended September 30, 2002 |
|---|---|---|---|---|
| **Premiums written:** | | | | |
| Allstate Protection | $ 6,627 | $ 6,303 | $ 18,978 | $ 18,056 |
| Discontinued Lines and Coverages | 2 | 2 | 10 | 7 |
| Property-Liability Premiums written | 6,629 | 6,305 | 18,988 | 18,063 |
| (Increase) decrease in Unearned Premiums | (421) | (397) | (669) | (654) |
| Other | 22 | (4) | 56 | 2 |
| Property-Liability Premiums earned | $ 6,230 | $ 5,904 | $ 18,375 | $ 17,411 |
| **Premiums earned:** | | | | |
| Allstate Protection | $ 6,228 | $ 5,902 | $ 18,364 | $ 17,403 |
| Discontinued Lines and Coverages | 2 | 2 | 11 | 8 |
| Property-Liability | $ 6,230 | $ 5,904 | $ 18,375 | $ 17,411 |

Premiums written by brand are shown in the following table.

| (in millions) | Three Months Ended September 30, 2003 | 2002 | Nine Months Ended September 30, 2003 | 2002 |
|---|---|---|---|---|
| Allstate brand: | | | | |
| Standard auto | $ 3,515 | $ 3,314 | $ 10,216 | $ 9,650 |
| Non-standard auto | 491 | 584 | 1,520 | 1,813 |
| Homeowners | 1,467 | 1,327 | 3,874 | 3,480 |
| Commercial | 210 | 191 | 639 | 580 |
| Involuntary auto | 60 | 54 | 179 | 151 |
| Other personal | 350 | 330 | 1,005 | 942 |
| Total Allstate brand | 6,093 | 5,800 | 17,433 | 16,616 |
| Ivantage: | | | | |
| Standard auto | 315 | 314 | 925 | 919 |
| Non-standard auto | 42 | 36 | 128 | 80 |
| Homeowners | 139 | 128 | 387 | 368 |
| Involuntary auto | 10 | 3 | 30 | 5 |
| Other personal | 28 | 22 | 75 | 68 |
| Total Ivantage | 534 | 503 | 1,545 | 1,440 |
| **Total Premiums written** | $ 6,627 | $ 6,303 | $ 18,978 | $ 18,056 |



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

| (in millions) | Three Months Ended September 30, 2003 | 2002 | Nine Months Ended September 30, 2003 | 2002 |
|---|---|---|---|---|
| New business premiums: | | | | |
| Standard auto | $ 366 | $ 277 | $ 916 | $ 813 |
| Non-standard auto | 86 | 120 | 283 | 362 |
| Homeowners | 222 | 144 | 534 | 384 |
| Other | 159 | 124 | 447 | 350 |
| Total new business premiums | 833 | 665 | 2,180 | 1,909 |
| Renewal business premiums: | | | | |
| Standard auto | 3,464 | 3,351 | 10,225 | 9,756 |
| Non-standard auto | 447 | 500 | 1,365 | 1,531 |
| Homeowners | 1,384 | 1,311 | 3,727 | 3,464 |
| Other | 499 | 476 | 1,481 | 1,396 |
| Total renewal business premiums | 5,794 | 5,638 | 16,798 | 16,147 |
| **Total Premiums written** | $ 6,627 | $ 6,303 | $ 18,978 | $ 18,056 |

*Standard auto premiums written* increased 5.6% to $3.83 billion in the third quarter of 2003 from $3.63 billion in the same period of 2002 and 5.4% during the first nine months of 2003 as compared to the first nine months of 2002.

The Allstate brand standard auto results are shown in the following table.

| | Three Months Ended September 30, 2003 | 2002 | Nine Months Ended September 30, 2003 | 2002 |
|---|---|---|---|---|
| **Allstate brand** | | | | |
| New business premiums | $ 325 million | $ 245 million | $ 808 million | $ 719 million |
| New business premiums (% change) | 32.7 | (16.1) | 12.4 | (14.1) |
| Renewal business premiums | $ 3.19 billion | $ 3.07 billion | $ 9.41 billion | $ 8.93 billion |
| Renewal ratio | 90.2 | 88.1 | 89.5 | 88.7 |
| Policies in force ("PIF") (% change) | (0.3) | (2.1) | (0.3) | (2.1) |
| Average premium (% change) | 5.8 | 9.7 | 7.4 | 8.4 |

The increases in Allstate brand standard auto average premium in the third quarter 2003 and in the first nine months of 2003 compared to the same periods of 2002 were primarily due to higher average renewal premiums. Despite declining at September 30, 2003 compared to September 30, 2002, Allstate brand standard auto PIF increased 0.9% at September 30, 2003 compared to June 30, 2003. In the third quarter of 2003, positive sequential quarterly growth was achieved in 35 states representing 88.1% of total PIF.

Allstate continues to take steps, including increasing premium rates, changing down payment requirements and making other underwriting changes, to improve the standard auto loss ratio in certain markets including the states of California, Texas and Florida. Collectively, these three states represent 28.8% of Allstate brand standard auto premiums written at September 30, 2003. The Allstate brand standard auto results, excluding the states of California, Texas and Florida, are shown in the following table.



| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Allstate brand, excluding CA, TX, FL** | | | | |
| New business premiums | $ 226 million | $ 191 million | $ 603 million | $ 547 million |
| New business premiums (% change) | 18.3 | (1.7) | 10.2 | (1.8) |
| Renewal business premiums | $ 2.26 billion | $ 2.15 billion | $ 6.67 billion | $ 6.27 billion |
| Renewal ratio | 90.4 | 89.5 | 90.0 | 89.6 |
| PIF (% change) | 1.3 | (0.1) | 1.3 | (0.1) |

As the profitability of the California, Texas and Florida standard auto markets improves, the potential for profitable growth is evaluated and pursued when deemed appropriate. Because of profitable growth in these markets during 2003, the countrywide trends in standard auto new business premiums and renewal business premiums are more favorable than the trends excluding California, Texas and Florida. However, these markets' results have lower renewal ratios and PIF increases due to the timing of the growth. PIF in each of these states increased compared to June 30, 2003 levels.

Excluding the states of California, Texas and Florida, the renewal ratio for Allstate brand standard auto increased 0.9 points in the third quarter of 2003 as compared to the third quarter of 2002; increased 0.4 points in the first nine months of 2003 as compared to the first nine months of 2002; and increased 0.5 points in the first nine months of 2003 as compared to the fourth quarter of 2002. Excluding the states of California, Texas and Florida, at September 30, 2003, Allstate brand standard auto PIF increased 0.8% compared to June 30, 2003.

The Ivantage standard auto results are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Ivantage** | | | | |
| New business premiums | $ 41 million | $ 32 million | $ 108 million | $ 94 million |
| New business premiums (% change) | 28.1 | 3.2 | 14.9 | — |
| Renewal business premiums | $ 274 million | $ 282 million | $ 817 million | $ 825 million |
| Renewal ratio | 81.3 | 83.4 | 82.8 | 83.4 |
| PIF (% change) | (9.1) | (6.8) | (9.1) | (6.8) |
| Average premium (% change) | 18.6 | 9.0 | 15.5 | 6.3 |

Management expects Ivantage standard auto PIF to continue to decline as the Company pursues actions to improve profitability. At September 30, 2003, Ivantage standard auto PIF decreased 2.7% compared to June 30, 2003.

Increases in standard auto average premium in both the Allstate brand and Ivantage were due to rate actions taken during 2002 and the first nine months of 2003, 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 the third quarter and first nine months of 2003.

| | Three Months Ended September 30, 2003 | | Nine Months Ended September 30, 2003 | |
|---|---|---|---|---|
| | # of States | Weighted Average Rate Change (%) | # of States | Weighted Average Rate Change (%) |
| Allstate brand | 6 | 4.0 | 23 | 6.0 |
| Ivantage (Encompass) | 13 | 8.4 | 40 | 8.1 |

*Non-standard auto premiums written* decreased 14.0% to $533 million in the third quarter of 2003 from $620 million in the same period of 2002 and 12.9% during the first nine months of 2003 as compared to the first nine months of 2002. Declines during the third quarter and first nine months of 2003 compared to the same periods in 2002 were primarily due to a decline in the number of policies that were available to renew in the Allstate brand. This decline was due to prior year actions that were taken to address adverse profitability



trends. These actions varied by state and included changes to premium down payment requirements, tighter underwriting requirements, rate increases and certain other administrative actions.

The Allstate brand non-standard auto results are shown in the following table.

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Allstate brand** | | | | |
| New business premiums | $ 67 million | $ 94 million | $ 216 million | $ 306 million |
| New business premiums (% change) | (28.7) | (20.3) | (29.4) | (23.1) |
| Renewal business premiums | $ 424 million | $ 490 million | $ 1.30 billion | $ 1.51 billion |
| Renewal ratio | 72.9 | 73.4 | 73.8 | 73.2 |
| PIF (% change) | (17.8) | (20.9) | (17.8) | (20.9) |
| Average premium (% change) | 1.1 | 13.2 | 4.4 | 12.1 |

The increase in Allstate brand non-standard auto average premium during the third quarter of 2003 and first nine months of 2003 was due primarily to higher average renewal premiums. Management expects Allstate brand non-standard auto PIF to continue to decline but at a lower rate. As non-standard auto continues to show improved profitability in certain large markets, the Company will continue to evaluate opportunities for growth.

The Ivantage non-standard auto results are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Ivantage** | | | | |
| New business premiums | $ 19 million | $ 26 million | $ 67 million | $ 56 million |
| New business premiums (% change) | (26.9) | — | 19.6 | — |
| Renewal business premiums | $ 23 million | $ 10 million | $ 61 million | $ 24 million |
| Renewal ratio | 57.5 | 52.7 | 56.5 | 52.3 |
| PIF (% change) | 46.5 | 145.7 | 46.5 | 145.7 |
| Average premium (% change) | (1.8) | 11.0 | 0.2 | 18.2 |

Renewal business premiums increased in the third quarter and first nine months of 2003 due to the re-entry of Deerbrook in the non-standard business during 2002. Since December 31, 2002, Deerbrook has been writing business in 19 states and consequently more stable trends in new business premiums and PIF have emerged in 2003 when compared to the prior year.

Fluctuations in Allstate brand and Ivantage non-standard auto average premium were partially due to rate actions taken for both the Allstate brand and Ivantage during 2002 and the first nine months of 2003. The following table shows the net rate changes that were approved in the third quarter and first nine months of 2003.

| | Three Months Ended September 30, 2003 | | Nine Months Ended September 30, 2003 | |
|---|---|---|---|---|
| | # of States | Weighted Average Rate Change (%) | # of States | Weighted Average Rate Change (%) |
| Allstate brand | 8 | 11.2 | 13 | 8.4 |
| Ivantage (Deerbrook) | 5 | 1.8 | 12 | 6.8 |

*Homeowners premiums written* increased 10.4% to $1.61 billion in the third quarter of 2003 from $1.46 billion in the same period of 2002 and 10.7% during the first nine months of 2003 as compared to the first nine months of 2002.



The Allstate brand homeowners results are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Allstate brand** | | | | |
| New business premiums | $ 209 million | $ 135 million | $ 503 million | $ 361 million |
| New business premiums (% change) | 54.8 | 6.3 | 39.3 | 4.9 |
| Renewal business premiums | $ 1.26 billion | $ 1.19 billion | $ 3.37 billion | $ 3.12 billion |
| Renewal ratio | 87.8 | 87.7 | 87.5 | 87.9 |
| PIF (% change) | 2.1 | — | 2.1 | — |
| Average premium (% change) | 5.3 | 21.8 | 7.5 | 19.7 |

The increase in Allstate brand homeowners average premium during the third quarter and first nine months of 2003 was primarily due to higher average renewal premiums. Allstate brand homeowners PIF increased 1.3% at September 30, 2003 compared to June 30, 2003. In the third quarter of 2003, positive sequential quarterly growth was achieved in 38 states representing 92.1% of Allstate brand homeowners PIF.

The Ivantage homeowners results are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Ivantage** | | | | |

| | | | | |
|---|---|---|---|---|
| New business premiums | $ 13 million | $ 9 million | $ 31 million | $ 23 million |
| New business premiums (% change) | 44.4 | 12.5 | 34.8 | 21.1 |
| Renewal business premiums | $ 126 million | $ 119 million | $ 356 million | $ 345 million |
| Renewal ratio | 88.3 | 86.6 | 87.3 | 86.8 |
| PIF (% change) | (5.1) | (6.1) | (5.1) | (6.1) |
| Average premium (% change) | 13.9 | 14.3 | 11.2 | 12.9 |

Management expects Ivantage homeowners PIF to continue to decline as the Company pursues actions to improve profitability. At September 30, 2003, Ivantage homeowners PIF decreased 1.2% compared to June 30, 2003.

Increases in Allstate brand and Ivantage homeowners average premium were due to rate actions taken during 2002 and the first nine months of 2003. The following table shows the net rate changes that were approved during the third quarter and first nine months of 2003.

| | Three Months Ended September 30, 2003 | | Nine Months Ended September 30, 2003 | |
|---|---|---|---|---|
| | # of States | Weighted Average Rate Change (%) | # of States | Weighted Average Rate Change (%) |
| Allstate brand | 8 | (1.2) | 19 | 1.5 |
| Ivantage (Encompass) | 16 | 9.8 | 40* | 11.7 |

* includes Washington D.C.



Premiums earned by brand are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | 2003 | 2002 | 2003 | 2002 |
| **Premiums earned** | | | | |
| Allstate brand: | | | | |
| Standard auto | $ 3,392 | $ 3,203 | $ 9,960 | $ 9,448 |
| Non-standard auto | 507 | 599 | 1,589 | 1,844 |
| Homeowners | 1,242 | 1,091 | 3,623 | 3,139 |
| Other | 586 | 543 | 1,721 | 1,595 |
| Total Allstate brand | 5,727 | 5,436 | 16,893 | 16,026 |
| Ivantage: | | | | |
| Standard auto | 299 | 298 | 894 | 896 |
| Non-standard auto | 44 | 26 | 120 | 57 |
| Homeowners | 124 | 118 | 367 | 350 |
| Other | 34 | 24 | 90 | 74 |
| Total Ivantage | 501 | 466 | 1,471 | 1,377 |
| **Total Allstate Protection Premiums earned** | $ 6,228 | $ 5,902 | $ 18,364 | $ 17,403 |

**Underwriting Results** are shown in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions, except ratios)** | 2003 | 2002 | 2003 | 2002 |
| Premiums written | $ 6,627 | $ 6,303 | $ 18,978 | $ 18,056 |
| Premiums earned | $ 6,228 | $ 5,902 | $ 18,364 | $ 17,403 |
| Claims and claims expense ("losses") | (4,036) | (4,232) | (12,618) | (13,082) |
| Amortization of DAC | (905) | (814) | (2,590) | (2,399) |
| Other costs and expenses | (543) | (547) | (1,690) | (1,527) |
| Restructuring and related charges | (18) | (40) | (55) | (94) |
| Underwriting income | $ 726 | $ 269 | $ 1,411 | $ 301 |
| Catastrophe losses | $ 378 | $ 96 | $ 1,077 | $ 494 |
| **Underwriting income by brand** | | | | |
| Allstate brand | $ 736 | $ 316 | $ 1,455 | $ 445 |
| Ivantage | (10) | (47) | (44) | (144) |

| | | | | |
|---|---|---|---|---|
| Underwriting income | $ 726 | $ 269 | $ 1,411 | $ 301 |

Underwriting income totaled $726 million during the third quarter of 2003 compared to $269 million in the third quarter of 2002. For the nine months ended September 30, 2003, Allstate Protection generated underwriting income of $1.41 billion compared to $301 million for the first nine months of last year. The increase in Underwriting income during both periods was the result of increased Premiums earned, continued improvement in auto and homeowners claim frequency (rate of claim occurrence), and favorable prior year reserve reestimates, partially offset by increased catastrophe losses and moderate increases in current year claim severity (average cost per claim). Increased catastrophe losses in both periods included Hurricane Isabel in September, severe weather in the Midwest in July, and the first nine months of the year also included a large number of tornadoes with resulting damage to properties in many markets.

Claim severity was impacted by inflationary pressures in medical costs and auto repair and home repair costs. Increased severity was offset by lower auto and homeowner claim frequencies, excluding catastrophe claims. If future development of current year claim severity differs from the current reserve expectations by 1%, reserve reestimates would impact Net income by approximately $100 million. The following tables show



the net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2003 and 2002, and the impact of prior year reserve reestimates on Claims and claims expense and the loss ratio.

| | Jan 1 Reserves | |
|---|---|---|
| **(in millions)** | **2003** | **2002** |
| Auto | $ 10,378 | $ 10,339 |
| Homeowners | 1,664 | 1,488 |
| Other | 1,546 | 1,512 |
| Total Allstate Protection | $ 13,588 | $ 13,339 |
| Allstate brand | $ 12,361 | $ 12,092 |
| Ivantage | 1,227 | 1,247 |
| Total Allstate Protection | $ 13,588 | $ 13,339 |

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | Reserve Reestimate | | Impact on Loss Ratio | | Reserve Reestimate | | Impact on Loss Ratio | |
| **(in millions, except ratios)** | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** |
| Auto | $ (139) | $ (78) | (2.3) | (1.3) | $ (177) | $ 9 | (1.0) | 0.1 |
| Homeowners | (32) | 106 | (0.5) | 1.8 | (17) | 339 | (0.1) | 1.9 |
| Other | 31 | 6 | 0.5 | 0.1 | 52 | 35 | 0.3 | 0.2 |
| Total Allstate Protection | $ (140) | $ 34 | (2.3) | 0.6 | $ (142) | $ 383 | (0.8) | 2.2 |
| Allstate brand | $ (138) | $ 3 | (2.2) | 0.1 | $ (164) | $ 352 | (0.9) | 2.0 |
| Ivantage | (2) | 31 | (0.1) | 0.5 | 22 | 31 | 0.1 | 0.2 |
| Total Allstate Protection | $ (140) | $ 34 | (2.3) | 0.6 | $ (142) | $ 383 | (0.8) | 2.2 |

Favorable reserve reestimates in 2003 were primarily related to reserves established for the last three years, and were the result of auto injury severity development that was better than expected and the release of $38 million of incurred but not reported ("IBNR") reserves due to lower than anticipated losses in Texas related to mold claims. In 2002, reestimates of prior year reserves were primarily due to increasing claim severities, mold claims in the state of Texas and late reported losses, which were greater than trends anticipated in reserve estimates as of January 1, 2002.

Allstate Protection loss, expense and combined ratio statistics are shown in the following table. The loss ratio, which is the percentage of losses to Premiums earned, is a measure of profitability.



| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | Loss Ratio | | Effect of catastrophe losses on the loss ratio | | Loss Ratio | | Effect of catastrophe losses on the loss ratio | |
| | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** |
| **Allstate Protection Loss Ratio** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Standard auto | 65.9 | 72.9 | 0.9 | 0.1 | 70.5 | 74.3 | 1.6 | 0.6 |
| Non-standard auto | 57.4 | 71.0 | 0.8 | 0.2 | 68.8 | 74.6 | 0.9 | 0.3 |
| Homeowners | 61.8 | 71.5 | 22.5 | 6.7 | 63.2 | 81.1 | 19.4 | 10.7 |
| Other | 71.3 | 65.7 | 5.5 | 2.2 | 69.9 | 68.7 | 5.8 | 2.9 |
| **Total Allstate Protection loss ratio** | 64.8 | 71.7 | 6.1 | 1.6 | 68.7 | 75.2 | 5.9 | 2.8 |
| **Allstate Protection expense ratio** | 23.5 | 23.7 | — | — | 23.6 | 23.1 | — | — |
| **Allstate Protection combined ratio** | 88.3 | 95.4 | — | — | 92.3 | 98.3 | — | — |
| **Loss ratios by brand** | | | | | | | | |
| **Allstate brand:** | | | | | | | | |
| Standard auto | 65.7 | 72.8 | 0.9 | 0.1 | 70.4 | 74.2 | 1.8 | 0.7 |
| Non-standard auto | 55.0 | 68.3 | 0.8 | 0.2 | 67.7 | 73.2 | 0.9 | 0.3 |
| Homeowners | 59.7 | 71.1 | 22.3 | 6.7 | 61.7 | 80.6 | 19.3 | 10.5 |
| Other | 71.2 | 66.1 | 5.8 | 2.2 | 70.3 | 70.5 | 5.9 | 2.9 |
| **Total Allstate brand loss ratio** | 64.0 | 71.3 | 6.0 | 1.6 | 68.3 | 74.9 | 5.9 | 2.7 |
| **Allstate brand expense ratio** | 23.2 | 22.9 | — | — | 23.1 | 22.3 | — | — |
| **Allstate brand combined ratio** | 87.2 | 94.2 | — | — | 91.4 | 97.2 | — | — |
| **Ivantage:** | | | | | | | | |
| Standard auto (Encompass) | 68.6 | 74.8 | 1.0 | 0.3 | 72.0 | 76.1 | 0.9 | 0.8 |
| Non-standard auto (Deerbrook) | 84.1 | 130.8 | — | — | 83.3 | 117.5 | — | — |
| Homeowners (Encompass) | 83.9 | 73.7 | 25.8 | 5.9 | 77.9 | 85.7 | 20.1 | 12.3 |
| Other | 73.5 | 54.2 | — | — | 61.1 | 29.7 | 3.3 | 2.7 |
| **Total Ivantage loss ratio** | 74.1 | 76.6 | 7.0 | 1.7 | 73.8 | 77.8 | 5.8 | 3.8 |
| **Ivantage expense ratio** | 27.9 | 33.5 | — | — | 29.2 | 32.7 | — | — |
| **Ivantage combined ratio** | 102.0 | 110.1 | — | — | 103.0 | 110.5 | — | — |

*Standard auto loss ratio* for Allstate Protection decreased 7.0 points in the third quarter of 2003 and 3.8 points during the first nine months of 2003, as compared to the same periods last year. The standard auto loss ratio declines were due to increased premiums earned, favorable claim frequency and favorable reserve reestimates related to prior years, partially offset by a moderate increase in claim severity in the current year.

*Non-standard auto loss ratio* for Allstate Protection decreased 13.6 points in the third quarter of 2003 and 5.8 points during the first nine months of 2003 as compared to the same periods last year. The decrease in the non-standard auto loss ratio during both periods was due to lower claim frequency, partly offset by lower premiums earned and a moderate increase in claim severity in the current year.

*Homeowners loss ratio* for Allstate Protection decreased 9.7 points in the third quarter of 2003 and 17.9 points during the first nine months of 2003 as compared to the same periods last year. The homeowners loss ratio decreased during both periods due to increased premiums earned, favorable reestimates of prior year reserves, including lower losses in Texas related to mold claims, and lower current



year claim frequency, partially offset by higher catastrophe losses and an increase in current year claim severity. Due to actions taken in 2002 and 2001 to improve the profitability of homeowners, Allstate achieved management's target loss ratio. Allstate plans to continue the programs implemented in prior years to maintain targeted profitability.

Because Allstate includes catastrophe losses in claims and claims expense, catastrophe losses affect both the underwriting results and loss ratios. For the third quarter of 2003, catastrophe losses totaled $378 million compared with $96 million for the same period in 2002. For the first nine months of 2003, catastrophe losses totaled $1.08 billion, compared with $494 million for the same period in 2002.

*Expense ratio* for Allstate Protection decreased 0.2 points in the third quarter of 2003 compared to the third quarter of 2002 and increased 0.5 points in the first nine months of 2003 compared to the first nine months of 2002. The third quarter decrease was due to higher premiums earned offset by higher agent incentives and marketing expenses. The increase in the first nine months of this year was due to higher pension expenses and employee and agent incentives. The Company expects advertising expenses in 2003 to exceed prior year advertising expenses by approximately $75 million to $125 million.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| **Allstate brand:** | | | | |
| Amortization of DAC | 14.2 | 13.3 | 13.7 | 13.3 |
| Other costs and expenses | 8.7 | 8.9 | 9.1 | 8.4 |
| Restructuring and related charges | 0.3 | 0.7 | 0.3 | 0.6 |
| **Allstate brand expense ratio** | 23.2 | 22.9 | 23.1 | 22.3 |

| | | | | |
|---|---|---|---|---|
| **Ivantage:** | | | | |
| Amortization of DAC | 18.8 | 19.9 | 18.9 | 19.9 |
| Other costs and expenses | 8.7 | 13.6 | 10.0 | 12.8 |
| Restructuring and related charges | 0.4 | — | 0.3 | — |
| **Ivantage expense ratio** | 27.9 | 33.5 | 29.2 | 32.7 |

**DISCONTINUED LINES AND COVERAGES SEGMENT**

Summarized underwriting results are presented in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| Premiums written | $ 2 | $ 2 | $ 10 | $ 7 |
| Premiums earned | $ 2 | $ 2 | $ 11 | $ 8 |
| Claims and claims expense | (470) | (159) | (566) | (171) |
| Other costs and expenses | (3) | (1) | (7) | (5) |
| Underwriting loss | $ (471) | $ (158) | $ (562) | $ (168) |

Underwriting losses of $471 million in the third quarter of 2003 were primarily related to reestimates of asbestos reserves totaling $442 million, a $14 million reestimate of the allowance for future uncollectible reinsurance recoverables, and other discontinued lines and coverages reserve reestimates of $8 million. Underwriting losses of $562 million in the first nine months of 2003 were primarily due to reestimates of asbestos reserves.

During the third quarter of 2003, management completed the annual comprehensive "ground up" review of reserves for the Discontinued Lines and Coverages segment. Reserve reestimates are recorded in



the reporting period in which they are determined. This review employed established industry and actuarial best practices within the context of the legal, legislative and economic environment.

The Company's net asbestos reserves by type of exposure and total reserve additions by quarter and year-to-date are shown in the following table.

| | September 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| **(in millions)** | **Number of Active Policyholders** | **Net Asbestos Reserves** | **% of Asbestos Reserves** | **Number of Active Policyholders** | **Net Asbestos Reserves(2)** | **% of Asbestos Reserves(2)** |
| Direct policyholders: | | | | | | |
| —Primary | 49 | $ 30 | 3% | 40 | $ 16 | 2% |
| —Excess | 274 | 208 | 19 | 240 | 87 | 14 |
| Total direct policyholders | 323 | 238 | 22% | 280 | 103 | 16% |
| Assumed reinsurance | | 191 | 17 | | 173 | 27 |
| IBNR claims | | 673 | 61 | | 359 | 57 |
| Total net reserves | | $ 1,102 | 100% | | $ 635 | 100% |
| Reserve additions: | | | | | | |
| First Quarter | | $ 34 | | | $ — | |
| Second Quarter | | 38 | | | — | |
| Third Quarter | | 442 | | | 121 | |
| Nine months ended September 30 | | $ 514 | | | $ 121 | |
| Survival ratio excluding commutations, policy buy-backs and settlement agreements as of December 31, 2002: | | | | | | |
| One-year | | 19.1(1) | | | 10.3 | |
| Three-year average | | 23.3(1) | | | 12.5 | |

(1) For these calculations, reserve additions of $514 million have been added to the $635 million of asbestos reserves at December 31, 2002 to facilitate an updated calculation of survival ratios with comparable, annual financial data.

(2) To conform to the current year presentation, $8 million of asbestos reserves at December 31, 2002 has been reclassified from direct excess insurance policyholders to direct primary insurance policyholders.

During the first nine months of 2003, 65 direct primary and excess insurance policyholders reported new claims, and claims of 22 policyholders' were closed, so that the number of direct insurance policyholders with active claims increased by 43.

Reserve additions for asbestos in the third quarter of 2003, totaling $442 million, were primarily for products-related coverage. This increase essentially was a result of more claimants being reported by excess insurance policyholders with existing active claims and new claims being reported in our assumed reinsurance business. This trend is consistent with the trends of other carriers in the industry. Management believes it is related to increased publicity and awareness of coverage, ongoing litigation, potential congressional activity and bankruptcy actions. Reserve additions for asbestos for the nine-months ended September 30, 2003, totaled $514 million.

- Increased net reserves for direct primary insurance of $14 million comprised $12 million for policyholders with existing active claims and $2 million for policyholders that previously had no active claims. The Company was not a significant direct primary insurer and did not insure any of the large asbestos manufacturers on a direct primary insurance basis.

- Increased net reserves for direct excess insurance of $121 million were due to policyholders with existing active claims. The increase in existing active claims is attributable to an increase in the number of claims filed against direct excess insureds.

- Increased net reserves for assumed reinsurance of $18 million reflect increased cessions as ceding companies (other insurance carriers) also experienced increased claim activity. Approximately 85% of the assumed reinsurance reserves are for small participations in excess of loss reinsurance programs of other carriers. The remainder result from pro-rata reinsurance. Many of the same insureds that have reported claims to the Company on their direct excess insurance coverages have also reported claims to carriers included in our assumed reinsurance exposure. The number of reported new claims is shown in the following table.



| | Nine months ended September 30, 2003 | Year ended December 31, 2002 | Year ended December 31, 2001 |
|---|---|---|---|
| New Claims(1) | 206 | 197 | 182 |

(1) New claims are defined as the aggregate number of policyholders with claims reported by all ceding companies.

- Increased net reserves for IBNR losses of $314 million were in anticipation of continued claims activity. IBNR now represent 61% of total asbestos reserves, 4 points higher than at December 31, 2002. IBNR reserves are estimated to provide for probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new direct active insurance policyholders and ceding companies.

The Company's exposure to non-products-related losses represents approximately 5% of total reserves. Management does not anticipate significant changes in this percentage as insureds' retentions associated with excess insurance programs, which are the Company's principal direct insurance, and assumed reinsurance exposure are seldom exceeded. The Company did not write direct primary insurance on policyholders with the potential for significant non-products-related loss exposure.

Liability for actual and potential asbestos losses has caused a number of companies to file for bankruptcy protection. Of 63 companies with significant asbestos exposure, all but one of which are in bankruptcy, on a direct insurance basis, we:

- Did not insure 44

- Settled with 12

- Reserved to excess insurance policy limits on 3

- Reserved to maximum mutual agreed upon exposure on 1

- Appropriately reserved for the remaining 3

Although management does not believe a greater exposure is probable for the remaining 3, the Company's maximum additional exposure to full policy limits for the remaining 3 in the aggregate is $26 million after-tax.

Reserves related to asbestos manufacturers in bankruptcy, whose claims are still in the process of resolution, are established based on claims that have occurred and other related information. The Company also establishes reserves for assumed reinsurance written by another carrier on these manufacturers in proportion to our participation share in the reinsurance agreements. The claim resolution process in these bankruptcies is lengthy and involves, among other factors, filing notices of claim by all current claimants, evaluating pre-petition and post-petition claims, negotiations among the various creditor groups and the debtors and, if necessary, evidentiary hearings by the bankruptcy court. Management will continue to monitor the relevant bankruptcies.

Pending, new, total closed and closed without payment claims for asbestos since December 31, 2002 are summarized in the following table:

**Number of Asbestos Claims**

| | |
|---|---|
| Pending as of December 31, 2002 | 6,900 |
| New | 1,973 |
| Total closed | 852 |
| Pending as of September 30, 2003 | 8,021 |

The changes in claim counts may not correlate directly to the change in recorded reserves because estimated net loss reserves for asbestos are subject to uncertainties that are greater than those presented by other types of claims.

To further limit our asbestos exposure, the Company purchased significant reinsurance, primarily to reduce our exposure to loss in our direct excess insurance business. The Company's reserves recoverable



from reinsurers are estimated to be approximately 32.1% of our gross estimated losses, after a reduction for known reinsurer insolvencies.

The Company's three-year average survival ratio, as updated above, is viewed to be a more representative prospective measure of current reserve adequacy than other survival ratio calculations. Now at 23.3 years as of December 31, 2002, the Company's survival ratio is at a level management considers a strong asbestos reserve position. Comparatively, at September 30, 2003 excluding commutations, policy buy-backs and settlement agreements the three-year average survival ratio is 21.5 years and the one-year survival ratio is 17.3 years. A one-year increase in the three-year average asbestos survival ratio at September 30, 2003 would require an after-tax increase in reserves of approximately $33 million.

Management believes that the Company's reserves are appropriately established based on assessments of pertinent factors and characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. Another comprehensive "ground up" review will be completed in the third quarter next year, as well as assessments each quarter to determine if any intervening significant events or developments require an interim adjustment to reserves.

**Property-Liability net investment income** decreased 2.8% in the third quarter of 2003 and 1.1% for the first nine months of 2003 as compared to the same periods last year due to the effects of lower portfolio yields and lower income from partnerships, partially offset by higher portfolio balances due to positive cash flows from operations. The lower portfolio yields were primarily due to purchases of fixed income securities with interest rates lower than the current portfolio average.

**Property-Liability realized capital gains and losses** are described in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| Investment write-downs | $ (8) | $ (31) | $ (81) | $ (76) |
| Sales | 126 | (115) | 254 | (109) |
| Valuation of derivative instruments | 1 | (8) | 6 | (32) |
| Settlements of derivative instruments | (10) | (97) | (2) | (163) |
| Realized capital gains and losses, pretax | 109 | (251) | 177 | (380) |
| Income tax (expense) benefit | (39) | 91 | (57) | 140 |
| Realized capital gains and losses, after-tax | $ 70 | (160) | $ 120 | $ (240) |

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



**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 impacts to the Property-Liability results are presented separately in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions, except ratios)** | **2003** | **2002** | **2003** | **2002** |
| **Premiums written** | | | | |
| Standard auto | $ 98 | $ 74 | $ 274 | $ 224 |
| Non-standard auto | 14 | 26 | 42 | 79 |
| Homeowners | 23 | 20 | 58 | 52 |
| Other | 9 | 8 | 24 | 22 |
| Total Canada | $ 144 | $ 128 | $ 398 | $ 377 |
| **Premiums earned** | | | | |
| Standard auto | $ 90 | $ 73 | $ 253 | $ 207 |
| Non-standard auto | 20 | 28 | 67 | 83 |
| Homeowners | 20 | 18 | 57 | 49 |
| Other | 8 | 6 | 24 | 20 |

| | | | | |
|---|---|---|---|---|
| Total Canada | $ 138 | $ 125 | $ 401 | $ 359 |
| **Loss ratio** | | | | |
| Standard auto | 81.2 | 100.7 | 84.3 | 95.0 |
| Non-standard auto | 29.1 | 77.4 | 59.3 | 64.8 |
| Homeowners | 54.9 | 68.5 | 55.0 | 77.7 |
| Other | 125.0 | 100.6 | 87.5 | 77.3 |
| **Total Canada loss ratio** | 72.4 | 90.9 | 76.1 | 84.7 |
| **Canada expense ratio** | 25.2 | 25.2 | 24.9 | 25.7 |
| **Canada combined ratio** | 97.6 | 116.1 | 101.0 | 110.4 |

The decreases in the total Canada loss ratio for the third quarter and first nine months of 2003 are related to increases in premiums earned and lower prior year reserve reestimates. The following table shows the net rate changes that were approved for Allstate Canada in the third quarter and first nine months of 2003.

| | Three Months Ended September 30, 2003 | | Nine Months Ended September 30, 2003 | |
|---|---|---|---|---|
| | # of Jurisdictions | Weighted Average Rate Change (%) | # of Jurisdictions | Weighted Average Rate Change (%) |
| Standard auto | 1 | (6.3) | 4 | 10.4 |
| Non-standard auto | — | — | 5 | 8.3 |
| Homeowners | — | — | 5 | 6.9 |



## ALLSTATE FINANCIAL HIGHLIGHTS

- Net income for the third quarter of 2003 increased by $110 million from the third quarter of 2002 to $119 million due to lower net realized capital losses, lower DAC amortization and higher investment margin, partially offset by lower mortality margin and higher income tax expense resulting from a favorable adjustment to tax liabilities in the prior year. Net income increased to $267 million in the first nine months of 2003 from a loss of $77 million in the same period of 2002. The increase was due to the 2002 impact of the change in accounting principle for goodwill that resulted in a charge of $283 million, after-tax, and lower net realized capital losses in 2003, partly offset by lower mortality margin.

- Investments increased $7.45 billion or 13.5% compared to December 31, 2002, primarily due to fixed annuity and institutional product deposits, increased securities lending and dollar roll program borrowings, and higher unrealized net capital gains on fixed income securities.

- A suite of new innovative fixed annuity products was launched during the third quarter of 2003 that are designed to be responsive to current market conditions and opportunities.

- The Company announced its decision to discontinue its direct distribution business based on a market review of growth opportunities and strategic fit, and to exit the synthetic guaranteed investment contract business.

- Funding agreement deposits amounted to $1.08 billion and $2.06 billion for the quarter and first nine months of 2003, respectively, compared to $182 million and $1.74 billion for the quarter and first nine months of 2002, respectively. Period to period fluctuations in funding agreement deposits are largely due to management's assessment of market opportunities.

## ALLSTATE FINANCIAL OPERATIONS

Summarized financial data is presented in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| Premiums | $ 309 | $ 284 | $ 1,018 | $ 940 |
| Contract charges | 229 | 228 | 692 | 692 |
| Net investment income | 823 | 794 | 2,424 | 2,313 |
| Contract benefits | (424) | (388) | (1,380) | (1,213) |
| Interest credited to contractholder funds | (467) | (464) | (1,380) | (1,316) |
| Amortization of DAC | (104) | (158) | (368) | (380) |
| Operating costs and expenses | (169) | (159) | (498) | (472) |
| Restructuring and related charges | (1) | — | (1) | (1) |
| Income tax expense | (61) | (25) | (159) | (165) |
| Realized capital gains and losses, after-tax(1) | (7) | (103) | (72) | (192) |
| Loss on disposition of operations, after-tax | (9) | — | (9) | — |
| Cumulative effect of change in accounting principle, after-tax | — | — | — | (283) |
| Net income (loss) | $ 119 | $ 9 | $ 267 | $ (77) |

| | | | | |
|---|---|---|---|---|
| Investments | $ 62,713 | $ 54,291 | $ 62,713 | $ 54,291 |
| Separate Accounts assets | 12,177 | 10,791 | 12,177 | 10,791 |
| Investments, including Separate Accounts assets | $ 74,890 | $ 65,082 | $ 74,890 | $ 65,082 |

(1) Realized capital gains and losses, after-tax, are reconciled in the table on page 43.



**Life and annuity premiums and contract charges**, included in the Condensed Consolidated Statements of Operations, represent premiums generated from traditional life, immediate annuities with life contingencies and other insurance products that 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 these contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in Contractholder funds and Separate Accounts are considered in the evaluation of growth and as indicators of future levels of revenues.

The following table summarizes premiums and contract charges by product.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| **Life and annuity premiums** | | | | |
| **Life insurance** | | | | |
| Traditional life | $ 101 | $ 103 | $ 288 | $ 300 |
| Workplace and other | 141 | 137 | 412 | 410 |
| Total life insurance | 242 | 240 | 700 | 710 |
| **Annuities** | | | | |
| Fixed annuities—immediate annuities with life contingencies | 67 | 44 | 318 | 230 |
| **Total Life and annuity premiums** | 309 | 284 | 1,018 | 940 |
| **Life and annuity contract charges** | | | | |
| **Life insurance** | | | | |
| Interest-sensitive life | 152 | 146 | 456 | 445 |
| Workplace and other | 15 | 19 | 53 | 56 |
| Total life insurance | 167 | 165 | 509 | 501 |
| **Annuities** | | | | |
| Fixed annuities—deferred | 3 | 4 | 12 | 12 |
| Fixed annuities—immediate annuities without life contingencies | 7 | 4 | 16 | 12 |
| Variable annuities | 52 | 54 | 149 | 163 |
| Total annuities | 62 | 62 | 177 | 187 |
| **Institutional products** | — | 1 | 6 | 4 |
| **Total Life and annuity contract charges** | 229 | 228 | 692 | 692 |
| **Life and annuity premiums and contract charges** | $ 538 | $ 512 | $ 1,710 | $ 1,632 |



The following table summarizes Life and annuity premiums and contract charges by distribution channel.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| **Life and annuity premiums** | | | | |
| Allstate agencies | $ 83 | $ 65 | $ 234 | $ 204 |
| Specialized brokers | 63 | 43 | 314 | 230 |
| Independent agents | 98 | 93 | 258 | 253 |
| Direct marketing | 65 | 83 | 212 | 253 |
| **Total Life and annuity premiums** | 309 | 284 | 1,018 | 940 |

| | | | | |
|---|---|---|---|---|
| **Life and annuity contract charges** | | | | |
| Allstate agencies | 110 | 106 | 327 | 322 |
| Specialized brokers | 7 | 5 | 23 | 17 |
| Independent agents | 65 | 66 | 205 | 201 |
| Financial services firms (financial institutions and broker/dealers) | 45 | 51 | 135 | 152 |
| Direct marketing | 2 | — | 2 | — |
| **Total Life and annuity contract charges** | 229 | 228 | 692 | 692 |
| **Life and annuity premiums and contract charges** | $ 538 | $ 512 | $ 1,710 | $ 1,632 |

Total Life and annuity premiums increased 8.8% to $309 million in the third quarter of 2003 from $284 million in the third quarter of 2002. The increase was primarily the result of higher premiums from immediate annuities with life contingencies and workplace products, partially offset by declines in premiums from the discontinuance of direct response credit insurance. The increase of immediate annuities with life contingencies was due to consumer preference as well as market and competitive conditions, which drive the level and mix of immediate annuities sold with or without life contingencies.

Total Life and annuity contract charges were $229 million in the third quarter of 2003 compared to $228 million in the third quarter of 2002. Higher interest-sensitive life insurance contract charges from in-force business growth were mostly offset by lower surrender charges.

For the first nine months of 2003, Life and annuity premiums and contract charges increased 4.8% compared to the first nine months of 2002. Premiums increased 8.3% in the first nine months of 2003 compared to the same period in the prior year as a result of higher premiums from immediate annuities with life contingencies and workplace products partially offset by the discontinuance of direct response credit insurance and lower traditional life premiums. Contract charges were consistent with the prior year as higher interest-sensitive life contract charges resulting from in-force business growth were offset by lower variable annuity contract charges, which resulted from lower average variable annuity account balances during the period.

Contractholder funds, included in the Condensed Consolidated Statements of Financial Position, represent interest-bearing liabilities arising from the sale of individual products, such as interest-sensitive life, fixed annuities and bank deposits, and institutional products, such as funding agreements and guaranteed investment contracts. The balance of Contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract maturities, surrenders, withdrawals and contract charges for mortality or administrative expenses.



The following table shows the changes in Contractholder funds.

| | Changes from July 1 to September 30, | | Changes from January 1 to September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| **Contractholder funds, beginning balance** | $ 43,358 | $ 37,323 | $ 40,751 | $ 33,560 |
| Deposits: | | | | |
| Fixed annuities (immediate and deferred) | 1,581 | 1,518 | 4,053 | 3,586 |
| Funding agreements | 1,076 | 182 | 2,059 | 1,735 |
| Other products(1) | 717 | 783 | 1,922 | 2,061 |
| Interest credited | 467 | 464 | 1,380 | 1,316 |
| Maturities, surrenders and other adjustments(2) | (1,677) | (957) | (4,643) | (2,945) |
| **Contractholder funds, ending balance** | $ 45,522 | $ 39,313 | $ 45,522 | $ 39,313 |

(1) Other products primarily include interest-sensitive life insurance and the fixed portion of variable annuity deposits. Deposits relating to the fixed portion of variable annuity contracts were $290 million and $392 million during the third quarter of 2003 and 2002, respectively, and $699 million and $921 million during the first nine months of 2003 and 2002, respectively.

(2) Maturities, surrenders and other adjustments include institutional product maturities of $569 million and $254 million for the third quarter of 2003 and 2002, respectively, and $1.66 billion and $699 million for the first nine months of 2003 and 2002, respectively.

Contractholder funds deposits increased in the third quarter and first nine months of 2003 compared to the same periods in the prior year due to significant increases in funding agreement and fixed annuity deposits. Period to period fluctuations in funding agreement deposits are largely due to management's assessment of market opportunities. Average Contractholder funds increased 16.0% in the third quarter and 18.4% in the first nine months of 2003 compared to the same periods in the prior year.

Separate Accounts liabilities, included in the Condensed Consolidated Statements of Financial Position, are legally segregated from the Company's general accounts and represent contractholders' claims to the related Separate Accounts assets. Separate Accounts liabilities primarily arise from the sale of variable annuities and variable life insurance. The balance of the Separate Accounts liabilities is equal to the cumulative deposits received plus the investment performance of the related assets less the cumulative contract surrenders, withdrawals, net transfers to/from the general account and cumulative contract charges for mortality or administrative expenses.

The following table shows the changes in Separate Accounts liabilities.

| (in millions) | Changes from July 1 to September 30, 2003 | 2002 | Changes from January 1 to September 30, 2003 | 2002 |
|---|---|---|---|---|
| **Separate Accounts liabilities, beginning balance** | $ 11,823 | $ 12,655 | $ 11,125 | $ 13,587 |
| Deposits | 368 | 263 | 967 | 1,019 |
| Investment results | 296 | (1,582) | 1,266 | (2,672) |
| Contract charges | (54) | (52) | (160) | (166) |
| Surrenders and other adjustments | (256) | (493) | (1,021) | (977) |
| **Separate Accounts liabilities, ending balance** | $ 12,177 | $ 10,791 | $ 12,177 | $ 10,791 |

Separate Accounts liabilities increased $354 million during the third quarter of 2003 compared to a $1.86 billion decline in the third quarter of 2002, reflecting significant improvement in investment results,



lower surrenders as well as higher variable annuity deposits. Improved market results and the ongoing effect of the introduction of the Allstate Advisor variable annuity products have resulted in a sequential quarterly increase in variable annuity deposits.

For the first nine months of 2003 compared to the same period in the prior year, higher Separate Account liabilities reflect significant improvement in investment results, partially offset by lower variable annuity deposits and higher surrenders.

**Net investment income** increased 3.7% in the third quarter and 4.8% in the first nine months of 2003, compared to the same periods in the prior 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. The lower portfolio yields were primarily due to purchases of fixed income securities with interest rates lower than the current portfolio average. Investments as of September 30, 2003, excluding unrealized net capital gains, increased 13.2% from December 31, 2002.

**Analysis of net income** is presented in the following table.

| (in millions) | Three Months Ended September 30, 2003 | 2002 | Nine Months Ended September 30, 2003 | 2002 |
|---|---|---|---|---|
| Investment margin | $ 230 | $ 201 | $ 664 | $ 632 |
| Mortality margin | 138 | 155 | 406 | 474 |
| Maintenance charges | 84 | 78 | 249 | 253 |
| Surrender charges | 18 | 20 | 55 | 57 |
| Amortization of DAC | (104) | (158) | (368) | (380) |
| Operating costs and expenses | (169) | (159) | (498) | (472) |
| Restructuring and related charges | (1) | — | (1) | (1) |
| Income tax expense | (61) | (25) | (159) | (165) |
| Realized capital gains and losses, after-tax | (7) | (103) | (72) | (192) |
| Loss on disposition of operations, after-tax | (9) | — | (9) | — |
| Cumulative effect of change in accounting principle, after-tax | — | — | — | (283) |
| Net income (loss) | $ 119 | $ 9 | $ 267 | $ (77) |

*Investment margin* represents the excess of investment income earned over interest credited to policyholders and contractholders and interest expense. Investment margin increased 14.4% in the third quarter of 2003 and 5.1% in the first nine months of 2003 compared to the same periods in the prior year due to growth of in-force business and management actions to reduce crediting rates where possible, partially offset by the decline in the fixed income securities portfolio yields. For interest-sensitive fixed annuities and life products in which management has the ability to modify crediting rates, the weighted average interest crediting rate was approximately 85 basis points above the long-term underlying guaranteed rate as of September 30, 2003.



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

| | Weighted Average Investment Yield 2003 | 2002 | Weighted Average Interest Crediting Rate 2003 | 2002 | Weighted Average Investment Spreads 2003 | 2002 |
|---|---|---|---|---|---|---|
| Interest-sensitive life | 6.9% | 7.2% | 5.1% | 5.1% | 1.8% | 2.1% |
| Fixed annuities—deferred | 6.3 | 7.0 | 4.5 | 5.5 | 1.8 | 1.5 |
| Fixed annuities—immediate | 7.8 | 8.2 | 7.1 | 7.1 | 0.7 | 1.1 |
| Institutional—fixed rate contracts | 6.8 | 7.1 | 6.4 | 5.5 | 0.4 | 1.6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Institutional—floating rate contracts | 2.4 | 3.2 | 1.3 | 2.4 | 1.1 | 0.8 |
| Investments supporting capital, traditional life and other products | 6.5 | 7.0 | 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 nine months ended September 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% | 5.0% | 5.1% | 2.0% | 2.2% |
| Fixed annuities—deferred | 6.5 | 7.1 | 4.7 | 5.4 | 1.8 | 1.7 |
| Fixed annuities—immediate | 7.9 | 8.2 | 7.0 | 7.2 | 0.9 | 1.0 |
| Institutional—fixed rate contracts | 6.7 | 7.4 | 6.2 | 6.1 | 0.5 | 1.3 |
| Institutional—floating rate contracts | 2.6 | 3.2 | 1.5 | 2.3 | 1.1 | 0.9 |
| Investments supporting capital, traditional life and other products | 6.1 | 7.0 | N/A | N/A | N/A | N/A |

Declines in the weighted average investment spreads for fixed annuities-immediate in both periods were the result of lower fixed income securities portfolio yields. Declines in the weighted average investment spreads for institutional-fixed rate contracts in both periods were due to lower fixed income securities portfolio yields and higher average crediting rates resulting from maturities of contracts with lower crediting rates than those remaining in force.

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 September 30.

| (in millions) | 2003 | 2002 |
|---|---|---|
| Interest-sensitive life | $ 7,109 | $ 6,721 |
| Fixed annuities—deferred | 24,910 | 20,043 |
| Fixed annuities—immediate | 9,900 | 9,245 |
| Institutional—fixed rate contracts | 1,621 | 2,522 |
| Institutional—floating rate contracts | 7,560 | 6,287 |
| | 51,100 | 44,818 |
| FAS 115/133 market value adjustment | 1,473 | 935 |
| Ceded reserves | (1,158) | (1,006) |
| Life-contingent contracts and other | 5,010 | 4,313 |
| Total Contractholder funds and Reserve for life-contingent contract benefits | $ 56,425 | $ 49,060 |



The following table summarizes investment margin by product group.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2003 | 2002 | 2003 | 2002 |
| Life insurance | $ 61 | $ 59 | $ 174 | $ 186 |
| Annuities | 141 | 110 | 408 | 360 |
| Institutional products | 27 | 31 | 76 | 82 |
| Bank and other | 1 | 1 | 6 | 4 |
| Investment margin | $ 230 | $ 201 | $ 664 | $ 632 |

*Mortality margin*, which represents premiums and cost of insurance contract charges less related policy benefits was $138 million or 11.0% lower in the third quarter of 2003 compared to the third quarter of 2002. During the quarter, higher variable annuity guaranteed minimum death benefit ("GMDBs") payments and the effect of the discontinuance of direct response credit insurance more than offset new business growth. Third quarter 2003 GMDB payments of $18 million, net of reinsurance, hedging losses and other contractual arrangements ("net GMDB payments"), were $7 million higher than the third quarter of 2002, but $9 million lower compared to the second quarter of 2003. The non-renewal of direct response credit insurance resulted in a $3 million decline in the mortality margin during the third quarter of 2003 compared to the third quarter of 2002.

For the first nine months of 2003, the mortality margin was $406 million or 14.3% below the first nine months of 2002. The impact of GMDBs in the first nine months of 2003 compared to the same period of 2002 represents $51 million of the $68 million decline. The remaining decline was due to a large number of life claims in the first quarter of 2003 and the effect of the discontinuance of direct response credit insurance, partially offset by higher mortality margin from new interest-sensitive life business and workplace products.

The following table summarizes mortality margin by product group.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2003 | 2002 | 2003 | 2002 |

| | | | | |
|---|---|---|---|---|
| Life insurance | $ 159 | $ 171 | $ 494 | $ 508 |
| Annuities | (21) | (14) | (88) | (34) |
| Institutional products | — | (2) | — | — |
| Mortality margin | $ 138 | $ 155 | $ 406 | $ 474 |

**Amortization of DAC** decreased 34.2% and 3.2% in the third quarter and first nine months of 2003, respectively, compared to the same periods in 2002. The decline in the third quarter of 2003 compared to the same period in the prior year was primarily due to the recognition in the prior period of a net $65 million acceleration of amortization, commonly known as DAC unlocking. The decline in the first nine months of 2003 compared to the same period in the prior year was due to lower amortization on variable annuities and certain fixed annuities resulting from lower gross margins, partially offset by higher net DAC unlocking.

**Operating costs and expenses** increased 6.3% during the third quarter of 2003 compared to the third quarter of 2002. The increase was primarily attributable to higher employee related benefit and technology related expenses as well as increased non-deferrable commissions. Operating costs and expenses increased 5.5% during the first nine months of 2003 compared to the same period of 2002 due to higher employee related benefit and technology expenses as well as increased non-deferrable commissions, partly offset by lower litigation related expenses.



**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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2003** | **2002** | **2003** | **2002** |
| Investment write-downs | $ (26) | $ (107) | $ (146) | $ (165) |
| Sales | (16) | (51) | 48 | (94) |
| Valuation of derivative instruments | 33 | 3 | 11 | (23) |
| Settlement of derivative instruments | 6 | (9) | 4 | (6) |
| Realized capital gains and losses, pretax | $ (3) | $ (164) | $ (83) | $ (288) |
| Reclassification of Amortization of DAC | (6) | 5 | (31) | 2 |
| Income tax benefit | 2 | 56 | 42 | 94 |
| Realized capital gains and losses, after-tax | $ (7) | $ (103) | $ (72) | $ (192) |

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

**INVESTMENTS**

The composition of the investment portfolio at September 30, 2003 is presented in the following table.

| | Property-Liability | | Allstate Financial | | Corporate and Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| **(in millions)** | | **Percent to total** | | **Percent to total** | | **Percent to total** | | **Percent to total** |
| Fixed income securities(1) | $ 31,235 | 83.4% | $ 52,807 | 84.2% | $ 1,180 | 89.3% | $ 85,222 | 84.0% |
| Equity securities | 4,581 | 12.2 | 163 | 0.3 | — | — | 4,744 | 4.7 |
| Mortgage loans | 49 | 0.1 | 6,377 | 10.2 | — | — | 6,426 | 6.3 |
| Short-term | 1,596 | 4.3 | 1,791 | 2.8 | 139 | 10.5 | 3,526 | 3.5 |
| Other | 3 | — | 1,575 | 2.5 | 3 | 0.2 | 1,581 | 1.5 |
| Total | $ 37,464 | 100.0% | $ 62,713 | 100.0% | $ 1,322 | 100.0% | $ 101,499 | 100.0% |

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $29.48 billion, $49.08 billion and $1.07 billion for Property-Liability, Allstate Financial, and Corporate and Other, respectively.

Total investments increased to $101.50 billion at September 30, 2003 from $90.65 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 generated in a lower interest rate environment.

Property-Liability investments were $37.46 billion at September 30, 2003 compared to $34.25 billion at December 31, 2002, due to positive cash flows from operations partially offset by dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation.

Allstate Financial investments were $62.71 billion at September 30, 2003 compared to $55.26 billion at December 31, 2002. The increase in Allstate Financial investments was primarily 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 $4.65 billion at September 30, 2003, from $2.98 billion at December 31, 2002.

The Unrealized net capital gains on fixed income and equity securities at September 30, 2003 were $6.45 billion, an increase of $957 million or 17.4% since December 31, 2002. The net unrealized gain for the fixed income portfolio totaled $5.59 billion, comprised of $5.97 billion of unrealized gains and $382 million of unrealized losses at September 30, 2003, compared to a net unrealized gain for the fixed income



portfolio totaling $5.03 billion at December 31, 2002, comprised of $5.51 billion of unrealized gains and $481 million of unrealized losses. At September 30, 2003, 49.0% of the unrealized losses for the fixed income portfolio were concentrated in the corporate fixed income portfolio and 24.9% of fixed income unrealized losses were in the municipal portfolio. Corporate fixed income net unrealized gains totaled $2.51 billion comprised of $2.70 billion of unrealized gains and $187 million of unrealized losses. The unrealized losses for the corporate fixed income portfolio were concentrated in the transportation, banking and basic industry sectors. These sectors comprised $97 million or 51.9% of the unrealized losses and $670 million or 24.8% of the unrealized gains in the corporate fixed income portfolio. No other sector accounted for more than 10% of unrealized losses in the corporate fixed income portfolio.

The net unrealized gain for the equity portfolio totaled $858 million, comprised of $895 million of unrealized gains and $37 million of unrealized losses at September 30, 2003, compared to a net unrealized gain for the equity portfolio totaling $460 million at December 31, 2002, comprised of $562 million of unrealized gains and $102 million of unrealized losses. At September 30, 2003, the consumer non-cyclical sector represented $163 million or 18.2% of the unrealized gains and $12 million or 32.4% of the unrealized losses in the equity portfolio. The remaining unrealized gains and losses were spread across multiple sectors.

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 $36 million at September 30, 2003, compared to $67 million of unrealized losses at December 31, 2002. This decrease was primarily related to a decline in unrealized losses for the utility sector, partially offset by an increase in unrealized losses for the transportation sector. 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 had unrealized losses of $12 million at September 30, 2003 compared to unrealized losses of $15 million at December 31, 2002.

Approximately 93.6% 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.

Allstate 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 Allstate'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.

| | September 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| **(in millions)** | **Amortized cost** | **Fair value** | **Percent of total Fixed Income portfolio** | **Amortized cost** | **Fair value** | **Percent of total Fixed Income portfolio** |
| Problem | $ 294 | $ 293 | 0.3% | $ 295 | $ 279 | 0.4% |
| Restructured | 63 | 61 | 0.1 | 42 | 36 | — |
| Potential problem | 391 | 365 | 0.4 | 647 | 572 | 0.7 |
| Total net carrying value | $ 748 | $ 719 | 0.8% | $ 984 | $ 887 | 1.1% |
| Cumulative write-downs recognized | $ 369 | | | $ 474 | | |

As of September 30, 2003, the balance of fixed income securities that the Company categorizes as potential problem declined from the balance as of year-end 2002. The decrease was related primarily to the sale of holdings in this category due to specific developments in the first nine months of the year causing a



change in Allstate's outlook and intent to hold those securities. The Company evaluated each of these securities through its watch list process at September 30, 2003 and recorded write-downs on securities that are deemed to be other than temporarily impaired. Approximately $29 million of net unrealized losses at September 30, 2003 are related to securities that the Company has included in the problem, restructured or potential problem categories. These securities represent 0.8% of the fixed income portfolio. The Company concluded, through its watch list monitoring process, that these unrealized losses were temporary in nature. While these balances may increase in the future, particularly if economic conditions are unfavorable, management expects that the total amount of securities in these categories will remain a relatively low percentage of the total fixed income securities portfolio.

The following table describes the components of realized capital gains and losses.

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|

| (in millions) | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Investment write-downs | $ (35) | $ (143) | $ (228) | $ (248) |
| Sales | | | | |
| Fixed income and equity securities | 106 | (167) | 293 | (211) |
| Other | 2 | 2 | 6 | 8 |
| Total sales | 108 | (165) | 299 | (203) |
| Valuation of derivative instruments | 34 | (5) | 17 | (55) |
| Settlement of derivative instruments | (4) | (106) | 2 | (169) |
| Realized capital gains and losses, pretax | 103 | (419) | 90 | (675) |
| Reclassification of Amortization of DAC | (6) | 5 | (31) | 2 |
| Income tax (expense) benefit | (35) | 148 | (13) | 236 |
| Realized capital gains and losses, after-tax | $ 62 | $ (266) | $ 46 | $ (437) |

Sales of fixed income securities in the third quarter and first nine 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 investment objectives. Sales also include fees received from prepayments of fixed income securities and mortgage loans totaling $21 million and $46 million for the third quarter and first nine months of 2003, respectively, compared to $22 million and $55 million for the same periods of 2002, respectively.

## CAPITAL RESOURCES AND LIQUIDITY

**Capital Resources** consist of shareholders' equity, mandatorily redeemable preferred securities and debt, representing funds deployed or available to be deployed to support business operations. The following table summarizes Allstate's capital resources.

| (in millions) | September 30, 2003 | December 31, 2002 |
|---|---|---|
| Common stock, retained earnings and other shareholders' equity items | $ 17,159 | $ 15,705 |
| Accumulated other comprehensive income | 2,201 | 1,733 |
| Total shareholders' equity | 19,360 | 17,438 |
| Mandatorily redeemable preferred securities | — | 200 |
| Debt | 4,378 | 4,240 |
| Total capital resources | $ 23,738 | $ 21,878 |
| *Ratio of debt and mandatorily redeemable preferred securities to shareholders' equity* | 22.6% | 25.5% |



*Shareholders' equity* increased $1.92 billion in the first nine months of 2003 when compared to year-end 2002, as Net income and unrealized net capital gains on investments were partially offset by dividends paid to shareholders and share repurchases. During the first nine months of 2003, the Company acquired 3.26 million shares of its stock at a cost of $111 million primarily as part of the current 3-year $500 million stock repurchase program. This program was 22.2% complete at September 30, 2003.

*Debt* increased in the first nine months of 2003 compared to December 31, 2002 due to the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities" and increases in long-term borrowings outstanding, partly offset by declines in short-term borrowings outstanding. The adoption of FIN 46, effective July 1, 2003, increased long-term debt by $346 million, including $102 million for the consolidation of a variable interest entity ("VIE") for a headquarters office building and up to 38 automotive collision repair stores, $44 million for the consolidation of the debt of a previously unconsolidated investment security, and $200 million of debt for a VIE that issued mandatorily redeemable preferred securities and had previously been consolidated but is no longer required to be consolidated. For more information on the adoption of FIN 46, see Note 2 of the Condensed Consolidated Financial Statements. In June 2003, the Company issued $400 million of 5.350% Senior Notes due in 2033, utilizing the registration statement filed with the Securities and Exchange Commission ("SEC") in June 2000. The proceeds of this issuance were used to redeem the $300 million of $6^3/_4$% Notes due 2003 and for general corporate purposes.

At September 30, 2003, the Company had no outstanding commercial paper borrowings.

**Financial Ratings and Strength** In June 2003, Standard & Poor's revised the insurance financial strength rating of Allstate Life Insurance Company ("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 ratings of ALIC and AIC remain unchanged. In reaffirming the A+ ratings of ALIC and AIC, A.M. Best assigned a positive outlook for these companies' ratings.

**Liquidity** The following table summarizes consolidated cash flow activities by business segment for the first nine months of 2003.

| (in millions) | Property-Liability | Allstate Financial | Corporate and Other | Consolidated |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Cash flow provided by (used in): | | | | |
| Operating activities | $ 3,114 | $ 1,745 | $ — | $ 4,859 |
| Investing activities | (2,358) | (5,360) | (135) | (7,853) |
| Financing activities | 1 | 3,526 | (748) | 2,779 |
| Net (decrease) increase in consolidated cash | | | | $ (215) |

The Company's operations typically generate substantial positive cash flows from operations as most premiums are received in advance of the time when claim and benefit payments are required. These positive operating cash flows are expected to continue to meet the liquidity requirements of the Company. The Corporate and Other segment also includes $1.16 billion of investments held by the Company's subsidiary, Kennett Capital.

The payment of dividends by AIC 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 October 31, 2003, AIC paid dividends of $694 million. Based on the greater of 2002 statutory net income or 10% of statutory surplus, the maximum amount of dividends AIC is able to pay without prior Illinois Department of Insurance approval at a given point in time during 2003 is $1.43 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.



A portion of Allstate Financial's diversified product portfolio, primarily fixed annuity and interest-sensitive life insurance products, is subject to surrender and withdrawal at the discretion of contractholders and therefore represents a significant potential use of cash in each fiscal period. These surrenders and withdrawals for Allstate Financial for the three-month and nine-month periods ending September 30, 2003 were $704 million and $2.00 billion compared with $524 million and $1.49 billion for the same periods last year. These surrenders and withdrawals for the first nine months of 2003 represented 4.4% of the Contractholder funds balance at September 30, 2003, compared to 3.8% in the first nine months of last year.

The Company has made contributions to its pension plans during the nine months ended September 30, 2003 totaling $331 million, and estimates that it will make an additional contribution totaling approximately $530 million during October 2003. The Company updates its minimum pension liability on October 31 of each year and estimates that the minimum pension liability at December 31, 2003, after the impact of these contributions, will be approximately $350 million to $400 million, after-tax, compared to $820 million at December 31, 2002. Changes in the minimum pension liability are reflected in Accumulated other comprehensive income on the Company's Condensed Consolidated Statements of Financial Position.

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

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

- Allstate has two primary credit facilities and one additional credit facility totaling $1.20 billion as potential sources of funds to meet short-term liquidity requirements: a $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 in the third quarter of 2004. 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 Company'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 nine 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 Company has the right to issue up to an additional $2.80 billion of debt securities, common stock, preferred stock, trust preferred securities or debt warrants utilizing the shelf registration statement filed with the SEC in August 2003.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company's use of off-balance sheet arrangements is limited to two VIEs, none of which have been invested in by members of management, used to hold assets managed by Allstate Investment Management Company on behalf of unrelated third-party investors. At September 30, 2003, these VIEs had assets consisting of bank loans, bonds and cash totaling $718 million and liabilities in the form of long-term notes totaling $701 million. The Company and unrelated third parties made initial equity investments in these VIEs of $24 million and $32 million, respectively. The Company's maximum loss exposure to these VIEs is limited to its current carrying value of $9 million, reflected and accounted for in the investment section of the Company's Condensed Consolidated Statements of Financial Position. The Company recognized revenue and received cash in the form of management fees of $2 million from these VIEs for the nine months ended September 30, 2003.

The Company is in the process of assessing if the VIEs used to hold assets managed by Allstate Investment Management Company on behalf of unrelated third-party investors meet the criteria to be considered variable interest entities pursuant to the pending accounting guidance of FIN 46, "Consolidation of Variable Interest Entities" and will require consolidation.



## RECENT DEVELOPMENTS

- During October and November of 2003, the Company incurred catastrophe losses related to wildfires in the state of California. These losses are preliminarily estimated to be between $290 million and $330 million, pretax.

- Certain participants in the mutual fund industry have recently been investigated for alleged improper share trading practices. This negative publicity could potentially harm the confidence of investors in the mutual fund industry and have residual effects on sales of the Company's variable annuity products, which have underlying investments in mutual funds. Management currently does not expect that any effect on sales from these allegations will have a material impact on the Condensed Consolidated Statements of Operations or Financial Position.

**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. Allstate 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," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" 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. Factors which could cause actual results to differ materially from those suggested by such forward-looking statements, include but are not limited to those discussed or identified in this document (including the risk factors described below) and in the Company's public filings with the SEC.

- Premiums written growth may not be commensurate with the weighted average rate changes reported for 2003 in the Allstate Protection business. For example, growth may be lower than indicated by the weighted average rate changes due to a decrease in PIF.

- Management expects that the total amount of securities categorized as problem, restructured or potential problem will remain a relatively low percentage of the total fixed income securities portfolio. However, the amount so categorized could change for a variety of reasons, including adverse general economic conditions or adverse conditions in particular economic sectors represented in the Company's investment portfolio.

**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 Allstate," in Appendix D to the Company's Notice of Annual Meeting and Proxy Statement dated March 28, 2003.

- Because of the exposure of the Allstate Protection segment to catastrophic events, the Company's financial results may vary significantly from one period to the next. In addition, because Reserves for property-liability insurance claims and claims expense are based on estimates of losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our operating results and financial condition.

- Conditions in the United States and international stock markets affect Allstate Financial's sales of variable annuities. Recent allegations of improper or illegal trading activities at large mutual fund complexes could affect the stock markets. In general, sales of variable annuities decrease when stock



markets are declining over an extended period of time. The effect of decreasing Separate Accounts balances resulting from volatile equity markets, lower underlying fund performance or declining consumer confidence could cause contract charges earned to decrease. These factors could also result in accelerated DAC amortization and require increases in statutory reserves, which reduce statutory capital and surplus.



**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 5 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) Current Reports on Form 8-K were filed during the third quarter of 2003 on the following dates for the items indicated:

July 16, 2003, Items 7 and 9, regarding results of operations and financial condition for the quarter ended June 30, 2003



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**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.

The Allstate Corporation
(Registrant)

November 14, 2003

By /s/ SAMUEL H. PILCH .

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



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| Exhibit No. | Description |
|---|---|
| 4 | Registrant hereby agrees to furnish the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries. |
| 10.1 | The Allstate Corporation Equity Incentive Plan for Non-Employee Directors as Amended and Restated on September 8, 2003 effective as of June 1, 2004. |
| 15 | Acknowledgment of awareness from Deloitte & Touche LLP, dated November 12, 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 |



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**Exhibit 10.1**

**THE ALLSTATE CORPORATION**
**EQUITY INCENTIVE PLAN FOR NON-EMPLOYEE DIRECTORS**
**As Amended and Restated on September 8, 2003 effective as of June 1, 2004**[1]

**I. Purpose.**

The purpose of The Allstate Corporation Equity Incentive Plan for Non-Employee Directors (the "*Plan*") is to promote the interests of The Allstate Corporation (the "*Company*") by providing an inducement to obtain and retain the services of qualified persons as members of the Company's Board of Directors (the "*Board*") and to align more closely the interests of such persons with the interests of the Company's stockholders by providing a significant portion of the compensation provided to such persons in the form of equity securities of the Company.

**II. Administration.**

The Plan shall be administered by the Committee. The Committee shall have full power to construe and interpret the Plan and Shares and Options granted hereunder, to establish and amend rules for its administration and to correct any defect or omission and to reconcile any inconsistency in the Plan or in any Share or Option granted hereunder to the extent the Committee deems desirable to carry the Plan or any Share or Option granted hereunder into effect. Any decisions of the Committee in the administration of the Plan shall be final and conclusive. The Committee may authorize any one or more of its members, the secretary of the Committee or any officer of the Company to execute and deliver documents on behalf of the Committee. Each member of the Committee, and, to the extent provided by the Committee, any other person to whom duties or powers shall be delegated in connection with the Plan, shall incur no liability with respect to any action taken or omitted to be taken in connection with the Plan and shall be fully protected in relying in good faith upon the advice of counsel, to the fullest extent permitted under applicable law.

**III. Eligibility.**

Each Non-Employee Director shall be eligible to participate in the Plan.

**IV. Limitation on Aggregate Shares.**

A. *Maximum Number of Shares.* The aggregate maximum number of Shares that may be granted pursuant to the Plan or delivered upon exercise of Options granted pursuant to the Plan shall be 580,000 shares. Such maximum number of Shares is subject to adjustment under the provisions of Section IV.B. The Shares to be granted pursuant to the Plan or delivered

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1 Until June 1, 2004, the Plan as amended and restated on September 18, 2000, effective as of June 1, 2001, shall remain in effect.



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upon exercise of Options may be either (i) authorized but unissued Shares or (ii) Shares previously issued which have been reacquired by the Company ("Treasury Shares"); provided, however, that on or after June 1, 2001, only Treasury Shares shall be granted pursuant to the Plan or delivered upon exercise of Options (other than upon exercise of Options granted prior to such date). In the event any Option or Reload Option shall, for any reason, terminate or expire or be surrendered without having been exercised in full, the Shares subject to such Option or Reload Option but not purchased thereunder shall be available for future Options or Reload Options to be granted under the Plan.

B. *Adjustment.* The maximum number of Shares referred to in Section IV.A of the Plan, the number of Shares granted pursuant to Section VI of the Plan, the number of Options granted pursuant to Section VII of the Plan, and the option price and the number of Shares which may be purchased under any outstanding Option granted under Section VII of the Plan shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding Shares as the result of (i) the declaration and payment of a dividend payable in Common Stock, or the division of the Common Stock outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) into a greater number of Shares without the receipt of consideration therefor by the Company, or any other increase in the number of such Shares of the Company outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) which is effective without the receipt of consideration therefor by the Company (exclusive of any Shares granted by the Company to employees of the Company or any of its Subsidiaries without receipt of separate consideration by the Company), or (ii) the consolidation of the Shares outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) into a smaller number of Shares without the payment of consideration thereof by the Company, or any other decrease in the number of such Shares outstanding at the date hereof (or the date of the grant of any such outstanding Option, as applicable) effected without the payment of consideration by the Company; *provided, however*, that the total option price for all Shares which may be purchased upon the exercise of any Option granted pursuant to the Plan (computed by multiplying the number of Shares originally purchasable thereunder, reduced by the number of such Shares which have theretofore been purchased thereunder, by the original option price per share before any of the adjustments herein provided for) shall not be changed.

In the event of a change in the Common Stock as presently constituted which is limited to a change of the Company's authorized shares with a par value into the same number of shares with a different par value or without par value, the shares resulting from any such change will be deemed to be the Common Stock within the meaning of this Plan and no adjustment will be required pursuant to this Section IV.B.

The foregoing adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided in this Section IV.B, a Non-Employee Director shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.



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**V. Definitions.**

The following terms shall have the meanings set forth below when used herein:

*"Code"* means the Internal Revenue Code of 1986, as amended.

*"Committee"* means the Nominating and Governance Committee of the Board, any successor committee of the Board performing similar functions or, in the absence of such a committee, the Board.

*"Common Stock"* means the Common Stock, par value $.01 per share, of the Company.

*"Disability"* means a mental or physical condition which, in the opinion of the Committee, renders a Non-Employee Director unable or incompetent to carry out his or her duties as a member of the Board and which is expected to be permanent or for an indefinite duration.

*"Election Shares"* means any Shares issued to a Non-Employee Director pursuant to the election of such person to receive such Shares in lieu of cash compensation made in accordance with Section VIII.B.

*"ERISA"* means the Employee Retirement Income Security Act of 1974, as amended.

*"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

*"Fair Market Value"* of any Share means, as of any applicable date, the mean between the high and low prices of the Shares as reported on the New York Stock Exchange-Composite Tape, or if no such reported sale of the Shares shall have occurred on such date, on the next preceding date on which there was such a reported sale.

*"Initial Election Date"* means, for each Non-Employee Director, the later to occur of (i) the date the Plan is approved and adopted by the Company's stockholders pursuant to Section XIII of the Plan, and (ii) the date of such member's initial election or appointment to the Board.

*"Non-Employee Director"* means each member of the Board who is not an officer or employee of the Company or any of its Subsidiaries.

*"Option"* means an option to purchase shares of Common Stock.

*"Shares"* means shares of Common Stock.

*"Subsidiary"* means any partnership, corporation, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or



trustees thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more of the other Subsidiaries of the Company or a combination thereof, or (ii) if a partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity, a majority of the partnership or other similar equity ownership interest thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more Subsidiaries of the Company or a combination thereof. For purposes hereof, the Company or a Subsidiary shall be deemed to have a majority ownership interest in a partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity if the Company or such Subsidiary shall be allocated a majority of partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity gains or losses or shall be or control the managing director, the trustee, the manager or the general partner of such partnership, association, limited liability company, joint stock company, trust, joint venture, unincorporated organization or other business entity.

**VI. Formula Restricted Stock Grants for Non-Employee Directors.**

A. *Annual Grant of Shares.* Beginning December 1, 2004, on December 1 of each year 2,000 Shares shall automatically be granted to each Non-Employee Director serving on the Board on such date who has served in such capacity since June 1 of such year. If any person serving as a Non-Employee Director on June 1 of 2004 or any subsequent year ceases to serve as a director of the Company prior to December 1 of such year, such director shall be automatically granted on his or her last day of service a number of Shares equal to (i) 2,000 *multiplied by* (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director has served on the Board during the period beginning on such June 1 and ending on such director's last date of service and the denominator of which is 6.

B. *Grant for Newly Appointed Directors.* If after June 1, 2004 a Non-Employee Director is initially elected or appointed to the Board effective on any date other than June 1, such Non-Employee Director shall automatically be granted, on the June 1 following the date he or she joins the Board (or such earlier date as he or she ceases to serve as a director), a number of Shares equal to (i) 2,000 *multiplied by* (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director has served on the Board during the period beginning on the date such director joined the Board and ending on the following May 31 (or such earlier date as he or she ceases to serve as a director) and the denominator of which is 6; provided that such fraction shall in no event be greater than one.

C. *Rounding of Share Amounts.* To the extent that application of the foregoing formulas would result in fractional Shares being issuable, such Non-Employee Director shall be granted a number of Shares equal to the nearest whole number of Shares.

D. *Payment for Estimated Taxes.* In addition, the Company shall pay to each Non-Employee Director, in cash, as soon as practicable after each issuance of Shares pursuant to this Section VI prior to June 1, 2004, an amount equal to the estimated increase in such Non-



Employee Director's federal, state and local tax liabilities as a result of such grant of Shares, assuming the maximum statutory tax rates applicable to such Non-Employee Director.

E. *Restrictions.* The Non-Employee Directors shall have no rights as a shareholder with respect to any Shares to be granted pursuant to this Section VI prior to the time such Shares are granted. Upon such grant, the Shares shall be represented by a stock certificate registered in the name of the holder. The Shares granted pursuant to this Section VI shall be fully vested, but shall be subject to certain restrictions during the Non-Employee Director's service as a director of the Company and the one-year period following termination of such service (the "*Restriction Period*"). The holder shall have the right to enjoy all shareholder rights during the Restriction Period (including the right to vote the Shares and the right to receive any cash or other dividends paid in respect thereof) with the exception that (i) the holder may not sell, transfer, pledge or assign the Shares during the Restriction Period, and (ii) the Company shall retain custody of the certificates representing the Shares during the Restriction Period.

All restrictions shall lapse and the holder of the Shares shall be entitled to the delivery of a stock certificate or certificates representing the Shares (and to the removal of any restrictive legend set forth on such certificates) upon the earlier of (i) the date of the holder's death or Disability, and (ii) one year after the date on which the holder is no longer serving as a director of the Company.

**VII. Formula Stock Option Grants for Non-Employee Directors.**

A. *Annual Grant of Options.* On June 1 of each year, beginning June 1, 2001, Options to purchase 4,000 Shares shall automatically be granted to each Non-Employee Director serving on the Board on such date. If any such Non-Employee Director will be required to retire (pursuant to the policies of the Board) during the 12 month period beginning on the date of any grant (or if any such Non-Employee Director has notified the Board that he or she intends to resign from the Board for any reason during the 12 month period beginning on the date of any grant), such director shall instead be granted on June 1 of the relevant year Options to purchase a number of Shares equal to (i) 4,000, *multiplied by* (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director will serve on the Board during the period beginning on such June 1 and ending on such director's last date of service and the denominator of which is 12.

B. *Grant for Newly Appointed Directors.* If after June 1, 2001 a Non-Employee Director is initially elected or appointed to the Board effective on any date other than June 1, such Non-Employee Director shall automatically be granted, on the date he or she joins the Board, Options to purchase a number of Shares equal to (i) 4,000, *multiplied by* (ii) a fraction, the numerator of which is the number of full calendar months such Non-Employee Director will serve on the Board during the period beginning on the date such director joins the Board and ending on the following May 31 and the denominator of which is 12.

C. *Option Exercise Price.* The exercise price per Share for each Option shall be 100% of the Fair Market Value of a Share on the date of grant, subject to Section IV.B.



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D. *Term of Options.* Each Option shall be exercisable for ten years after the date of grant, subject to Section VII.F.

E. *Conditions and Limitations on Exercise.*

(i) *Vesting.* Each Option shall vest in three installments as follows: (i) on each of the first and second anniversaries of the date of grant, as to one-third of the Shares subject to such Option (with any resulting fractional Share rounded to the nearest whole Share) and (ii) on the third anniversary of the date of grant, as to the remaining unvested portion of such Option. Upon a Non-Employee Director's mandatory retirement pursuant to the policies of the Board, the unvested portions of any outstanding Options held by such Non-Employee Director shall fully vest. Upon the termination of a Non-Employee Director's tenure for any other reason, the unvested portions of any outstanding Options shall expire and no Options granted to such Non-Employee Director shall vest after the termination of such director's tenure on the Board.

(ii) *Exercise.* Each Option shall be exercisable in one or more installments and shall not be exercisable for less than 100 Shares, unless the exercise represents the entire remaining exercisable balance of a grant or grants. Each Option shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of Shares subject to the Option. The option price of any Shares as to which an Option shall be exercised shall be paid in full at the time of the exercise. Payment may, at the election of the Non-Employee Director, be made in any one or any combination of the following forms:

(a) check or wire transfer of funds in such form as may be satisfactory to the Committee;

(b) delivery of Shares valued at their Fair Market Value on the date of exercise or, if the date of exercise is not a business day, the next preceding business day;

(c) through simultaneous sale through a broker of unrestricted Shares acquired on exercise, as permitted under Regulation T of the Federal Reserve Board; or

(d) by authorizing the Company in his or her written notice of exercise to withhold from issuance a number of Shares issuable upon exercise of such Option which, when multiplied by the Fair Market Value of Common Stock on the date of exercise (or, if the date of exercise is not a business day, the next preceding business day), is equal to the aggregate exercise price payable with respect to the Option so exercised.

In the event a Non-Employee Director elects to pay the exercise price payable with



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respect to an Option pursuant to clause (b) above, (i) only a whole number of Share(s) (and not fractional Shares) may be tendered in payment, (ii) such Non-Employee Director must present evidence acceptable to the Company that he or she has owned any such Shares tendered in payment of the exercise price (and that such Shares tendered have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise, and (iii) the certificate(s) for all such Shares tendered in payment of the exercise price must be accompanied by duly executed instruments of transfer in a form acceptable to the Company. When payment of the Option exercise price is made by the tender of Shares, the difference, if any, between the aggregate exercise price payable with respect to the Option being exercised and the Fair Market Value of the Share(s) tendered in payment (plus any applicable taxes) shall be paid by check or wire transfer of funds. No Non-Employee Director may tender Shares having a Fair Market Value exceeding the aggregate exercise price payable with respect to the Option being exercised.

In the event a Non-Employee Director elects to pay the exercise price payable with respect to an Option pursuant to clause (d) above, (i) only a whole number of Share(s) (and not fractional Shares) may be withheld in payment and (ii) such Non-Employee Director must present evidence acceptable to the Company that he or she has owned a number of Shares at least equal to the number of Shares to be withheld in payment of the exercise price (and that such owned Shares have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise. When payment of the Option exercise price is made by the withholding of Shares, the difference, if any, between the aggregate exercise price payable with respect to the Option being exercised and the Fair Market Value of the Share(s) withheld in payment (plus any applicable taxes) shall be paid by check or wire transfer of funds. No Non-Employee Director may authorize the withholding of Shares having a Fair Market Value exceeding the aggregate exercise price payable with respect to the Option being exercised. Any withheld Shares shall no longer be issuable under such Option.

F. *Additional Provisions.*

(i) *Accelerated Expiration of Options Upon Termination of Directorship.* Upon the termination of a Non-Employee Director's tenure for any reason, each outstanding vested and previously unexercised Option shall expire three months after the date of such termination; *provided* that (a) upon the termination of a Non-Employee Director's tenure as a result of death or Disability, each outstanding vested and previously unexercised Option shall expire two years after the date of his or her termination as a director, and (b) upon the mandatory retirement of a Non-Employee Director pursuant to the policies of the Board, each outstanding vested and previously unexercised Option shall expire five years after the date of his or her termination as a director. In no event shall the provisions of this Section VII.F operate to extend the original expiration date of any Option.

(ii) *Sale of the Company.* In the event of a merger of the Company with or into another corporation constituting a change of control of the Company, a sale of all or substantially all of the Company's assets or a sale of a majority of the Company's outstanding voting securities (a "Sale of the Company"), the Options may be assumed by



the successor corporation or a parent of such successor corporation or substantially equivalent options may be substituted by the successor corporation or a parent of such successor corporation, and if the successor corporation does not assume the Options or substitute options, then all outstanding and unvested Options shall become immediately exercisable and all outstanding Options shall terminate if not exercised as of the date of the Sale of the Company (or other prescribed period of time). The Company shall provide at least 30 days prior written notice of the Sale of the Company to the holders of all outstanding Options, which notice shall state whether (a) the Options will be assumed by the successor corporation or substantially equivalent options will be substituted by the successor corporation, or (b) the Options are thereafter vested and exercisable and will terminate if not exercised as of the date of the Sale of the Company (or other prescribed period of time).

(iii) *Liquidation or Dissolution.* In the event of the liquidation or dissolution of the Company, Options shall terminate immediately prior to the liquidation or dissolution.

G. *Grant of Reload Options.* A Non-Employee Director who exercises all or any portion of an Option granted under the Plan before June 1, 2004 by the tender or withholding of Shares which have a Fair Market Value equal to not less than 100% of the exercise price for such Options (the "*Exercised Options*") shall be granted, subject to Section IV, an additional option (a "*Reload Option*") for a number of Shares equal to the sum of the number of Shares tendered or withheld in payment of the exercise price for the Exercised Options. Options granted on and after June 1, 2004 shall not provide for the grant of a Reload Option upon exercise.

Reload Options shall be subject to the following terms and conditions:

(i) the grant date for each Reload Option shall be the date of exercise of the Exercised Option to which it relates;

(ii) subject to clause (iii) below, the Reload Option may be exercised at any time during the unexpired term of the Exercised Option (subject to earlier termination thereof as provided in the Plan); and

(iii) the other terms of the Reload Option shall be the same as the terms of the Exercised Option to which it relates and shall be subject to the provisions of the Plan, except that (a) the option price shall be the Fair Market Value of the Shares on the grant date of the Reload Option, (b) no Reload Option may be exercised within six months from the grant date thereof, and (c) no other Reload Option shall be granted upon exercise of such Reload Option.

H. *Non-Qualified Stock Options.* All Options granted under the Plan shall be non-qualified options not entitled to special tax treatment under Code Section 422, as may be amended from time to time.

**VIII. Election to Receive Stock in Lieu of Cash Compensation**



A. *General.* A Non-Employee Director may elect to reduce the cash compensation otherwise payable for services to be rendered by him or her as a director for any period beginning on June 1 and continuing to the following May 31 (or such other period for which cash compensation is payable to Non-Employee Directors pursuant to the policies of the Board), beginning June 1, 1996 and to receive in lieu thereof Election Shares as provided in this Section VIII.

B. *Election.* By the later of (i) the date of the Company's annual meeting of stockholders next preceding the June 1 to which such election relates (but in no event less than five business days prior to such June 1) and (ii) such Non-Employee Director's Initial Election Date, each Non-Employee Director may make an irrevocable election to receive, in lieu of all or a specified percentage (which percentage shall be in 10% increments) of the cash compensation to which such director would otherwise be entitled as a member of the Board and any committee thereof (including the annual retainer fee and any meeting or other fees payable for services on the Board or any committee thereof, but excluding any reimbursement for out-of-pocket expenses) for the year beginning the following June 1 (or such other period for which cash compensation is payable to such Non-Employee Director pursuant to the policies of the Board), an equivalent value in Election Shares granted in accordance with this Section VIII. An election shall be effective (i) if made in accordance with clause (i) of the preceding sentence, beginning on the June 1 following such election; and (ii) if made on such Non-Employee Director's Initial Election Date, immediately.

Each such election shall (i) be in writing in a form prescribed by the Company, (ii) specify the amount of cash compensation to be received in the form of Election Shares (expressed as a percentage of the compensation otherwise payable in cash), and (iii) be delivered to the Secretary of the Company. Such election may not be revoked or changed thereafter except as to compensation for services to be rendered in any 12 month period beginning on any June 1 at least six months following such revocation or new election.

C. *Issuance of Common Stock.* If a Non-Employee Director elects pursuant to Section VIII.B above to receive Election Shares, there shall be issued to such director promptly following each subsequent June 1 for which such election is effective (or promptly following the first day of such other period for which such election is effective) a number of Election Shares equal to the amount of compensation otherwise payable for the 12 month period beginning on such June 1 (or the other period for which such election is effective) divided by the Fair Market Value of the Election Shares on such June 1 (or on the first day of such other period). To the extent that the application of the foregoing formula would result in fractional shares of Common Stock being issuable, cash will be paid to the Non-Employee Director in lieu of such fractional Election Shares based upon the Fair Market Value of such fractional Election Share.

D. *Compliance with Exchange Act.* The election to receive Election Shares is intended to comply in all respects with Rule 16b-3(d)(1) promulgated under Section 16(b) of the Exchange Act such that the issuance of Election Shares under the Plan on a grant date occurring at least six months after the election shall be exempt from Section 16(b) of the Exchange Act.



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E. *Grant Date.* The grant date for each Election Share for the Non-Employee Director electing such option shall be the first day of the period to which such election relates and is effective.

**IX. Miscellaneous Provisions.**

A. *Rights of Non-Employee Directors.* No Non-Employee Director shall be entitled under the Plan to voting rights, dividends or other rights of a stockholder prior to the issuance of Common Stock. Neither the Plan nor any action taken hereunder shall be construed as giving any Non-Employee Director any right to be retained in the service of the Company.

B. *Limitations on Transfer and Exercise.* All Options granted under the Plan shall not be transferable by the Non-Employee Director, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, as defined by Section 1 et seq, of the Code, Title I of ERISA or the rules and regulations thereunder, and shall be exercisable during the Non-Employee Director's lifetime only by such Non-Employee Director or by such Non-Employee Director's guardian or other legal representative; *provided, however,* that the vested portions of Options may be transferred by the Non-Employee Director during his lifetime to (a) any member of his immediate family, (b) to a trust established for the exclusive benefit of himself or one or more members of his immediate family, or (c) to a partnership, the partners of which are limited to the Non-Employee Director and members of his immediate family. A transfer of an Option pursuant to this paragraph may only be effected by the Company at the written request of a Non-Employee Director and shall become effective only when recorded in the Company's record of outstanding Options. In the event an Option is transferred as contemplated in this paragraph, any Reload Options associated with such transferred Option shall terminate, and such transferred Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. Otherwise, a transferred Option shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant grant, and the transferee shall be entitled to the same rights as the Non-Employee Director, as if no transfer had taken place. As used in this paragraph, "immediate family" shall mean, with respect to any person, his/her spouse, any child, stepchild or grandchild, and shall include relationships arising from legal adoption.

C. *Compliance with Laws.* No shares of Common Stock shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign securities, securities exchange and other applicable laws and requirements. Each Share granted pursuant to Section VI or Section VIII and each Option granted pursuant to Section VII shall be subject to the requirement that if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the Shares granted or subject to the Option upon any securities exchange or under any state or federal securities or other law or regulation, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition to or in connection with the granting of such Share, such Option or the issuance or purchase of Shares thereunder, no such Share may be issued and no Option may be exercised or paid in Common Stock, in whole or in part, unless such listing,



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registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The holder of such Share or Option will supply the Company with such certificates, representations and information as the Company shall request and shall otherwise cooperate with the Company in obtaining such listing, registration, qualification, consent or approval. The Committee may at any time impose any limitations upon the sale of a Share or the exercise of an Option or the sale of the Common Stock issued upon exercise of an Option that, in the Committee's discretion, are necessary or desirable in order to comply with Section 16(b) of the Exchange Act and the rules and regulations thereunder. The Committee may at any time impose additional limitations, or may amend or delete the existing limitations, upon the exercise of Options by the tender or withholding of Shares in accordance with Section VII.E (including an amendment or deletion of the related ownership period for Shares specified in such Section), if such additional, amended or deleted limitations are necessary, desirable or no longer required (as the case may be) to remain in compliance with applicable accounting pronouncements relating to the treatment of the plan as a fixed plan for accounting purposes.

D. *Payment of Withholding Tax.* Whenever Shares are to be issued pursuant to Section VI or Section VIII of the Plan or upon exercise of Options issued pursuant to Section VII of the Plan, the Company shall be entitled to require as a condition of delivery (i) that the participant remit an amount sufficient to satisfy all federal, state and local withholding tax requirements related thereto, (ii) the withholding of Shares due to the participant under the Plan with a Fair Market Value equal to such amount, or (iii) any combination of the foregoing.

E. *Expenses.* The expenses of the Plan shall be borne by the Company and its Subsidiaries.

F. *Deemed Acceptance, Ratification and Consent.* By accepting any Common Stock hereunder or other benefit under the Plan, each Non-Employee Director and each person claiming under or through him or her shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

G. *Securities Act Registration.* The Company shall use its best efforts to cause to be filed under the Securities Act of 1933, as amended, a registration statement covering the Shares issued, and issuable upon exercise of options granted, under the Plan.

H. *Governing Law.* The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of Delaware.

I. *Election Shares.* Pending the grant of Election Shares hereunder, all compensation earned by a Non-Employee Director with respect to which an election to receive the grant of Election Shares pursuant to Section VIII.B has been made shall be the property of such director and shall be paid to him or her in cash in the event that Election Shares are not granted by the Company hereunder.



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J. *Headings; Construction.* Headings are given to the sections of the Plan solely as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of the Plan or any provisions hereof. The use of the singular shall also include within its meaning the plural, where appropriate, and *vice versa*.

**X. This section intentionally left blank.**

**XI. Amendment.**

The Plan may be amended at any time and from time to time by resolution of the Board as the Board shall deem advisable; *provided, however,* that no amendment shall become effective without stockholder approval if such stockholder approval is required by law, rule or regulation. No amendment of the Plan shall materially and adversely affect any right of any participant with respect to any Options or Shares theretofore granted under the Plan without such participant's written consent, except for any modifications required to maintain compliance with any federal or state statute or regulation.

**XII. Termination.**

The Plan shall terminate upon the earlier of the following dates or events to occur:

(i) upon the adoption of a resolution of the Board terminating the Plan; and

(ii) ten years from the date the Plan is initially approved and adopted by the stockholders of the Company in accordance with Article XIII.

Except as specifically provided herein, no termination of the Plan shall materially and adversely affect any of the rights or obligations of any person without his or her consent with respect to any Options or Shares theretofore granted under the Plan.

**XIII. Stockholder Approval and Adoption.**

The Plan was originally adopted by the Board on March 12, 1996 and was approved and adopted at a meeting of the stockholders of the Company held on May 21, 1996. The Plan was amended and restated by the Board at meetings held on November 12, 1996, August 14, 1997 and, in connection with a 2-for-1 stock split in the form of a dividend, effective as of July 2, 1998. The Plan was further amended and restated by the Board at meetings held on November 10, 1998, on September 18, 2000, effective as of June 1, 2001 and on September 8, 2003 effective as of June 1, 2004. Until June 1, 2004, the Plan as amended and restated on September 18, 2000, effective as of June 1, 2001 shall remain in effect.



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**EXHIBIT 15**

To the Board of Directors and Shareholders of
The Allstate Corporation:

We have reviewed, in accordance with standards established by the American Institute of Certified Public Accountants, the unaudited interim financial information of The Allstate Corporation and subsidiaries for the three-month and nine-month periods ended September 30, 2003 and 2002, as indicated in our report dated November 12, 2003; because we did not perform an audit, we expressed no opinion on such financial information.

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 September 30, 2003, is incorporated by reference in the following Registration Statements:

| Forms S-3 Registration Nos. | Forms S-8 Registration Nos. |
|---|---|
| 333-34583 | 33-77928 |
| 333-39640 | 33-93760 |
| 333-108253 | 33-93762 |
| | 33-99132 |
| | 33-99136 |
| | 33-99138 |
| | 333-04919 |
| | 333-16129 |
| | 333-23309 |
| | 333-30776 |
| | 333-40283 |
| | 333-40285 |
| | 333-40289 |
| | 333-49022 |
| | 333-60916 |
| | 333-73202 |
| | 333-100405 |
| | 333-100406 |
| | 333-105632 |

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
November 12, 2003

**EXHIBIT 31.1**

**CERTIFICATIONS**

I, Edward M. Liddy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;

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.

November 14, 2003

/s/ EDWARD M. LIDDY

Edward M. Liddy
Chairman of the Board, President and Chief Executive Officer

**EXHIBIT 31.2**

I, Danny L. Hale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;

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.

November 14, 2003

/s/ DANNY L. HALE

Danny L. Hale
Vice President and Chief Financial Officer

**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 September 30, 2003 of The Allstate Corporation 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 The Allstate Corporation.

November 14, 2003

/s/ EDWARD M. LIDDY

Edward M. Liddy
Chairman of the Board, President and Chief Executive Officer

/s/ DANNY L. HALE

Danny L. Hale
Vice President and Chief Financial Officer