

**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 JUNE 30, 2001

OR

**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
(State of Incorporation)

36-3871531
(I.R.S. Employer Identification No.)

2775 Sanders Road
Northbrook, Illinois
(Address of principal executive offices)

60062
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 847/402-5000

**REGISTRANT 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, AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.**

Yes No

AS OF JULY 31, 2001, THE REGISTRANT HAD 719,000,464 COMMON SHARES, \$.01 PAR VALUE, OUTSTANDING.

**THE ALLSTATE CORPORATION
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June 30, 2001**

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(in millions except per share data)	(Unaudited)		(Unaudited)	
Revenues				
Property-liability insurance premiums earned	\$ 5,503	\$ 5,481	\$ 10,956	\$ 10,952
Life and annuity premiums and contract charges	576	511	1,085	1,052
Net investment income	1,195	1,129	2,415	2,219
Realized capital gains and losses	(71)	62	(122)	246
	<u>7,203</u>	<u>7,183</u>	<u>14,334</u>	<u>14,469</u>
Costs and expenses				
Property-liability insurance claims and claims expense	4,549	4,198	8,619	8,336
Life and annuity contract benefits	878	742	1,676	1,487
Amortization of deferred policy acquisition costs	856	860	1,703	1,750
Operating costs and expenses	685	668	1,344	1,306
Amortization of goodwill	13	14	26	26
Restructuring and related charges	4	5	12	33
Interest expense	61	58	123	105
	<u>7,046</u>	<u>6,545</u>	<u>13,503</u>	<u>13,043</u>
Loss on disposition of operations	(10)	—	(10)	—
Income from operations before income tax expense, dividends on preferred securities and cumulative effect of change in accounting principle	147	638	821	1,426
Income tax (benefit) expense	(30)	168	125	384
Income before dividends on preferred securities and cumulative effect of change in accounting principle	177	470	696	1,042
Dividends on preferred securities of subsidiary trusts	(9)	(11)	(19)	(22)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments, after-tax	—	—	(9)	—
Net income	<u>\$ 168</u>	<u>\$ 459</u>	<u>\$ 668</u>	<u>\$ 1,020</u>
Earnings per share:				
Net income per share—basic	<u>\$ 0.23</u>	<u>\$ 0.62</u>	<u>\$ 0.92</u>	<u>\$ 1.35</u>
Weighted average shares—basic	<u>724.6</u>	<u>742.3</u>	<u>725.6</u>	<u>755.0</u>
Net income per share—diluted	<u>\$ 0.23</u>	<u>\$ 0.61</u>	<u>\$ 0.91</u>	<u>\$ 1.34</u>

See notes to condensed consolidated financial statements.

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THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions except per value data)	June 30, 2001	December 31, 2000
	(Unaudited)	
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$60,647 and \$58,525)	\$ 63,028	\$ 60,758
Equity securities, at fair value (cost \$4,910 and \$4,854)	5,904	6,086
Mortgage loans	5,107	4,599
Short-term	3,063	1,831
Other	1,277	1,209
Total investments	78,379	74,483
Cash	204	222
Premium installment receivables, net	3,971	3,802
Deferred policy acquisition costs	4,381	4,309
Reinsurance recoverables, net	2,687	2,352
Accrued investment income	923	942
Property and equipment, net	989	1,000
Goodwill	1,314	1,247
Other assets	1,237	1,153
Separate Accounts	14,180	15,298
Total assets	\$ 108,265	\$ 104,808
Liabilities		
Reserve for property-liability insurance claims and claims expense	\$ 16,632	\$ 16,859
Reserve for life-contingent contract benefits	8,880	8,468
Contractholder funds	31,492	28,870
Unearned premiums	7,804	7,607
Claim payments outstanding	821	908
Other liabilities and accrued expenses	6,482	4,918
Deferred income taxes	278	348
Short-term debt	254	219
Long-term debt	3,122	3,112
Separate Accounts	14,180	15,298
Total liabilities	89,945	86,607
Commitments and Contingent Liabilities (Notes 4 and 6)		
Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	750	750
Shareholders' equity		
Preferred stock, \$1 par value, 25 million shares authorized, none issued	—	—
Common stock, \$.01 par value, 2 billion shares authorized and 900 million issued, 724 million and 728 million shares outstanding	9	9
Additional capital paid-in	2,599	2,604
Retained income	18,826	18,433
Deferred compensation expense	(215)	(207)
Treasury stock, at cost (176 million and 172 million shares)	(5,514)	(5,314)
Accumulated other comprehensive income:		
Unrealized net capital gains and net gains on derivative financial instruments	1,917	1,980
Unrealized foreign currency translation adjustments	(52)	(54)
Total accumulated other comprehensive income	1,865	1,926
Total shareholders' equity	17,570	17,451
Total liabilities and shareholders' equity	\$ 108,265	\$ 104,808

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Six months ended June 30,	
	2001	2000
	(Unaudited)	
Cash flows from operating activities		
Net income	\$ 668	\$ 1,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	(57)	(13)
Realized capital gains and losses	122	(246)
Loss on disposition of operations	10	—
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	9	—
Interest credited to contractholder funds	824	705
Changes in:		
Policy benefit and other insurance reserves	(239)	(579)
Unearned premiums	197	(33)
Deferred policy acquisition costs	(177)	(175)
Premium installment receivables, net	(169)	(35)
Reinsurance recoverables, net	(103)	38
Income taxes payable	(220)	322
Other operating assets and liabilities	329	(11)
Net cash provided by operating activities	1,194	993
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	12,579	15,181
Equity securities	2,560	4,288
Real estate	12	—
Investment collections		
Fixed income securities	1,980	1,285
Mortgage loans	197	186
Investment purchases		
Fixed income securities	(16,287)	(18,989)
Equity securities	(2,759)	(3,917)
Mortgage loans	(702)	(473)
Change in short-term investments, net	(165)	1,017
Change in other investments, net	32	(61)
Purchases of property and equipment, net	(80)	(172)
Net cash used in investing activities	(2,633)	(1,655)
Cash flows from financing activities		
Change in short-term debt, net	30	(452)
Repayment of long-term debt	(3)	—
Proceeds from issuance of long-term debt	—	912
Contractholder fund deposits	4,327	4,366
Contractholder fund withdrawals	(2,446)	(2,755)
Dividends paid	(262)	(250)
Treasury stock purchases	(304)	(1,233)
Other	79	58
Net cash provided by financing activities	1,421	646
Net decrease in cash	(18)	(16)
Cash at beginning of period	222	254

Cash at end of period

\$ 204 \$ 238

See notes to condensed consolidated financial statements.

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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 (collectively referred to as the "Company" or "Allstate").

The condensed consolidated financial statements and notes as of June 30, 2001, and for the three month and six month periods ended June 30, 2001 and 2000 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 26, 2001. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

New accounting standards

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", as of January 1, 2001. The impact of SFAS No. 133 and SFAS No. 138 (the "statements") to the Company was a loss of \$9 million, after-tax, and is reflected as a cumulative effect of a change in accounting principle on the Condensed Consolidated Statements of Operations. The Company also recorded a cumulative after-tax increase of \$5 million in Accumulated other comprehensive income.

The statements require that all derivatives be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through Net income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through Net income or recognized in Accumulated other comprehensive income until the hedged item is recognized in Net income. The Company elected to adopt the provisions of the statements with respect to embedded derivative financial instruments to all such instruments held at January 1, 2001.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Under SFAS No. 142, goodwill and separately identified intangible assets with indefinite lives will no longer be amortized but reviewed annually (or more frequently if impairment indicators arise) for impairment. Separately identified intangible assets not deemed to have indefinite lives will continue to be amortized over their useful lives. SFAS No. 142 applies to all goodwill and intangible assets acquired after June 30, 2001. For goodwill and intangible assets acquired prior to July 1, 2001, Allstate is required to adopt SFAS No. 142 effective January 1, 2002.

Allstate is currently evaluating the effect that adopting SFAS Nos. 141 and 142 will have on its results of operations and financial position.

2. Acquisition and Dispositions

On May 8, 2001, the Company completed the acquisition of Sterling Collision Centers Inc. ("Sterling"). Sterling operates a network of 40 collision repair stores in seven states and nine metropolitan areas. The transaction was accounted for as a purchase and the excess of the acquisition cost over the fair value of Sterling's net assets acquired of \$90 million was recorded as goodwill.

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On June 20, 2001, the Company announced that it had entered into an agreement to sell its direct auto insurance business in Germany and Italy to Direct Line, the London based insurance subsidiary of The Royal Bank of Scotland.

On June 29, 2001, the Company disposed of its operations in Indonesia and the Philippines through a sale and purchase agreement with The Prudential Assurance Company Limited ("Prudential"), where Prudential acquired Allstate's holdings in Pt Asuransi Jiwa Allstate, Indonesia and Allstate Life Insurance Company of the Philippines. Allstate recognized a loss of \$10 million (\$6 million after-tax) on the sale. These dispositions are consistent with the Company's strategy to focus its efforts on business in North America.

3. 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 outstanding stock options and, in 2000, shares issuable under its mandatorily redeemable preferred securities.

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
(in millions, except per share data)				
Numerator (applicable to common shareholders):				
Income before dividends on preferred securities and cumulative effect of change in accounting principle	\$ 177	\$ 470	\$ 696	\$ 1,042
Dividends on preferred securities of subsidiary trusts	(9)	(11)	(19)	(22)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	—	—	(9)	—
Net income applicable to common stockholders	\$ 168	\$ 459	\$ 668	\$ 1,020
Denominator:				
Weighted average common shares outstanding	724.6	742.3	725.6	755.0
Effect of potential dilutive securities:				
Stock options	3.9	2.3	3.8	2.0
Shares issuable under FELINE PRIDES contract	—	3.2	—	3.0
Weighted average common and dilutive potential common shares outstanding	728.5	747.8	729.4	760.0
Earnings per share—Basic:				
Income before dividends on preferred securities and cumulative effect of change in accounting principle	\$.24	\$.63	\$.96	\$ 1.38
Dividends on preferred securities of subsidiary trusts	(.01)	(.01)	(.03)	(.03)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	—	—	(.01)	—
Net income applicable to common shareholders	\$.23	\$.62	\$.92	\$ 1.35
Earnings per share—Diluted:				
Income before dividends on preferred securities and cumulative effect of change in accounting principle	\$.24	\$.63	\$.95	\$ 1.37
Dividends on preferred securities of subsidiary trusts	(.01)	(.02)	(.03)	(.03)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	—	—	(.01)	—
Net income applicable to common shareholders	\$.23	\$.61	\$.91	\$ 1.34

Options to purchase 200,067 and 15,828,301 Allstate common shares, with exercise prices ranging from \$43.00 to \$50.72 and \$25.88 to \$50.72, were outstanding at June 30, 2001 and June 30, 2000, respectively, but were not included in the computation of diluted earnings per share for the three month periods ended June 30, 2001 and 2000 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 periods. Options to purchase 8,731,944 and 16,078,713 Allstate common shares, with exercise prices ranging from \$41.31 to \$50.72 and \$23.72 to \$50.72, were outstanding at June 30, 2001 and 2000, respectively, and not included in the six month period computations of diluted earnings per share due to anti-dilutive effects.

4. 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, internal factors including the Company's experience with similar cases, historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, loss control programs and product mix. In addition, the reserve estimates are influenced by external factors including court decisions, 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 claims. The effects of inflation are implicitly considered in the reserving process.

The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Allstate regularly updates its reserve estimates as new facts become known and further events occur which 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.

Catastrophic events and weather-related losses (wind, hail, lightning, freeze and flood events not meeting the Company's criteria to be declared a catastrophe) are an inherent risk of the property-liability insurance business that have contributed to, and will continue to contribute to, material period-to-period fluctuations in the Company's results of operations and financial position. The level of catastrophic events and weather-related losses experienced in any period cannot be predicted and could be material to results of operations and financial position.

Management believes that the reserve for claims and claims expense, net of reinsurance recoverables, at June 30, 2001, 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 exposure to environmental, asbestos and other mass tort claims stems principally from excess and surplus business written from 1972 through 1985, including substantial excess and surplus general liability coverages on Fortune 500 companies, and reinsurance coverage written during the 1960s through the 1980s, including reinsurance on primary insurance written on large United States companies. Additional, although less material, exposure stems from direct

commercial insurance written for small to medium-size companies. Other mass tort exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

In 1986, the general liability policy form used by Allstate and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims and added an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage, and policies issued after 1986 also have an annual aggregate limit on all coverages. Allstate's experience to date is that these policy form changes have effectively limited its exposure to environmental and asbestos claim risks assumed.

Establishing net loss reserves for environmental, asbestos and other mass tort claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, availability of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether those losses are, or were ever intended to be covered, are complex. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and

conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

Allstate's reserve for environmental and asbestos claims were \$1,012 million and \$1,071 million, net of reinsurance recoverables of \$334 million and \$359 million at June 30, 2001 and December 31, 2000, respectively. Approximately 59% and 58% of the total net environmental and asbestos reserve at June 30, 2001 and December 31, 2000, respectively, are for incurred but not reported ("IBNR") estimated losses.

Management believes its net loss reserve for environmental, asbestos and other mass tort claims are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, plaintiffs' expanded theories of liability, the risks inherent in major litigation and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in the loss reserve. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and other mass tort 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 reserve that may be required.

5. Reinsurance

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
(in millions)				
Property-liability premiums earned	\$ 69	\$ 68	\$ 139	\$ 135
Life and annuity premiums and contract charges	101	89	184	174

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
(in millions)				
Property-liability insurance claims and claims expense	\$ 120	\$ 27	\$ 226	\$ 141
Life and annuity contract benefits	84	48	154	114

6. Regulation and Legal Proceedings

Regulation

The Company's insurance businesses are subject to the effects of a changing social, economic and regulatory environment. Public and regulatory initiatives have varied and have included efforts to adversely influence and restrict premium rates, restrict the Company's ability to cancel policies, impose underwriting standards and expand overall regulation. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Legal Proceedings

Allstate and plaintiffs' representatives have settled certain civil suits related to the 1994 Northridge, California earthquake, including a class action. An appeal of the judgment approving the settlement of the class action was dismissed by the California Court of Appeal but objectors have recently filed a Petition for Review with the California Supreme Court. The plaintiffs in this action challenged licensing and engineering practices of certain firms that Allstate retained and alleged that Allstate systematically and improperly pressured engineering firms to alter their reports to reduce the loss amounts paid to some insureds with

earthquake claims. The settlement agreement calls for a review of the claims of qualifying class members by independent structural/geotechnical engineers and independent claims adjusters. Of the approximately 11,500 class members, less than a third indicated an interest in participating in the independent review process and, after a detailed review of the claims files, only about 20% of the class has been cleared for participation. The review process is underway and has resulted in the closing of some claims for an immaterial amount. In June 2001 an accelerated resolution option for claims in the independent review process received court approval. Under that option, any eligible insureds electing to participate will be paid \$22,000 in full satisfaction of their claims, in lieu of further participation in the independent review process. The Company is not required to, but retains the right to, proceed with this option even if less than the agreed-upon minimum of 1,866 insureds select it. On the basis of the court approval of the accelerated resolution option, the Company strengthened its reserves in the second quarter of 2001. In the opinion of management, the ultimate financial exposure 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.

For the past several years, the Company has been distributing to certain Personal Property and Casualty ("PP&C") claimants documents regarding the claims process and the role that attorneys may play in that process. Suits challenging the use of these documents have been filed against the Company, including purported class action suits. In addition to these suits, the Company has received inquiries from states' attorneys general, bar associations and departments of insurance. The Company has continued to use these documents after agreeing to make certain modifications in some states. The Company is vigorously defending its rights to use these documents. The outcome of these disputes is currently uncertain.

There are currently a number of state and nationwide putative class action lawsuits pending in various state and federal courts seeking actual and punitive damages from Allstate alleging breach of contract and fraud because of its specification of after-market (non-original equipment manufacturer) replacement parts in the repair of insured vehicles. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Plaintiffs in these suits allege that after-market parts are not "of like kind and quality" as required by the insurance policies. The lawsuits are in various stages of development. The Company is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

The Company has pending several state and nationwide class action lawsuits in various state and federal courts seeking actual and punitive damages from Allstate alleging breach of contract and fraud for failing to pay inherent diminished value to insureds under a collision, comprehensive, or uninsured motorist property damage provision of an auto policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Inherent diminished value is defined by plaintiffs 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 contract. These lawsuits are in various stages of development. A class has been certified in only one case, a multi-state class action. The Company is vigorously defending these lawsuits. 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. Only

one statewide class action has been certified, on a conditional basis. 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 is vigorously defending both its processes and these lawsuits. The outcome of these disputes is currently uncertain.

Three nationwide and two 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 is vigorously defending them, but the outcome of these disputes is currently uncertain.

Allstate is or has been defending various lawsuits involving worker classification issues. Examples of these lawsuits include a class action, filed after Allstate's reorganization of its California agent programs in 1996, whereby among other things, the plaintiffs sought a determination that they had been treated as employees notwithstanding agent contracts that specify that they are independent contractors for all purposes. The court determined in this case that the agents are independent contractors, which led to the dismissal of the suit. That dismissal is currently on appeal. Other examples are two putative class actions 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 employers. Another example involves the worker classification of staff working in agencies. In this putative class action, plaintiffs seek damages under the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act alleging that 10,000 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. 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 reorganization program announced in 1999. These matters include investigations by the U.S. Department of Labor and the U.S. Equal Employment Opportunity Commission with respect to allegations of ERISA violations, age discrimination and retaliation. A putative class action has also been filed alleging various violations of ERISA, breach of contract and age discrimination. Allstate is cooperating fully with these agency investigations and will continue to vigorously defend these and other claims related to its agency reorganization program. The outcome of these disputes is currently uncertain.

Various other legal and regulatory actions are currently pending that involve Allstate 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, claim settlement and worker classification 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 its license to do business in various states, the Company is required to participate in mandatory property-liability shared market mechanisms or pooling arrangements including reinsurance, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage voluntarily provided by private insurers. Underwriting results related to these organizations, which tend to be adverse to the Company, have been immaterial to the results of operations.

7. Business Segments

Summarized financial performance data for each of the Company's reportable segments for the three months and six months ended June 30, are as follows:

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Income from operations before income taxes, dividends on preferred securities and cumulative effect of change in accounting principle				
<i>Property-Liability</i>				
Underwriting loss				
PP&C	\$ (340)	\$ (49)	\$ (225)	\$ (27)
Discontinued Lines and Coverages	(4)	(3)	(8)	(8)
Total underwriting loss	(344)	(52)	(233)	(35)
Net investment income	436	439	902	863
Realized capital gains and losses	(21)	142	6	326
Loss on disposition of operations	(10)	—	(10)	—
Property-Liability income from operations before income taxes and cumulative effect of change in accounting principle	61	529	665	1,154
<i>Allstate Financial</i>				
Premiums and contract charges	576	511	1,085	1,052
Net investment income	739	665	1,471	1,302
Realized capital gains and losses	(49)	(66)	(129)	(44)
Contract benefits	878	742	1,676	1,487
Operating costs and expenses	254	225	507	475
Restructuring charges	3	(13)	4	(11)
Allstate Financial income from operations before income taxes and cumulative effect of change in accounting principle	131	156	240	359
<i>Corporate and Other</i>				
Service Fees(1)	14	4	16	4
Net investment income	20	25	42	54
Realized capital gains and losses	(1)	(14)	1	(36)
Operating costs and expenses	78	62	143	109
Corporate and Other loss from operations before income taxes, dividends on preferred securities and cumulative effect of change in accounting principle	(45)	(47)	(84)	(87)
Consolidated income from operations before income taxes, dividends on preferred securities and cumulative effect of change in accounting principle	\$ 147	\$ 638	\$ 821	\$ 1,426

(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 revenue data for each of the Company's business segments for the three months and six months ended June 30, are as follows:

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Revenues				
<i>Property-Liability</i>				
Premiums earned				
PP&C	\$ 5,494	\$ 5,479	\$ 10,947	\$ 10,949
Discontinued Lines and Coverages	9	2	9	3

Total premiums earned	5,503	5,481	10,956	10,952
Net investment income	436	439	902	863
Realized capital gains and losses	(21)	142	6	326
	<u>5,918</u>	<u>6,062</u>	<u>11,864</u>	<u>12,141</u>
Total Property-Liability	5,918	6,062	11,864	12,141
<i>Allstate Financial</i>				
Premiums and contract charges	576	511	1,085	1,052
Net investment income	739	665	1,471	1,302
Realized capital gains and losses	(49)	(66)	(129)	(44)
	<u>1,266</u>	<u>1,110</u>	<u>2,427</u>	<u>2,310</u>
Total Allstate Financial	1,266	1,110	2,427	2,310
<i>Corporate and Other</i>				
Service Fees	14	4	16	4
Net investment income	20	25	42	54
Realized capital gains and losses	(1)	(14)	1	(36)
	<u>33</u>	<u>15</u>	<u>59</u>	<u>22</u>
Total Corporate and Other before reclassification of service fees	33	15	59	22
Reclassification of service fees(1)	(14)	(4)	(16)	(4)
	<u>19</u>	<u>11</u>	<u>43</u>	<u>18</u>
Total Corporate and Other	19	11	43	18
Consolidated Revenues	<u>\$ 7,203</u>	<u>\$ 7,183</u>	<u>\$ 14,334</u>	<u>\$ 14,469</u>

- (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.

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8. Comprehensive Income

The components of other comprehensive income on a pretax and after-tax basis for the three months and six months ended June 30, are as follows:

	Three months ended June 30,					
	2001			2000		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>(in millions)</i>						
<i>Unrealized net capital gains and losses and net gains on derivative financial instruments</i>						
Unrealized holding losses arising during the period	\$ (80)	\$ 29	\$ (51)	\$ (369)	\$ 129	\$ (240)
Less: reclassification adjustments	(89)	31	(58)	12	(4)	8
Unrealized net capital gains and losses	<u>9</u>	<u>(2)</u>	<u>7</u>	<u>(381)</u>	<u>133</u>	<u>(248)</u>
Net gains on derivative financial instruments arising during the period	15	(6)	9	—	—	—
Less: reclassification adjustments	2	—	2	—	—	—
Net gains on derivative financial instruments	<u>13</u>	<u>(6)</u>	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>
Unrealized net capital gains (losses) and net gains on derivative financial instruments	<u>22</u>	<u>(8)</u>	<u>14</u>	<u>(381)</u>	<u>133</u>	<u>(248)</u>
Unrealized foreign currency translation adjustments	20	(7)	13	(9)	3	(6)
Other comprehensive income (loss)	<u>\$ 42</u>	<u>\$ (15)</u>	<u>27</u>	<u>\$ (390)</u>	<u>\$ 136</u>	<u>(254)</u>
Net income			<u>168</u>			<u>459</u>
Comprehensive income			<u>\$ 195</u>			<u>\$ 205</u>

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Six months ended June 30,

	2001			2000		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>(in millions)</i>						
<i>Unrealized net capital gains and losses and net gains on derivative financial instruments</i>						
Unrealized holding gains (losses) arising during the period	\$ (329)	\$ 115	\$ (214)	\$ 86	\$ (30)	\$ 56
Less: reclassification adjustments	(178)	62	(116)	221	(77)	144
Unrealized net capital gains and losses	(151)	53	(98)	(135)	47	(88)
Cumulative effect of change in accounting for derivative financial instruments	8	(3)	5	—	—	—
Net gains on derivative financial instruments arising during the period	42	(15)	27	—	—	—
Less: reclassification adjustments	(5)	2	(3)	—	—	—
Net gains on derivative financial instruments	55	(20)	35	—	—	—
Unrealized net capital gains (losses) and net gains on derivative financial instruments	(96)	33	(63)	(135)	47	(88)
<i>Unrealized foreign currency translation adjustments</i>	3	(1)	2	(15)	5	(10)
Other comprehensive loss	\$ (93)	\$ 32	(61)	\$ (150)	\$ 52	(98)
Net income			668			1,020
Comprehensive income			\$ 607			\$ 922

9. Company Restructuring

On November 10, 1999, the Company announced a series of strategic initiatives to aggressively expand its selling and service capabilities. The Company also announced a program to reduce current annual expenses by approximately \$600 million. The reduction in expenses comes from 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. The reduction in employees was estimated as approximately 4,000 non-agent positions, exclusive of selected hires to staff new initiatives, across all employment grades and categories by the end of 2000, or approximately 10% of the Company's non-agent work force. In addition, the Company continues to pursue other expense reduction actions.

As a result of the cost reduction program, Allstate established a \$69 million restructuring liability during the fourth quarter of 1999 for certain employee termination costs and qualified exit costs. The employee termination costs accrued as part of the restructuring reserve primarily reflected severance and the incremental cost of enhanced post-retirement benefits. The exit costs accrued primarily related to lease termination and post-exit rent expenses. As a result of additional actions, the Company has experienced similar costs since that date.

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The following table illustrates the inception to date change in the restructuring liability at June 30, 2001:

<i>(in millions)</i>	Employee costs	Exit costs	Total
Balance at December 31, 1999	\$ 59	\$ 10	\$ 69
Net adjustments to the liability	1	20	21
Payments applied against the liability	(51)	(15)	(66)
Incremental post-retirement benefits classified with OPEB liability	(6)	—	(6)
Balance at June 30, 2001	\$ 3	\$ 15	\$ 18

The payments applied against the restructuring liability for employee costs primarily reflect severance. Payments applied for exit costs generally have consisted of post-exit rent expenses and contract termination penalties. Increases in the liability incurred during the year are due to estimates of additional severance and other exit costs.

As of June 30, 2001, approximately 2,350 non-agent employees have been involuntarily terminated and approximately 1,640 non-agent positions have been eliminated through net attrition pursuant to the restructuring plan. As of June 30, 2001, approximately 2,400 agents have terminated their agency relationship with the Company at their election pursuant to the plan to reorganize exclusive agents to a single independent contractor program.

An additional \$59 million of pretax restructuring related costs (\$38 million after-tax), net of related non-cash settlement and curtailment accounting gains as required under SFAS No. 88 and SFAS No. 106 on Allstate's retirement plans in the amount of \$168 million, were expensed as incurred during 2000. The gross expenses recognized primarily consisted of agent separation and reorganization costs, retention bonuses and termination costs not qualifying for accrual at the time of the restructuring plan adoption.

The non-cash retirement plans' settlement and curtailment gains, as required in conformity with generally accepted accounting principles, were recorded in 2000 in connection with the reorganization of agents to a single independent contractor program, and the termination of non-agent employees. The \$168 million

accounting gain includes a settlement gain of \$7 million resulting from the accelerated recognition of deferred net actuarial gains that arose due to the favorable investment experience and demographic changes in the retirement plans and a curtailment gain of \$161 million due to the accelerated recognition of unrecognized prior service cost and the reduction in the projected benefit obligation as a result of agents separating from the Company.

As a result of agent separations relating to the agent reorganization plan, the pension plan made benefit payments of approximately \$480 million to terminating agents.

The Company does not anticipate that further charges related to the restructuring program will be material to Allstate's results of operations.

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 as of June 30, 2001, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2001 and 2000, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review 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 review, 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, 2000, 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 23, 2001, 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, 2000 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

Deloitte & Touche LLP

Chicago, Illinois
August 10, 2001

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2001 AND 2000

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 2000 and in Appendix D of the Notice of Annual Meeting and Proxy Statement dated March 26, 2001.

CONSOLIDATED REVENUES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions)				
Property-liability insurance premiums	\$ 5,503	\$ 5,481	\$ 10,956	\$ 10,952
Life and annuity premiums and contract charges	576	511	1,085	1,052
Net investment income	1,195	1,129	2,415	2,219
Realized capital gains and losses	(71)	62	(122)	246
Total revenues	\$ 7,203	\$ 7,183	\$ 14,334	\$ 14,469

Consolidated revenues for the second quarter of 2001 increased 0.3% over the same period of 2000 and decreased 0.9% for the six months ended June 30, 2001 from the first six months of 2000. Fluctuations in both periods reflect higher net investment income and life and annuity premiums and contract charges, offset to varying extents by realized capital losses. Also, increased Property-liability premiums during both periods were due to increased premiums from Allstate-branded products, partially offset by the effects of actions taken to improve the profitability of the Ivantage business, which includes the EncompassSM Insurance and DeerbrookSM Insurance brand names.

CONSOLIDATED NET INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions except per share data)				
Net income	\$ 168	\$ 459	\$ 668	\$ 1,020
Net income per share (Basic)	.23	.62	.92	1.35
Net income per share (Diluted)	.23	.61	.91	1.34
Realized capital gains and losses, after-tax	(47)	38	(80)	147
Restructuring and related charges, after-tax	3	3	8	21

Net income for the second quarter of 2001 decreased 63.4% compared to the same period of 2000, reflecting higher catastrophe losses, increased loss costs and varying market conditions in the financial services sector compared to the prior year second quarter. Net income in the first six months of 2001 decreased 34.5% compared to the first six months of 2000, due to increased loss costs and varying market conditions in the financial services sector. Net income per diluted share in the second quarter of 2001 decreased 62.3% compared to the same period of 2000 and decreased 32.1% for the six months ended June 30, 2001 compared to the first six months of 2000. Fluctuations in both periods reflect lower net income, partially offset by the accretive effect of the share repurchase program.

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PROPERTY-LIABILITY OPERATIONS

Overview

The Company's Property-Liability operations consist of two business segments: Personal Property and Casualty ("PP&C") and Discontinued Lines and Coverages. PP&C is principally engaged in the sale of property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages represents business no longer written by Allstate and includes the results from environmental, asbestos and other mass tort exposures, and certain commercial and other businesses in run-off. Such groupings of financial information are consistent with those used internally for evaluating segment performance and determining the allocation of resources.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions, except ratios)				
Premiums written	\$ 5,728	\$ 5,581	\$ 11,168	\$ 10,960
Premiums earned	\$ 5,503	\$ 5,481	\$ 10,956	\$ 10,952
Claims and claims expense ("losses")	4,549	4,198	8,619	8,336
Operating costs and expenses	1,292	1,310	2,552	2,595
Amortization of goodwill	5	7	10	12
Restructuring and related charges	1	18	8	44
Underwriting loss	(344)	(52)	(233)	(35)
Net investment income	436	439	902	863
Income tax (benefit) expense on operations	(42)	85	90	184
Realized capital gains and losses, after-tax	(11)	91	6	210
Loss on disposition of operations, after-tax	(6)	—	(6)	—
Cumulative effect of change in accounting principle, after-tax	—	—	(3)	—
Net income	\$ 117	\$ 393	\$ 576	\$ 854
Catastrophe losses	\$ 537	\$ 367	\$ 619	\$ 749
Operating ratios				
Claims and claims expense ("loss") ratio	82.7	76.6	78.7	76.1
Expense ratio	23.6	24.3	23.4	24.2
Combined ratio	106.3	100.9	102.1	100.3
Effect of catastrophe losses on combined ratio	9.8	6.7	5.6	6.8
Effect of restructuring and related charges on combined ratio	—	0.3	0.1	0.4

Underwriting Results

PP&C The Company continues to execute a series of strategic initiatives, which were initiated in 1999, to aggressively expand customer selling and service capabilities. These initiatives include rolling out The Good HandsSM Network, implementing Strategic Risk Management ("SRM"), installing new agency and claim technology, and introducing enhanced marketing and advertising. The Company believes

successful execution of these initiatives will result in customer selling and service advantages and improved profitability in an increasingly competitive marketplace.

Summarized underwriting results and key operating ratios for Allstate's PP&C segment are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions, except ratios)				
Premiums written	\$ 5,720	\$ 5,580	\$ 11,161	\$ 10,959
Premiums earned	\$ 5,494	\$ 5,479	\$ 10,947	\$ 10,949
Claims and claims expense ("losses")	4,540	4,196	8,607	8,330
Other costs and expenses	1,288	1,307	2,547	2,590
Amortization of goodwill	5	7	10	12
Restructuring and related charges	1	18	8	44
Underwriting loss	\$ (340)	\$ (49)	\$ (225)	\$ (27)
Premiums earned				
Allstate-brand:				
Standard Auto	\$ 2,925	\$ 2,797	\$ 5,795	\$ 5,577
Non-standard Auto	688	785	1,380	1,596
Homeowners	937	884	1,856	1,749
Ivantage:				
Standard Auto	297	328	613	666
Non-standard Auto	13	58	31	123
Homeowners	111	119	229	240
Other	523	508	1,043	998
Total premiums earned	\$ 5,494	\$ 5,479	\$ 10,947	\$ 10,949
Catastrophe losses	\$ 537	\$ 367	\$ 619	\$ 749
Operating ratios				
Claims and claims expense ("loss") ratio				
Allstate-brand:				
Standard Auto	76.6	68.6	74.0	68.4
Non-standard Auto	81.8	89.8	82.1	88.5
Homeowners	102.5	82.4	90.6	79.8
Ivantage:				
Standard Auto	80.5	87.8	78.3	83.6
Non-standard Auto	84.6	174.1	93.5	132.5
Homeowners	83.8	74.8	83.0	67.5
Other	82.6	72.2	77.3	82.7
Total loss ratio	82.6	76.6	78.6	76.1
Expense ratio	23.6	24.3	23.5	24.1
Combined ratio	106.2	100.9	102.1	100.2

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions, except ratios)				
Effect of catastrophe losses on combined ratio				
Allstate-brand:				
Standard Auto	5.0	2.0	2.6	2.6

Non-standard Auto	1.3	(0.3)	0.7	2.1
Homeowners	33.1	29.5	20.1	25.7
Ivantage:				
Standard Auto	4.1	1.8	2.0	1.9
Non-standard Auto	—	—	—	—
Homeowners	34.3	21.0	19.7	20.8
Other	4.0	4.7	3.1	5.5
Total	9.8	6.7	5.7	6.8
Effect of restructuring and related charges on combined ratio	—	0.3	0.1	0.4

PP&C sells primarily private passenger auto and homeowners insurance to individuals through exclusive Allstate agencies and independent agencies. The Allstate-brand strategy is to provide sales and service to new and existing customers in the distribution channels of their choice. A major part of this strategy is The Good Hands Network, a multi-access platform that integrates the Internet, Customer Information Centers ("CICs") and local exclusive Allstate agencies. As the Company proceeds with its state-by-state rollout of The Good Hands Network, it has observed that customers continue to rely primarily on Allstate's agents to complete their insurance purchases, while the Internet and CICs have been accessed primarily for quotes, information and service. To align with customer preferences, the Company is adjusting the services being offered on the network, the pace for introducing the network and its advertising. Allstate will continue to monitor customer expectations and behaviors and will adjust its plans accordingly.

PP&C's Ivantage division focuses on selling through independent agencies. Since the acquisition of Encompass in the fourth quarter of 1999, the strategy for this division has been focused on profit improvement actions for both Encompass and Deerbrook.

The Company generally separates the voluntary personal auto insurance business into two categories for underwriting and pricing purposes: the standard market and the non-standard market. Generally, standard auto customers are expected to have lower risks of loss than non-standard auto customers.

In 2001 PP&C continues the implementation of SRM, which is a tier-based pricing, underwriting and marketing program that enhances the Company's competitiveness with those customers who, based on the Company's determination, will potentially provide the best profitability over their lifetime with the Company, characterized as high lifetime value. The factors SRM uses to place each auto customer into a risk category include, for example, the number of years of continuous coverage with a prior insurer, prior bodily injury liability limits and financial stability. Management intends to continue to refine and implement SRM as the regulatory review process is completed, additional analysis is performed and new factors are introduced. To date, a majority of the markets where SRM has been implemented have experienced increased agent productivity and increased percentages of customers with multiple policies.

The Company's strategy for homeowners is to target customers whose risk of loss provides the best opportunity for profitable growth. Because homeowners is less price-sensitive than the private passenger auto business, new business growth attributable to SRM will occur more gradually in this line of business than in the auto insurance business. The factors SRM uses to place each homeowners customer into a risk category include, for example, prior claim activity and financial stability. The homeowners strategy also includes managing exposure on policies in areas where the potential loss from catastrophes exceeds acceptable levels.

Homeowners premiums are earned over the policy period, typically twelve months. Losses including losses from catastrophic events and weather-related losses (wind, hail, lightning, freeze and flood events not meeting the Company's criteria to be declared a catastrophe) are also accrued on an occurrence basis within the policy period. However, homeowners product pricing, is typically intended to establish acceptable long-term returns, as determined by management, over a period of years. Accordingly, in any reporting period, loss experience from catastrophic events and weather-related losses may contribute to earnings performance negatively or positively, relative to the expectations incorporated into the product pricing. Accordingly, the homeowners line of business is more capital intensive than other personal lines of business.

The Company is currently executing a range of actions to mitigate adverse homeowners trends, such as product, underwriting and rating changes and loss management initiatives which are intended to improve the profitability of this business. The effect on premiums of any ultimate actions is currently not estimable.

Premiums written by line for the PP&C segment are presented in the following table.

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
(\$ in millions)				
Standard auto	\$ 3,245	\$ 3,124	\$ 6,524	\$ 6,286
Non-standard auto	722	804	1,435	1,680
Homeowners	1,160	1,098	2,072	1,948
Commercial lines	185	176	364	345
Other personal lines	408	378	766	700
Premiums written	\$ 5,720	\$ 5,580	\$ 11,161	\$ 10,959

Standard auto premiums written increased 3.9% to \$3.25 billion in the second quarter of 2001, from \$3.12 billion for the same three month period in 2000, and during the first six months of 2001, standard auto premiums increased 3.8% as compared to the first six months of last year. Excluding the impact of Ivantage, the Allstate-brand products' standard auto premiums increased 4.8% in the second quarter of 2001 compared to the same three month period in 2000, and 4.9% in the first six months of 2001 over the first six months of last year. The increase is due to a 3.2% increase in the number of new and renewal policies in force. Average premium per policy also added to this increase with 2.1% growth in the second quarter over the second quarter of last year, and 1.7% growth in the first six months of 2001 over the same period last year. Ivantage premiums decreased 3.8% in the second quarter of 2001 and 5.7% in the first six months of 2001 when

compared to the same periods of 2000. These decreases were attributable to decreased new and renewal policies in force, partially offset by increased average premium per policy.

Increases in standard auto average premium per policy were due to rate actions taken in both the Allstate-brand and Ivantage during 2000 and the first half of 2001, and also due to Allstate-brand policyholders generally selecting additional coverage. The Allstate-brand received approval for standard auto rate changes, some in connection with the implementation of SRM, in 20 states during the first half of 2001 with a projected average premium written increase in those states of 2.8% on an annual basis. Ivantage received approval for standard auto rate changes in 19 states during the first half of 2001 with a projected average premium written increase in those states of 0.9% on an annual basis.

Non-standard auto premiums written decreased 10.2% to \$722 million in the second quarter of 2001, from \$804 million for the same period in 2000, and 14.6% during the first six months of 2001 as compared to the first six months of 2000. Excluding the impact of Ivantage, the Allstate-brand non-standard auto premiums decreased 5.4% in the second quarter of 2001 compared to the same three month period in 2000, and 10.3% in the first six months of 2001, over the first six months of last year. The decrease is due to a 19.5% decrease in the number of new and renewal policies in force. A 6.9% increase in average premium

per policy in the second quarter of 2001 over the second quarter of last year and a 5.7% increase in the first six months of 2001 over the first six months of last year partially offset lower policies in force. Ivantage premiums decreased 80.4% in the second quarter of 2001 and 78.3% in the first six months of 2001 when compared to the same periods of 2000. These decreases were attributable to an 81.2% decrease in policies in force. A 15.5% increase in average premium per policy in the second quarter over the second quarter of last year and an 8.7% increase in the first six months of 2001 over the first six months of last year partially offset lower policies in force.

Decreases in non-standard auto premiums during the first half of 2001 were primarily due to the implementation of programs to address adverse profitability trends for both the Allstate-brand and Ivantage. These programs vary by state and include changes such as additional premium down payment requirements, tightening underwriting requirements, rate increases, non-renewing policies where permitted and certain other administrative changes. The adverse impact of these programs on non-standard written premium growth is expected to moderate in the second half of 2001, while positioning the Company for improved profitability. As a result of the actions taken in this line, the frequency of losses has decreased. The Company will continue to implement SRM for non-standard auto policies, subject to the regulatory review process, as well as internal monitoring of the performance and profitability of the SRM factors. The involuntary business written by shared markets generally increases when the underwriting standards used by the Company and other participants in the non-standard auto industry lead them to write less non-standard auto insurance business.

Increases in non-standard auto average premium per policy were due to rate actions taken for both the Allstate-brand and Ivantage during 2000 and the first half of 2001. The Allstate-brand received approval for non-standard auto rate changes, some in connection with the implementation of SRM, in 23 states during the first half of 2001 with a projected average premium written increase in those states of 9.1% on an annual basis. Ivantage received approval for non-standard auto rate changes in 10 states during the first half of 2001 with a projected average premium written increase in those states of 8.5% on an annual basis.

Homeowners premiums written increased 5.6% to \$1.16 billion in the second quarter of 2001, from \$1.10 billion for the same three month period in 2000, and during the first six months of 2001, homeowners premiums increased 6.4% as compared to the first six months of last year. Excluding the impact of Ivantage, in the second quarter of 2001, Allstate-brand homeowners premiums increased 6.1% compared to the same three month period in 2000, and 6.5% in the first six months of 2001, over the first six months of last year. The increase is due to a 2.1% increase in the number of new and renewal policies in force. Average premium per policy also added to this increase with 4.2% growth in the second quarter of 2001 over the second quarter of last year, and 4.1% growth in the first six months of 2001 over the same period last year. Ivantage premiums increased 2.4% in the second quarter of 2001 and 5.1% in the first six months of 2001 when compared to the same periods of 2000. These increases were attributable to increased average premium per policy and partially offset by decreased policies in force.

Increases in homeowners average premium per policy were due to rate actions taken for both the Allstate-brand and Ivantage during 2000 and the first half of 2001. The Allstate-brand received approval for homeowners rate changes, some in connection with the implementation of SRM, in 14 states during the first half of 2001 with a projected average premium written increase in those states of 10.6% on an annual basis. Ivantage received approval for homeowners rate changes in 18 states during the first half of 2001 with a projected average premium written increase in those states of 3.1% on an annual basis.

For the second quarter of 2001, PP&C experienced an underwriting loss of \$340 million compared to an underwriting loss of \$49 million in the second quarter of 2000. For the six month period ended June 30, 2001, PP&C experienced an underwriting loss of \$225 million compared to an underwriting loss of \$27 million for the first half of last year. Underwriting losses increased in the second quarter of 2001 due to increased loss costs and higher catastrophe losses from multiple storms, whereas underwriting loss increases in the first six months of 2001 were driven primarily by increased loss costs, when compared to the same periods in the prior year. Loss costs were impacted by higher homeowners claim frequency and

increased claim severity stemming from inflationary pressures in medical and repair costs. These trends were partially offset by lower auto claim frequency due primarily to improvements in non-standard auto as a result of the Company's profitability actions in this line. The Company is currently executing a range of actions to mitigate the adverse auto and homeowners trends, such as product, claim, underwriting and rating changes, which are intended to improve the profitability of this business.

Catastrophe Losses and Catastrophe Management Catastrophe losses for the second quarter of 2001 were \$537 million compared with \$367 million for the same period in 2000. For the first half of 2001, catastrophe losses were \$619 million compared to \$749 million for the same period last year. The level of catastrophe losses experienced in any period cannot be predicted and could be material to results of operations and financial position.

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

For Allstate, areas of potential catastrophe losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Allstate Floridian Insurance Company ("Floridian") and Allstate Floridian Indemnity Company ("AFI") sell and service Allstate's Florida residential property

policies, and have access to reimbursements on certain qualifying Florida hurricanes and exposure to assessments from the Florida Hurricane Catastrophe Fund. In addition, Floridian and AFI are subject to assessments from the Florida Windstorm Underwriting Association and the Florida Property and Casualty Joint Underwriting Association, organizations created to provide coverage for catastrophic losses to property owners unable to obtain coverage in the private insurance market. The Company has also mitigated its ultimate exposure to hurricanes through policy brokering; an example includes the Company's brokering of insurance coverage for hurricanes in Hawaii to a non-affiliated company.

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

While management believes the Company's catastrophe management initiatives have reduced the potential magnitude of possible future losses, the Company continues to be contingently responsible for assessments by the CEA and various Florida facilities, and to be exposed to catastrophes that may materially impact results of operations and financial position. For example, the Company's historical catastrophe experience includes losses relating to Hurricane Andrew in 1992 totaling \$2.26 billion and the Northridge earthquake of 1994 totaling \$1.99 billion (\$90 million of which was recorded in the second quarter of 2001). The next largest hurricane experienced by the Company was Hurricane Hugo in 1989 with losses totaling 11.2% of Hurricane Andrew's losses, and the next largest earthquake experienced by the Company was the San Francisco earthquake of 1989 with losses totaling 7.6% of the Northridge earthquake's losses. Additionally, since 1990 the aggregate impact of catastrophes on the Company's loss ratio was 6.0%; excluding losses from Hurricane Andrew, California earthquakes and Hawaii hurricanes during that period, the aggregate impact of all other catastrophes on the Company's loss ratio was 3.8%. The establishment of appropriate reserves for losses incurred from catastrophes, as for all outstanding property-liability claims, is an inherently uncertain process. Catastrophe reserve estimates are regularly reviewed and updated, using the most current information and estimation techniques. Any resulting adjustments, which may be material, are reflected in current operations.

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.

Discontinued Lines and Coverages Summarized underwriting results for the Discontinued Lines and Coverages segment are presented in the following table.

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
(\$ in millions) Underwriting loss	\$ 4	\$ 3	\$ 8	\$ 8

Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and other mass tort exposures, and certain commercial and other businesses in run-off.

Net Investment Income and After-tax Realized Capital Gains and Losses

Net Investment Income Property-Liability net investment income was \$436 million in the second quarter of 2001, consistent with \$439 million in the second quarter of last year. For the first six months of 2001, net investment income increased to \$902 million from \$863 million in the same period last year. Fluctuations in both periods were due to increased income from partnership interests, offset by reduced asset balances due to dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation. Average portfolio yields in the second quarter and year to date periods of 2001 were comparable to the prior year.

After-tax Realized Capital Gains and Losses Property-Liability after-tax realized capital losses for the second quarter of 2001 were \$11 million compared to after-tax realized capital gains of \$91 million for the same period in 2000. The decrease was due to market conditions impacting portfolio trading in the normal course of business and investment write-downs, partially offset by after-tax realized capital gains of \$18 million resulting from the valuation of certain derivative instruments. During the first half of 2001, after-tax realized capital gains were \$6 million compared to \$210 million in the first six months of last year. This decrease was due to market conditions impacting portfolio trading in the normal course of business, investment write-downs and an after-tax realized capital loss of \$18 million from the valuation of certain derivative instruments. The valuation of certain derivative instruments is due to new accounting policies adopted in the first quarter of 2001 related to the Statements of Financial Accounting Standards Nos. 133 and 138. Additionally, period-to-period fluctuations in realized capital gains and losses are largely the result of the timing of sales reflecting management's decision on the positioning of the investment portfolio, as well as assessments of individual securities and overall market conditions.

ALLSTATE FINANCIAL OPERATIONS

Overview

Allstate Financial markets life insurance and investment products. Life insurance products consist of interest-sensitive life, traditional term and whole life, immediate annuities with life contingencies, variable life, indexed life, credit life and accident and health insurance. Investment products include deferred annuities, immediate annuities without life contingencies, structured settlements and institutional products, including guaranteed investment contracts and funding agreements.

The segment uses several brand identities. Generally, Allstate brand products are sold through Allstate agencies, specialized brokers, Putnam distributors and workplace and direct response marketing. Other brands such as Glenbrook Life, Northbrook Life and Lincoln Benefit Life sell products through both Allstate and independent agencies, financial institutions such as securities firms and banks and direct response marketing.

Summarized financial data for the Allstate Financial segment is presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions)				
Statutory premiums and deposits	\$ 2,936	\$ 3,233	\$ 5,803	\$ 6,242
Investments	\$ 44,321	\$ 37,585	\$ 44,321	\$ 37,585
Separate Accounts assets	14,180	14,894	14,180	14,894
Investments, including Separate Accounts assets	\$ 58,501	\$ 52,479	\$ 58,501	\$ 52,479
GAAP Premiums	\$ 357	\$ 294	\$ 651	\$ 628
Contract charges	219	217	434	424
Net investment income	739	665	1,471	1,302
Contract benefits	419	372	818	765
Credited interest	459	370	858	722
Operating costs and expenses	242	216	487	444
Amortization of goodwill	7	7	15	14
Restructuring and related charges	3	(13)	4	(11)
Operating income before tax	185	224	374	420
Income tax expense on operations	66	79	128	148
Operating income(1)	119	145	246	272
Realized capital gains and losses, after-tax (2)	(35)	(44)	(87)	(40)
Cumulative effect of change in accounting principle, after-tax	—	—	(6)	—
Net income	\$ 84	\$ 101	\$ 153	\$ 232

(1)

The supplemental operating information presented above allows for a more complete analysis of results of operations. The net effects of realized capital gains and losses have been excluded due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance of insurers. Operating income should not be considered as a substitute for any generally accepted accounting principles ("GAAP") measure of performance. The method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

(2)

After-tax realized capital gains and losses are presented net of the effects of Allstate Financial's deferred policy acquisition cost amortization to the extent that such effects resulted from the recognition of realized capital gains and losses.

Operating Results

Statutory Premiums and Deposits Statutory premiums and deposits, which include premiums and deposits for all products, are used to analyze sales trends. The following table summarizes statutory premiums and deposits by product line.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions)				
Life products				
Interest-sensitive	\$ 223	\$ 260	\$ 441	\$ 496
Traditional	116	106	213	201
Other	148	143	298	276
Total life products	487	509	952	973
Investment products				
Fixed	885	996	1,584	2,049
Variable	751	1,115	1,564	2,098
Institutional	813	613	1,703	1,122
Total investment products	2,449	2,724	4,851	5,269

Total \$ 2,936 \$ 3,233 \$ 5,803 \$ 6,242

Total statutory premiums and deposits decreased 9.2% in the second quarter of 2001, compared to the second quarter of 2000, and 7.0% in the first six months of 2001, compared to the same period in the prior year. Decreases in statutory premiums during both periods were the result of declining sales of variable and fixed annuities, partially offset by increased sales of institutional products. Sales of variable and fixed annuities decreased 32.6% and 11.1%, respectively, in the second quarter of 2001, and 25.5% and 22.7%, respectively, in the first half of 2001 compared to the same periods in the prior year. These decreases were primarily due to declining market conditions, as volatile markets generally influence sales of investment products. Increased sales of institutional products were generated during the first and second quarters of 2001 primarily through the sale of funding agreements to entities issuing medium-term notes. Period to period fluctuations in sales of institutional products, including funding agreements, are largely due to management's assessment of market opportunities.

GAAP Premiums and Contract Charges Under GAAP, premiums represent revenue generated from traditional life products with significant mortality or morbidity risk. Revenues for interest-sensitive life insurance and other products that are largely investment-related, for which deposits are treated as liabilities, are reflected as contract charges. Immediate annuities may be purchased with a life contingency whereby the mortality risk is a significant factor; therefore revenues generated on these contracts are recognized as GAAP premiums.

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The following table summarizes GAAP premiums and contract charges.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in millions)				
Premiums				
Traditional life	\$ 107	\$ 99	\$ 206	\$ 191
Immediate annuities with life contingencies	107	60	163	167
Other	143	135	282	270
Total premiums	357	294	651	628
Contract Charges				
Interest-sensitive life	143	145	282	284
Variable annuities	57	55	113	110
Other	19	17	39	30
Total contract charges	219	217	434	424
Total Premiums and Contract Charges	\$ 576	\$ 511	\$ 1,085	\$ 1,052

For the second quarter of 2001, total premiums increased 21.4% to \$357 million, and for the first six months of 2001, total premiums increased 3.7% to \$651 million, compared to the same periods last year. The increases in both periods were due to increased sales of traditional life policies. The second quarter increase also reflects higher sales of immediate annuities with life contingencies. Sales of immediate annuities may fluctuate from period to period due to market conditions, and between annuities sold with and without life contingencies and therefore, due to the GAAP reporting treatment of annuities with life contingencies, GAAP premium may fluctuate accordingly.

Total contract charges increased 0.9% during the second quarter of 2001, and 2.4% during the first six months of the year, as compared to the same periods of 2000. The increases in both periods were due to increases in other contract charges, which includes variable life and fixed annuity contracts, and increased contract charges on variable annuities. Contract charges on variable annuity products are generally calculated as a percentage of each account value and therefore are impacted by market fluctuations. Increased variable annuity contract charges in the second quarter of 2001 were due to higher asset balances resulting from sales in the last twelve months and market appreciation. Increased variable annuity contract charges in the first six months of 2001 were due to higher asset balances resulting from sales in the last twelve months, partially offset by the impacts of market declines over the period.

Operating Income Operating income decreased 17.9% to \$119 million in the second quarter of 2001 as compared to the second quarter of 2000. This decrease was due to higher operating expenses, partially offset by the investment margin. In the first half of 2001, operating income decreased 9.6% to \$246 million as compared to operating income of \$272 in the first half of 2000. This decrease was due to higher operating expenses and adverse mortality, partially offset by the investment margin.

Investment margin, which represents the excess of investment income earned over interest credited to policyholders and contractholders, increased 4.4% during the current year second quarter as compared to the prior year second quarter, and 11.4% in the first six months of 2001 compared to the first six months of 2000. These increases were due primarily to increases in asset balances from new sales, not to increases in the difference between average investment yields and interest credited; the difference between average investment yields and interest credited during the quarter was comparable to the same period in 2000.

Mortality margin, which represents premiums and cost of insurance charges in excess of related policy benefits, decreased 0.9% during the second quarter of 2001 as compared to the second quarter of 2000. During the first six months of 2001, the mortality margin decreased 7.7% as compared to the first half of 2000. The decreases, which negatively impact operating income, were the result of more favorable

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mortality results experienced in the first half of 2000, partially offset by increased premiums and cost of insurance charges, as noted above.

Operating expenses increased 12.0% in the second quarter of 2001 to \$242 million, compared to \$216 million in the second quarter of 2000, and 9.7% in the first half of 2001 to \$487 million, compared to \$444 million in the first half of 2000. These increases were due to the additional marketing and distribution expenses to support growth initiatives.

Net Investment Income and After-tax Realized Capital Gains and Losses

Net Investment Income Allstate Financial net investment income increased 11.1% in the second quarter of 2001 and 13.0% in the first half of 2001 as compared with the same periods last year, due to higher investment balances from increased cash flows from operations and increased income from partnership interests in both periods. Investment balances at June 30, 2001, excluding Separate Accounts and unrealized gains on fixed income securities, grew 14.7% when compared to the June 30, 2000 balance. Average portfolio yields in the second quarter and year to date period of 2001 were comparable to the prior year.

After-tax Realized Capital Gains and Losses For the three month period ended June 30, 2001, Allstate Financial after-tax realized capital losses were \$35 million compared to after-tax realized capital losses of \$44 million for second quarter of 2000. The increase was due to gains on portfolio trading in the normal course of business and after-tax realized capital gains of \$10 million resulting from the valuation of certain derivative instruments, partially offset by market conditions impacting investment write-downs. For the six months ended June 30, 2001, after-tax realized capital losses were \$87 million, compared to after-tax realized capital losses of \$40 million for the first half of 2000. This decrease was due to market conditions impacting investment write-downs and an after-tax realized capital loss of \$25 million from the valuation of certain derivative instruments. The valuation of certain derivative instruments is due to new accounting policies adopted in the first quarter of 2001 related to the Statements of Financial Accounting Standards Nos. 133 and 138. Additionally, period-to-period fluctuations in realized capital gains and losses are largely the result of the timing of sales reflecting management's decision on the positioning of the investment portfolio, as well as assessments of individual securities and overall market conditions.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources Allstate's capital resources consist of shareholders' equity, mandatorily redeemable preferred securities and debt, representing funds deployed or available to be deployed to support business operations. These resources are summarized in the following table.

(\$ in millions)	June 30, 2001	December 31, 2000
Common stock and retained earnings	\$ 15,705	\$ 15,525
Accumulated other comprehensive income	1,865	1,926
Total shareholders' equity	17,570	17,451
Mandatorily redeemable preferred securities	750	750
Debt	3,376	3,331
Total capital resources	\$ 21,696	\$ 21,532
<i>Ratio of debt to total capital resources(1)</i>	17.3%	17.2%

(1)

When analyzing the Company's ratio of debt to total capital resources, various formulas are used. In this presentation, debt includes 50% of the mandatorily redeemable preferred securities.

Shareholders' Equity Shareholders' equity increased \$119 million in the first six months of 2001 when compared to year-end 2000, as net income was partially offset by share repurchases and dividends paid to shareholders. During the first half of 2001, the Company acquired 7.6 million shares of its stock at a cost of \$304 million primarily as part of the current \$2.00 billion stock repurchase program. This program was 81.8% complete at June 30, 2001.

Debt Consolidated debt at June 30, 2001 increased compared to December 31, 2000 due primarily to a \$35 million increase in short-term borrowings outstanding.

The Company has access to additional borrowing as follows:

- Allstate has a commercial paper program with a borrowing limit of \$1.00 billion to cover short-term cash needs. At June 30, 2001, the Company had outstanding commercial paper borrowings of \$248 million.
- During the second quarter of 2001, Allstate replaced its primary credit facility and currently maintains three credit facilities totaling \$1.20 billion as a potential source 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 2002 and a \$50 million one-year revolving line of credit expiring in August of 2001, which will be renewed. The rights to borrow on the five-year and 364-day lines of credit are subject to the requirements that the Company's ratio of total debt to total capital (as defined in the agreements) not exceed a designated level. These requirements are currently being met and management expects to continue to meet them in the future. There have been no borrowings under any of these lines of credit during the first half of 2001. 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.
- As of June 30, 2001, the Company had the right to issue up to an additional \$2.35 billion of debt securities, preferred stock, trust preferred securities or debt warrants utilizing the shelf registration statements filed with the Securities and Exchange Commission in August 1998 (\$350

million remaining) and in June 2000 (\$2.00 billion remaining).

Financial Ratings and Strength The Company's and its major subsidiaries' debt, commercial paper and financial strength ratings are influenced by many factors including the amount of financial leverage (i.e. debt) and exposure to risks, such as catastrophes, as well as the current level of operating leverage.

In the first quarter of 2001, A.M. Best affirmed its financial strength ratings and assigned The Allstate Corporation's senior long term debt a rating of a+, and commercial paper program a rating of AMB-1. All other ratings remained unchanged during the first half of 2001.

Liquidity The Allstate Corporation is a holding company whose principal operating subsidiaries include AIC and American Heritage Life Investment Corporation. The Company's principal sources of funds are dividend payments from AIC, inter-company borrowings, funds from the settlement of Company benefit plans and funds that may be raised periodically from the issuance of additional debt, including commercial paper, or stock.

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. Based on 2000 statutory net income, the maximum amount of dividends AIC is able to pay without prior Illinois Department of Insurance approval at a given point in time is \$1.69 billion, less dividends paid during the preceding twelve months measured at that point in time. In the twelve-month period beginning July 31, 2000, AIC paid dividends of \$1.12 billion. Notification and approval of inter-company lending activities is also required by the Illinois Department of Insurance for those transactions which exceed formula amounts based on statutory admitted assets and statutory surplus.

The Company's principal uses of funds are the payment of dividends to shareholders, share repurchases, inter-company lending to its insurance subsidiaries, debt service, additional investments in its subsidiaries and acquisitions.

Total surrender and withdrawal amounts for Allstate Financial decreased during the second quarter of 2001 to \$709 million, compared to \$1.07 billion in the second quarter of 2000, due primarily to the impact of market conditions. As Allstate Financial's interest-sensitive life policies and annuity contracts in force grow and age, the dollar amount of surrenders and withdrawals could increase. While the overall amount of surrenders may increase in the future, a significant increase in the level of surrenders relative to total contractholder account balances is not anticipated.

INVESTMENTS

The composition of the investment portfolio at June 30, 2001, is presented in the following table.

	Property-Liability		Allstate Financial		Corporate and Other		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
(\$ in millions)								
Fixed income securities(1)	\$ 25,648	78.3%	\$ 36,178	81.6%	\$ 1,202	94.0%	\$ 63,028	80.4%
Equity securities	5,487	16.7	403	0.9	14	1.1	5,904	7.5
Mortgage loans	138	0.4	4,969	11.2	—	—	5,107	6.5
Short-term	1,495	4.6	1,505	3.4	63	4.9	3,063	3.9
Other	11	—	1,266	2.9	—	—	1,277	1.7
Total	\$ 32,779	100.0%	\$ 44,321	100.0%	\$ 1,279	100.0%	\$ 78,379	100.0%

(1)

Fixed income securities are carried at fair value. Amortized cost for these securities was \$24.80 billion, \$34.69 billion and \$1.16 billion for Property-Liability, Allstate Financial, and Corporate and Other, respectively.

Total investments increased to \$78.38 billion at June 30, 2001 from \$74.48 billion at December 31, 2000. Property-Liability investments were \$32.78 billion at June 30, 2001 compared to \$32.96 billion at December 31, 2000. This decrease was due to decreased amounts invested from positive cash flows generated from operations and decreased unrealized gains in both the fixed income and equity securities. Allstate Financial investments at June 30, 2001, increased to \$44.32 billion from \$40.25 billion at December 31, 2000. This increase was attributable to amounts invested from positive cash flows generated from operations and increased unrealized capital gains on fixed income securities, partially offset by decreased unrealized capital gains on equity securities. Generally, when market interest rates decrease, as they did in the first half of 2001, unrealized gains on fixed income securities increase.

Approximately 93.8% of the Company's fixed income securities portfolio is rated investment grade, which is defined by the Company as a security having an NAIC rating of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, or a comparable Company internal rating.

OTHER DEVELOPMENTS

Recently, insurance carriers writing approximately 25% of the auto insurance in the state of New Jersey have announced their intention to withdraw from the state, citing their inability to charge adequate premiums since the implementation of regulated rate and coverage reform in 1999. Allstate New Jersey Insurance Company ("ANJ") has not experienced the same result, and continues to execute its strategies in the state. The outcome of these actions and impact to ANJ are uncertain.

In July of 2001, the Office of Thrift Supervision granted Allstate Bank, a subsidiary of The Allstate Corporation, a full-service thrift charter. Allstate Bank opened in 1998 under a limited-purpose thrift charter, offering cash management and trust services. A full-service thrift charter will allow Allstate Bank to offer a

wider range of consumer banking products and services such as savings accounts, certificates of deposit and insured money market accounts.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS AFFECTING ALLSTATE

This document contains "forward-looking statements" that anticipate results based on management's 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.

Forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "expects," "will," "anticipates," "estimates," "intends," "believes," "likely" and other words with similar meanings. These statements may address, among other things, the Company's strategy for growth, product development, regulatory approvals, market position, expenses, financial results and reserves. Forward-looking statements are based on management's current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate. However, management believes that our forward-looking statements are based on reasonable, current expectations and assumptions. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

If the expectations or assumptions underlying the forward-looking statements prove inaccurate or if risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. In addition to the normal risks of business, Allstate is subject to significant risk factors, including those listed below which apply to it as an insurance business.

- The implementation of Allstate's multi-access distribution model involves risks and uncertainties that could have a material adverse effect on Allstate's results of operations, liquidity or financial position. For example, the direct customer sales capabilities could lead to unreliable sales activity, an unacceptable profit contribution and channel competition.
- The Company continues to pursue expense reduction actions consistent with its \$600 million reduction program announced in November 1999, as well as other actions to be fully realized in 2001. These expense reductions are dependent on the adequacy of the actions taken to eliminate certain employee positions, consolidate Allstate's operations and facilities, and reorganize its multiple employee agency programs to a single exclusive agency independent contractor program. The savings are being partially invested in technology, competitive pricing, The Good Hands Network and advertising.
- For its non-standard auto insurance business, Allstate is pursuing programs to address adverse profitability trends. These programs include changes, such as additional down payment requirements, new underwriting criteria, rate increases, non-renewing policies where permitted and certain other administrative changes. While the adverse impact on non-standard written premium growth of these programs is expected to moderate in the second half of 2001, the negative impact of these actions could continue at current rates or increase due to a variety of factors, including unforeseen flaws in Allstate's pricing model, hindering improvements in profitability.
- The insurance business is subject to extensive regulation-particularly at the state level. Many of these restrictions affect Allstate's ability to operate and grow its businesses in a profitable manner. In particular, the PP&C segment's implementation of SRM for its private passenger auto business is subject to state regulatory review processes.
- The Company believes that the risk factors and tier-based pricing used with SRM will allow it to be more competitive and operate more profitably. However, the use of SRM is subject to the regulatory review process. Moreover, it is possible that the use of SRM underwriting factors or pricing model do not accurately anticipate the level of loss costs that the Company will ultimately incur as a result of the mix of new business generated through the use of these strategies. In addition, it is possible that the actual performance of SRM may differ from the underlying assumptions in the Company's projected loss costs for high lifetime value customers.
- In recent years, the competitive pricing environment for private passenger auto insurance put pressure

on the PP&C segment's premium growth and profit margins, and because Allstate's PP&C segment's loss ratio compares favorably to the industry, state regulatory authorities may resist our efforts to raise rates.

- From time to time, the private passenger auto insurance industry comes under pressure from state regulators, legislators and special interest groups to reduce, freeze or set rates at levels that do not correspond with underlying costs, in management's opinion. The homeowners insurance business faces similar pressure, particularly as regulators in catastrophe prone states struggle to identify an acceptable methodology to price for catastrophe exposure. This kind of pressure is expected to persist. In addition, the use of financial stability as a factor in underwriting and pricing comes under attack by regulators, legislators and special interest groups in various states. The result could be legislation or regulation that adversely affects the profitability of Allstate's PP&C segment. The Company cannot predict the impact on results of operations, liquidity or financial position of possible future legislative and regulatory measures regarding rates.
- Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit a private passenger auto insurer's ability to cancel and non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program

withdrawals to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

- Certain states have laws that require an insurer conducting business in that state to offer coverage to all consumers and restrict an insurer's ability to charge an adequate price. In these markets, the Company or its subsidiaries may be compelled to underwrite significantly more business at an inadequate price, leading to an unacceptable return on the Company's capital.

- Weather conditions including the frequency and severity of tornadoes, hailstorms, hurricanes, tropical storms, high winds, and winter storms affect the frequency and severity of claims in the property lines of insurance. Changing driving patterns affect the frequency and severity of claims in the private passenger auto insurance business.

- Changes in the severity of claims have an impact on the profitability of Allstate's business. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in loss costs for homeowners insurance policies are driven by inflation in the construction industry, in building materials and in home furnishings and other economic and environmental factors. While the inflationary pressures in each of these sectors drives the Company's severity, it may not reflect the Company's experience.

- The Company is currently pursuing various loss management initiatives in PP&C that are expected to contribute to the mitigation of future claim severity increases. However, these initiatives may not offset impacts of increased severity, which are inherently hard to predict.

- Allstate has experienced, and expects to continue to experience, catastrophe losses. While management believes that our catastrophe management initiatives have reduced the potential magnitude of possible future losses, Allstate continues to be exposed to catastrophes that could have a material adverse impact on results of operations or financial position. Catastrophic events in the future may indicate that the techniques and data used to predict the probability of catastrophes and the extent of the resulting losses are inaccurate.

- There is inherent uncertainty in the process of establishing property-liability loss reserves, particularly reserves for the cost of environmental, asbestos and other mass tort claims. This uncertainty arises from a number of factors, including ongoing interpretation of insurance policy provisions by courts, inconsistent decisions in lawsuits regarding coverage and expanded theories of liability. In addition, on-going changes in claims settlement practices can lead to changes in loss payment patterns which are used to estimate reserve levels. Moreover, while management believes that improved actuarial techniques and databases have assisted in estimating environmental, asbestos and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable loss. Consequently, ultimate losses could materially exceed established loss reserves and

have a material adverse effect on our results of operations, liquidity or financial position.

- There is uncertainty involved in estimating the availability of reinsurance and the collectibility of reinsurance recoverables. This uncertainty arises from a number of factors, including the restructuring by reinsurers of their capital structures and segregation by the industry generally of reinsurance exposure into separate legal entities with dedicated capital.

- Changes in market interest rates can have adverse effects on Allstate's investment portfolio, investment income, product sales and results of operations. Increasing market interest rates have an adverse impact on the value of the investment portfolio, for example, by decreasing unrealized capital gains on fixed income securities. Declining market interest rates could have an adverse impact on Allstate's investment income as Allstate reinvests proceeds from positive cash flows from operations and from maturing and called investments into new investments that could be yielding less than the portfolio's average rate. Changes in market rates of interest as compared to rates offered on some of the Allstate Financial segment's products could make those products less attractive if competitive investment margins are not maintained. This could lead to lower sales and/or changes in the level of surrenders on these products. The Company seeks to limit its exposure in this area by offering a diverse group of products, periodically reviewing and revising crediting rates and providing for surrender charges in the event of early withdrawal.

- The impact of decreasing Separate Accounts balances as a result of fluctuating market conditions could cause contract charges realized by the Allstate Financial segment to decrease.

- In order to meet the anticipated cash flow requirements of its obligations to policyholders, from time to time Allstate adjusts the effective duration of investments, liabilities for contractholder funds and reserves for life-contingent contract benefits. Those adjustments may have an impact on the value of the investment portfolio, investment income, interest credited on contractholder funds and the investment margin.

- Allstate Financial policy acquisition costs related to contractholder funds are amortized in proportion to gross profits over the estimated lives of the contract periods. Assumptions underlying the gross profits, which include estimated fees and investment and expense margins, are periodically updated to reflect actual experience resulting in adjustments to the cumulative amortization of these costs. These adjustments may have a material effect on results of operations.

- Management believes the reserves for life-contingent contract benefits are adequate to cover ultimate policy benefits, despite the underlying risks and uncertainties associated with their determination when payments will not occur until well into the future. The Company periodically reviews

and revises its estimates. If future experience differs from assumptions, it may have a material impact on results of operations.

- Deferred annuities and interest-sensitive life insurance products receive favorable policyholder taxation under current tax laws and regulations. Any legislative or regulatory changes that adversely alter this treatment are likely to negatively affect the demand for these products. Additionally, the demand for life insurance products which are used to address a customer's estate planning needs may be impacted to the extent any legislative changes to the current estate tax laws occur.

- Allstate Financial distributes some of its products under agreements with other members of the financial services industry that are not affiliated with Allstate. Termination of one or more of these agreements due to, for example, changes in control of any of these entities, could have a detrimental effect on the segment's sales. This risk may be exacerbated by the enactment of the Gramm-Leach-Bliley Act of 1999, which eliminated many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

- Allstate maintains three credit facilities totaling \$1.20 billion as a potential source 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 2002 and a \$50 million one-year revolving line of credit expiring in August 2001, which will be renewed. The rights to borrow on the five-year and 364-day lines of credit are subject to the requirements that the Company's ratio of total debt to total capital (as defined in the agreements) not exceed a designated level. The ability of Allstate to meet the requirements is dependent upon its financial condition.

- Allstate is a holding company with no significant business operations of its own. Consequently, to a large extent, its ability to pay dividends and meet its debt payment obligations is dependent on dividends from its subsidiaries, primarily AIC.

- Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies and, generally, may be expected to have an effect on an insurance company's sales. On an ongoing basis, rating agencies review the financial performance and condition of insurers. A downgrade, while not expected, could have a material adverse effect on Allstate's business, financial condition and results of operations.

- State insurance regulatory authorities require insurance companies to maintain specified levels of statutory capital and surplus. In addition, competitive pressures require Allstate's subsidiaries to maintain financial strength ratings. These restrictions affect Allstate's ability to pay shareholder dividends and use its capital in other ways.

- A number of enacted and pending legislative measures may lead to increased consolidation and increased competition in the financial services industry.

- At the federal level, these measures include the Gramm-Leach-Bliley Act of 1999, which eliminated many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

- At the state level, these measures include legislation to permit mutual insurance companies to convert to a hybrid structure known as a mutual holding company, thereby allowing insurance companies owned by their policyholders to become stock insurance companies owned (through one or more intermediate holding companies) partially by their policyholders and partially by stockholders. Also, several large mutual life insurers have used or are expected to use existing state laws and regulations governing the conversion of mutual insurance companies into stock insurance companies (demutualization).

- In addition, state insurance regulators are reexamining the regulatory framework that currently governs the United States insurance business. They are engaged in an effort to determine the proper role of state insurance regulation in the United States financial services industry following the enactment of the Gramm-Leach-Bliley Act. The Company cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what affect any such measures would have on Allstate.

PART II. Other Information

Item 1. Legal Proceedings

The discussion "Regulation and Legal Proceedings" in Part I, Item 1, Note 6 of this Form 10-Q is incorporated herein by reference. That discussion updates the discussion "Regulation and Legal Proceedings" beginning on page D-29 of Allstate's Notice of Annual Meeting and Proxy Statement dated March 26, 2001.

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

Exhibit No.	Description	Sequentially Numbered Page
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	Amendments approved by the Board of Directors on March 3, 1999 and March 13, 2001 to The Allstate Corporation Equity Incentive Plan, as amended and restated as of November 10, 1998	
10.2	Amendments approved by the Board of Directors on March 3, 1999 and March 13, 2001 to The Allstate Corporation Employees Replacement Stock Plan, as amended and restated on November 10, 1998	
10.3	The Allstate Corporation 2001 Equity Incentive Plan effective May 15, 2001	
10.4	Form of Option Award Agreement under The Allstate Corporation 2001 Equity Incentive Plan	
15	Acknowledgment of awareness from Deloitte & Touche LLP dated August 10, 2001, concerning unaudited interim financial information.	

**AMENDMENTS TO EXISTING
EQUITY INCENTIVE PLAN
ADDING NEW CHANGE OF CONTROL SECTION**

1. Section 4(c)(xiii) is amended to read as follows:

(xiii) to impose such additional conditions, restrictions, and limitations upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including, without limitation, requiring simultaneous exercise of related identified Awards, and subject to Article 28, limiting the percentage of Awards which may from time to time be exercised by a Grantee.

2. The first sentence of section 8(a) is amended to read as follows:

Subject to Articles 4(c)(vii), 14, 17 and 28, and such terms and conditions as the Committee may impose, each option shall be exercisable in one or more installments commencing not earlier than the first anniversary of the Grant Date of such option.

3. A new Article 28 is added, to read as follows:

28. Effect of Change of Control

(a) *Certain Definitions.* As used in this Article 28, the terms set forth below shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

(i) "*Allstate Incumbent Directors*" means, determined as of any date by reference to any baseline date:

(A) the members of the Board on the date of such determination who have been members of the Board since such baseline date, and

(B) the members of the Board on the date of such determination who were appointed or elected after such baseline date and whose election, or nomination for election by stockholders of the Company or the Surviving Corporation, as applicable, was approved by a vote or written consent of two-thirds (100% for purposes of paragraph (A) of the definition of "Merger of Equals") of the directors comprising the Allstate Incumbent Directors on the date of such vote or written consent, but excluding each such member whose initial assumption of office was in connection with (1) an actual or threatened election contest, including a consent solicitation, relating to the election or removal of one or more members of the Board,

(2) a "tender offer" (as such term is used in Section 14(d) of the Exchange Act), (3) a proposed Reorganization Transaction, or (4) a request, nomination or suggestion of any Beneficial Owner of Voting Securities representing 15% or more of the aggregate voting power of the Voting Securities of the Company or the Surviving Corporation, as applicable.

(ii) "*Approved Passive Holder*" means, as of any date, any Person that satisfies all of the following conditions:

(A) as of such date, such Person is a 20% Owner, but is the Beneficial Owner of less than 30% of the then-outstanding Common Stock and of Voting Securities representing less than 30% of the combined voting power of all then-outstanding Voting Securities of the Company;

(B) prior to becoming a 20% Owner, such Person has filed, and as of such date has not withdrawn, or made any subsequent filing or public statement inconsistent with, a statement with the SEC pursuant to Section 13(g) of the Exchange Act that includes a certification by such person to the effect that such beneficial ownership does not have the purpose or effect of changing or influencing the control of the Company;

(C) prior to such Person's becoming a 20% Owner, at least two-thirds of the Allstate Incumbent Directors (such Allstate Incumbent Directors to be determined as of March 3, 1999 as the baseline date) shall have voted in favor of a resolution adopted by the Board to the effect that:

(1) the terms and conditions of such Person's investment in the Company will not have the effect of changing or influencing the control of the Company, and

(2) notwithstanding clause (A) of the definition of "Change of Control," such Person's becoming a 20% Owner shall be treated as though it were a Merger of Equals for purposes of the Plan.

(iii) "*Beneficial Owner*" means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

(iv) "*Cause*" means any of the events or conditions which constitute cause for immediate termination of employment of the Grantee as provided from time to time in the applicable Human Resources Policy of the Company or one of its Subsidiaries.

(v) "*Change of Control*" means, except as provided at the end of this Section, the occurrence of any one or more of the following:

(A) any person (as such term is used in Rule 13d-5 of the SEC under the Securities Exchange Act of 1934, as amended ("Exchange Act")) or group (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than a Controlled Affiliate of the

Company or any employee benefit plan (or any related trust) of the Company or any of its Controlled Affiliates, becomes the Beneficial Owner of 20% or more of the common stock of the Company or of Voting Securities representing 20% or more of the combined voting power of all Voting Securities of the Company (such a person or group that is not a Similarly Owned Company (as defined below), a "20% Owner"), except that no Change of Control shall be deemed to have occurred solely by reason of such beneficial ownership by a corporation (a "Similarly Owned Company") with respect to which both more than 70% of the common stock of such corporation and Voting Securities representing more than 70% of the combined voting power of the Voting Securities of such corporation are then owned, directly or indirectly, by the persons who were the direct or indirect owners of the common stock and Voting Securities of the Company immediately before such acquisition, in substantially the same proportions as their ownership, immediately before such acquisition, of the common stock and Voting Securities of the Company, as the case may be; or

(B) Allstate Incumbent Directors (as determined using March 3, 1999 as the baseline date) cease for any reason to constitute at least two-thirds of the directors of the Company then serving (provided, however, that this clause (B) shall be inapplicable during a Post-Merger of Equals Period); or

(C) Approval by the stockholders of the Company of a merger, reorganization, consolidation, or similar transaction, or a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of the Company or a plan of liquidation of the Company (any of the foregoing, a "Reorganization Transaction") that, based on information included in the proxy and other written materials distributed to the Company's stockholders in connection with the solicitation by the Company of such stockholder approval, is not expected to qualify as an Exempt Reorganization Transaction; provided, however, that if (1) the merger or other agreement between the parties to a Reorganization Transaction expires or is terminated after the date of such stockholder approval but prior to the consummation of such Reorganization Transaction (a "Reorganization Transaction Termination") or (2) immediately after the consummation of the Reorganization Transaction, such Reorganization Transaction does qualify as an Exempt Reorganization Transaction notwithstanding the fact that it was not expected to so qualify as of the date of such stockholder approval, then such stockholder approval shall not be

deemed a Change of Control for purposes of any Termination of Employment as to which the Termination Date occurs on or after the date of the Reorganization Transaction Termination or the date of the consummation of the Exempt Reorganization Transaction, as applicable; or

(D) The consummation by the Company of a Reorganization Transaction that for any reason fails to qualify as an Exempt Reorganization Transaction as of the date of such consummation, notwithstanding the fact that such Reorganization Transaction was expected to so qualify as of the date of such stockholder approval; or

(E) A 20% Owner who had qualified as an Approved Passive Holder ceases to qualify as such for any reason other than ceasing to be a 20% Owner (such cessation of Approved Passive Holder status to be considered for all purposes of this Equity Incentive Plan (including the definition of "Change of Control Effective Date") a Change of Control distinct from and in addition to the Change of Control specified in clause (A) above).

Notwithstanding the occurrence of any of the foregoing events, a Change of Control shall not occur with respect to a Grantee if, in advance of such event, such Grantee agrees in writing that such event shall not constitute a Change of Control.

(vi) "*Change of Control Effective Date*" means the date on which a Change of Control first occurs while an Award is outstanding.

(vii) "*Consummation Date*" means the date on which a Reorganization Transaction is consummated.

(viii) "*Controlled Affiliate*" of a Person means any corporation, business trust, or limited liability company or partnership with respect to which such Person owns, directly or indirectly, Voting Securities representing more than 50% of the aggregate voting power of the then-outstanding Voting Securities.

(ix) "*Exempt Reorganization Transaction*" means a Reorganization Transaction that results in the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of the Company immediately before such Reorganization Transaction becoming, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners, of both more than 70% of the then-outstanding common stock of the Surviving Corporation and Voting Securities representing more than 70% of the combined voting power of the then-outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Persons' ownership of the common stock and Voting Securities of the Company immediately before such Reorganization Transaction.

(x) "*Merger of Equals*" means, as of any date, a transaction that, notwithstanding the fact that such transaction may also qualify as a Change of Control, satisfies all of the conditions set forth in paragraphs (A) or (B) below:

(A) if such date is on or after the Consummation Date, a Reorganization Transaction in respect of which all of the following conditions are satisfied as of such date, or if such date is prior to the Consummation Date, a proposed Reorganization Transaction in respect of which the merger agreement or other documents (including the exhibits and annexes thereto) setting forth the terms and conditions of such Reorganization Transaction, as in effect on such date after giving effect to all amendments thereof or waivers thereunder, require that the following conditions be satisfied on and, where applicable, after the Consummation Date:

(1) at least 50%, but not more than 70%, of the common stock of the surviving Corporation outstanding immediately after the consummation of the Reorganization Transaction, together with Voting Securities representing at least 50%, but not more than 70%, of the combined voting power of all Voting Securities of the Surviving Corporation outstanding immediately after such consummation shall be owned, directly or indirectly, by the persons who were the owners directly or indirectly of the common stock and Voting Securities of the Company immediately before such consummation in substantially the same proportions as their respective direct or indirect ownership, immediately before such consummation, of the common stock and Voting Securities of the Company, respective; and

(2) Allstate Incumbent Directors (determined as of such date using the date immediately preceding the Change of Control Effective Date as the baseline date) shall, throughout the period beginning on the Change of Control Effective Date and ending on

the third anniversary of the Change of Control Effective Date, continue to constitute not less than 50% of the members of the Board; and

(3) The person who was the CEO of the Company immediately prior to the Change of Control Effective Date shall serve as (x) the CEO of the Company throughout the period beginning on the Change of Control Effective Date and ending on the Consummation Date and (y) the CEO of the Surviving Corporation at all times during the period commencing on the

Consummation Date and ending on the first anniversary of the Consummation Date;

provided, however, that a Reorganization Transaction that qualifies as a Merger of Equals shall cease to qualify as a Merger of Equals (a "Merger of Equals Cessation") and shall instead qualify as a Change of Control that is not a Merger of Equals from and after the first date during the Post-Change period (such date, the "Merger of Equals Cessation Date") as of which any one or more of the following shall occur for any reason:

(i) if any condition of clause (1) of paragraph (A) of this Section shall for any reason not be satisfied immediately after the consummation of the Reorganization Transaction; or

(ii) if as of the close of business on any date on or after the Change of Control Effective Date, any condition of clauses (2) or (3) of paragraph (A) of this Section shall not be satisfied; or

(iii) if on any date prior to the first anniversary of the Consummation Date, the Company shall make a filing with the SEC, issue a press release, or make a public announcement to the effect that the Company is seeking or intends to seek a replacement for the then-CEO of the Company, whether such replacement is to become effective before or after such first anniversary.

(B) As of such date, each Person who is a 20% Owner qualifies as an Approved Passive Holder.

The Committee shall give all Grantees written notice of any Merger of Equals Cessation and the applicable Merger of Equals Cessation Date as soon as practicable after the Merger of Equals Cessation Date.

(xi) "*Merger of Equals Cessation Date*"—see the definition of "Merger of Equals".

(xii) "*Person*" means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

(xiii) "*Post-Change Period*" means the period commencing on the Change of Control Effective Date and ending on the third anniversary of the Change of Control Effective Date.

(xiv) "*Post-Merger of Equals Period*" means the period commencing on a Change of Control Effective Date of a Change of Control that qualifies as a Merger of Equals and ending on the third anniversary of such Change of Control Effective Date or, if sooner, the Merger of Equals Cessation Date.

(xv) "*Reorganization Transaction*"—see clause (C) of the definition of "Change of Control."

(xvi) "*Reorganization Transaction Termination*"—see clause (C) of the definition of "Change of Control."

(xvii) "*Surviving Corporation*" means the corporation resulting from a Reorganization Transaction or, if securities representing at least 50% of the aggregate Voting Power of such resulting corporation are directly or indirectly owned by another corporation, such other corporation.

(xviii) "*20% Owner*"—see clause (A) of the definition of "Change of Control."

(xviii) "*Voting Securities*" of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

(b) *Vesting on Change of Control.* Except as otherwise specifically provided in The Allstate Corporation Change of Control Severance Plan (to the extent such plan is applicable to the Grantee), an Award Agreement relating to an Award or another written agreement with the Company to which the Grantee is a party,

(i) on a Change of Control Effective Date of a Change of Control that is not a Merger of Equals or, if applicable, on a Merger of Equals Cessation Date, each Award outstanding on such date shall become fully vested and nonforfeitable and, subject to Article 13, shall be exercisable in full; provided, however, that for purposes of a Change of Control as defined in Section 28(a)(v)(C) only, each Award granted on or after March 13, 2001 shall become fully vested and nonforfeitable to the extent such Award is outstanding, on the Consummation Date with respect to such a Change of Control that is not a Merger of Equals or if applicable, on a later Merger of Equals Cessation Date; and

(ii) if a Grantee has a Termination of Employment during the Post-Merger of Equals Period, which Termination of Employment is initiated by the Grantee's employer for a reason other than Cause or Disability, then each outstanding Award held by such Grantee (or his or her permitted transferee) on the date of such Termination of Employment shall become fully vested and nonforfeitable immediately prior to such Termination of Employment and, subject to Article 13, shall be exercisable in full.

**AMENDMENTS TO EXISTING
EMPLOYEES REPLACEMENT STOCK PLAN
ADDING NEW CHANGE OF CONTROL SECTION**

1. Section 4(c)(viii) is amended to read as follows:

(viii) to impose such additional conditions, restrictions, and limitations upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including, without limitation, requiring simultaneous exercise of related identified Awards, and subject to Article 24, limiting the percentage of Awards which may from time to time be exercised by a Grantee.

2. The first sentence of section 8(a) is amended to read as follows:

Subject to Articles 4, 6 and 24, (i) each Replacement Option shall be exercisable in one or more installments commencing not earlier than the first anniversary of the grant date of the Sears Option it replaces, (ii) options shall not be exercisable for twelve months following a hardship distribution that is subject to Treasury Regulation § 1.401(k)-1(d)(2)(iv)(B)(4), (iii) each option shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of shares of Stock subject to the option, (iv) the Option Price on any shares of Stock as to which an option shall be exercised shall be paid in full at the time of the exercise, and (v) payment may be made in either one or any combination of the following, as provided in the Award Agreement: (I) cash, or (II) Stock that has been held for at least six months, valued at the Fair Market Value on the date of exercise.

3. A new Article 24 is added, to read as follows:

24. Effect of Change of Control on Replacement Options

(a) *Certain Definitions.* As used only in this Article 24, the terms set forth below shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

(i) "*Allstate Incumbent Directors*" means, determined as of any date by reference to any baseline date:

(A) the members of the Board on the date of such determination who have been members of the Board since such baseline date, and

(B) the members of the Board on the date of such determination who were appointed or elected after such baseline date and whose election, or nomination for election by stockholders of the Company or the

Surviving Corporation, as applicable, was approved by a vote or written consent of two-thirds (100% for purposes of paragraph (A) of the definition of "Merger of Equals") of the directors comprising the Allstate Incumbent Directors on the date of such vote or written consent, but excluding each such member whose initial assumption of office was in connection with (1) an actual or threatened election contest, including a consent solicitation, relating to the election or removal of one or more members of the Board, (2) a "tender offer" (as such terms is used in Section 14(d) of the Exchange Act), (3) a proposed Reorganization Transaction, or (4) a request, nomination or suggestion of any Beneficial Owner of Voting Securities representing 15% or more of the aggregate voting power of the Voting Securities of the Company or the Surviving Corporation, as applicable.

(ii) "*Approved Passive Holder*" means, as of any date, any Person that satisfies all of the following conditions:

(A) as of such date, such Person is a 20% Owner, but is the Beneficial Owner of less than 30% of the then-outstanding Common Stock and of Voting Securities representing less than 30% of the combined voting power of all then-outstanding Voting Securities of the Company;

(B) prior to becoming a 20% Owner, such Person has filed, and as of such date has not withdrawn, or made any subsequent filing or public statement inconsistent with, a statement with the SEC pursuant to Section 13(g) of the Exchange Act that includes a certification by such person to the effect that such beneficial ownership does not have the purpose or effect of changing or influencing the control of the Company; and

(C) prior to such Person's becoming a 20% Owner, at least two-thirds of the Allstate Incumbent Directors (such Allstate Incumbent Directors to be determined as of March 3, 1999 as the baseline date) shall have voted in favor of a resolution adopted by the Board to the effect that:

(1) the terms and conditions of such Person's investment in the Company will not have the effect of changing or influencing the control of the Company, and

(2) notwithstanding clause (A) of the definition of "Change of Control," such Person's becoming a 20% Owner shall be treated as though it were a Merger of Equals for purposes of the Plan.

(iii) "*Beneficial Owner*" means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

(iv) "*Cause*" means any of the events or conditions which constitute cause for immediate termination of employment of the Grantee as provided from time to time in the applicable Human Resources Policy of the Company or one of its Subsidiaries.

(v) "*Change of Control*" means, except as provided at the end of this Section, the occurrence of any one or more of the following:

(A) any person (as such term is used in Rule 13d-5 of the SEC under the Securities Exchange Act of 1934, as amended ("Exchange Act")) or group (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than a Controlled Affiliate of the Company or any employee benefit plan (or any related trust) of the Company or any of its Controlled Affiliates, becomes the Beneficial Owner of 20% or more of the common stock of the Company or of Voting Securities representing 20% or more of the combined voting power of all Voting Securities of the Company (such a person or group that is not a Similarly Owned Company (as defined below), a "20% Owner"), except that no Change of Control shall be deemed to have occurred solely by reason of such beneficial ownership by a corporation (a "Similarly Owned Company") with respect to which both more than 70% of the common stock of such corporation and Voting Securities representing more than 70% of the combined voting power of the Voting Securities of such corporation are then owned, directly or indirectly, by the persons who were the direct or indirect owners of the common stock and Voting Securities of the Company immediately before such acquisition, in substantially the same proportions as their ownership, immediately before such acquisition, of the common stock and Voting Securities of the Company, as the case may be; or

(B) Allstate Incumbent Directors (as determined using March 3, 1999 as the baseline date) cease for any reason to constitute at least two-thirds of the directors of the Company then serving (provided, however, that this clause (B) shall be inapplicable during a Post-Merger of Equals Period); or

(C) Approval by the stockholders of the Company of a merger, reorganization, consolidation, or similar transaction, or a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of the Company or a plan of liquidation of the Company (any of the foregoing, a "*Reorganization Transaction*") that, based on information included in the proxy and other written materials distributed to the Company's stockholders in connection with the solicitation by the Company of such stockholder approval, is not expected to qualify as an Exempt Reorganization Transaction; provided, however, that if (1) the merger or other agreement between the parties to a Reorganization

Transaction expires or is terminated after the date of such stockholder approval but prior to the consummation of such Reorganization Transaction (a "*Reorganization Transaction Termination*") or (2) immediately after the consummation of the Reorganization Transaction, such Reorganization Transaction does qualify as an Exempt Reorganization Transaction notwithstanding the fact that it was not expected to so qualify as of the date of such stockholder approval, then such stockholder approval shall not be deemed a Change of Control for purposes of any Termination of Employment as to which the Termination Date occurs on or after the date of the Reorganization Transaction Termination or the date of the consummation of the Exempt Reorganization Transaction, as applicable; or

(D) The consummation by the Company of a Reorganization Transaction that for any reason fails to qualify as an Exempt Reorganization Transaction as of the date of such consummation, notwithstanding the fact that such Reorganization Transaction was expected to so qualify as of the date of such stockholder approval; or

(E) A 20% Owner who had qualified as an Approved Passive Holder ceases to qualify as such for any reason other than ceasing to be a 20% Owner (such cessation of Approved Passive Holder status to be considered for all purposes of this Employees Replacement Stock Plan (including the definition of "Change of Control Effective Date") a Change of Control distinct from and in addition to the Change of Control specified in clause (A) above).

Notwithstanding the occurrence of any of the foregoing events, a Change of Control shall not occur with respect to a Grantee if, in advance of such event, such Grantee agrees in writing that such event shall not constitute a Change of Control.

(vi) "*Change of Control Effective Date*" means the date on which a Change of Control first occurs while an Award is outstanding.

(vii) "*Consummation Date*" means the date on which a Reorganization Transaction is consummated.

(viii) "*Controlled Affiliate*" of a Person means any corporation, business trust, or limited liability company or partnership with respect to which such Person owns, directly or indirectly, Voting Securities representing more than 50% of the aggregate voting power of the then-outstanding Voting Securities.

(ix) "*Exempt Reorganization Transaction*" means a Reorganization Transaction that results in the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of the Company immediately before such Reorganization Transaction becoming, immediately after the

consummation of such Reorganization Transaction, the direct or indirect owners, of both more than 70% of the then-outstanding common stock of the Surviving Corporation and Voting Securities representing more than 70% of the combined voting power of the then-outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Persons' ownership of the common stock and Voting Securities of the Company immediately before such Reorganization Transaction.

(x) "*Merger of Equals*" means, as of any date, a transaction that, notwithstanding the fact that such transaction may also qualify as a Change of Control, satisfies all of the conditions set forth in paragraphs (A) or (B) below:

(A) if such date is on or after the Consummation Date, a Reorganization Transaction in respect of which all of the following conditions are satisfied as of such date, or if such date is prior to the Consummation Date, a proposed Reorganization Transaction in respect of which the merger agreement or other documents (including the exhibits and annexes thereto) setting forth the terms and conditions of such Reorganization Transaction, as in effect on such date after giving effect to all amendments thereof or waivers thereunder, require that the following conditions be satisfied on and, where applicable, after the Consummation Date:

(1) at least 50%, but not more than 70%, of the common stock of the surviving Corporation outstanding immediately after the consummation of the Reorganization Transaction, together with Voting Securities representing at least 50%, but not more than 70%, of the combined voting power of all Voting Securities of the Surviving Corporation outstanding immediately after such consummation shall be owned, directly or indirectly, by the persons who were the owners directly or indirectly of the common

stock and Voting Securities of the Company immediately before such consummation in substantially the same proportions as their respective direct or indirect ownership, immediately before such consummation, of the common stock and Voting Securities of the Company, respective; and

(2) Allstate Incumbent Directors (determined as of such date using the date immediately preceding the Change of Control Effective Date as the baseline date) shall, throughout the period beginning on the Change of Control Effective Date and ending on the third anniversary of the Change of Control Effective Date, continue to constitute not less than 50% of the members of the Board; and

(3) The person who was the CEO of the Company immediately prior to the Change of Control Effective Date shall serve as (x) the CEO of the Company throughout the period beginning on the Change of Control Effective Date and ending on the Consummation Date and (y) the CEO of the Surviving Corporation at all times during the period commencing on the Consummation Date and ending on the first anniversary of the Consummation Date;

provided, however, that a Reorganization Transaction that qualifies as a Merger of Equals shall cease to qualify as a Merger of Equals (a "Merger of Equals Cessation") and shall instead qualify as a Change of Control that is not a Merger of Equals from and after the first date during the Post-Change period (such date, the "Merger of Equals Cessation Date") as of which any one or more of the following shall occur for any reason:

(i) if any condition of clause (1) of paragraph (A) of this Section shall for any reason not be satisfied immediately after the consummation of the Reorganization Transaction; or

(ii) if as of the close of business on any date on or after the Change of Control Effective Date, any condition of clauses (2) or (3) of paragraph (A) of this Section shall not be satisfied; or

(iii) if on any date prior to the first anniversary of the Consummation Date, the Company shall make a filing with the SEC, issue a press release, or make a public announcement to the effect that the Company is seeking or intends to seek a replacement for the then-CEO of the Company, whether such replacement is to become effective before or after such first anniversary.

(B) As of such date, each Person who is a 20% Owner qualifies as an Approved Passive Holder.

The Committee shall give all Grantees written notice of any Merger of Equals Cessation and the applicable Merger of Equals Cessation Date as soon as practicable after the Merger of Equals Cessation Date.

(xi) "*Merger of Equals Cessation Date*"—see the definition of "Merger of Equals".

(xii) "*Person*" means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

(xiii) "*Post-Change Period*" means the period commencing on the Change of Control Effective Date and ending on the third anniversary of the Change of Control Effective Date.

(xiv) "*Post-Merger of Equals Period*" means the period commencing on a Change of Control Effective Date of a Change of Control that qualifies as a Merger of Equals and ending on the third anniversary of such Change of Control Effective Date or, if sooner, the Merger of Equals Cessation Date.

(xv) "*Reorganization Transaction*"—see clause (C) of the definition of "Change of Control."

(xvi) "*Reorganization Transaction Termination*"—see clause (C) of the definition of "Change of Control."

(xvii) "*Surviving Corporation*" means the corporation resulting from a Reorganization Transaction or, if securities representing at least 50% of the aggregate Voting Power of such resulting corporation are directly or indirectly owned by another corporation, such other corporation.

(xviii) "*20% Owner*"—see clause (A) of the definition of "Change of Control."

(xiv) "*Voting Securities*" of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

(b) *Vesting of Replacement Options on Change of Control.* Except as otherwise specifically provided in The Allstate Corporation Change of Control Severance Plan (to the extent such plan is applicable to the Grantee), an Award Agreement relating to an Award or another written agreement with the Company to which the Grantee is a party,

(i) on a Change of Control Effective Date of a Change of Control that is not a Merger of Equals or, if applicable, on a Merger of Equals Cessation Date, each Replacement Option Award outstanding on such date shall become fully vested and nonforfeitable and, subject to Article 11, shall be exercisable in full provided, however, that for purposes of a Change of Control as defined in Section 24(a)(v)(C) only, each Award granted on or after March 13, 2001 shall become fully vested and nonforfeitable to the extent such Award is outstanding, on the Consummation Date with respect to such a Change of Control that is not a Merger of Equals or, if applicable, on a later Merger of Equals Cessation Date; and

(ii) if a Grantee has a Termination of Employment during the Post-Merger of Equals Period, which Termination of Employment is initiated by the Grantee's employer for a reason other than Cause or Disability, then each outstanding Replacement Option Award held by such Grantee (or his or her permitted transferee) on the date of such Termination of Employment shall become fully vested and nonforfeitable immediately prior to such Termination of Employment and, subject to Article 11, shall be exercisable in full.

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**THE ALLSTATE CORPORATION
2001 EQUITY INCENTIVE PLAN**

Article 1. Establishment, Purpose and Duration

1.1 *Establishment of the Plan.* The Allstate Corporation, a Delaware corporation (hereinafter referred to as the "Company"), hereby establishes an incentive compensation plan for key employees, to be known as "The Allstate Corporation 2001 Equity Incentive Plan" (hereinafter referred to as the "Plan"), as set forth in this document. The Plan permits the grant of nonqualified stock options (NQSOs), incentive stock options (ISOs), stock appreciation rights (SARs), unrestricted stock, restricted stock, restricted stock units, performance units, performance stock and other awards.

The Plan was approved by the Board of Directors on March 13, 2001, shall become effective when approved by the stockholders at the 2001 Annual Meeting of Stockholders (the "Effective Date") and shall remain in effect as provided in Section 1.3 herein.

1.2 *Purpose of the Plan.* The primary purpose of the Plan is to provide a means by which key employees of the Company and its Subsidiaries can acquire and maintain stock ownership, thereby strengthening their commitment to the success of the Company and its Subsidiaries and their desire to remain employed by the Company and its Subsidiaries. The Plan also is intended to attract and retain key employees and to provide such employees with additional incentive and reward opportunities designed to encourage them to enhance the profitable growth of the Company and its Subsidiaries.

1.3 *Duration of the Plan.* The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 15 herein, until all Stock subject to it shall have been purchased or acquired according to the Plan's provisions.

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when such meaning is intended, the initial letter of the word is capitalized:

2.1 *Award* means, individually or collectively, a grant under the Plan of NQSOs, ISOs, SARs, Unrestricted Stock, Restricted Stock, Restricted Stock Units, Performance Units, Performance Stock or any other type of award permitted under Article 10 of the Plan.

2.2 *Award Agreement* means an agreement setting forth the terms and provisions applicable to an Award granted to a Participant under the Plan.

2.3 *Base Value* of an SAR means the Fair Market Value of a share of Stock on the date the SAR is granted.

2.4 *Beneficial Owner* means such term as defined in Rule 13d-3 under the Exchange Act.

2.5 *Board* or *Board of Directors* means the Board of Directors of the Company.

2.6 *Code* means the Internal Revenue Code of 1986, as amended from time to time.

2.7 *Committee* means the committee, as specified in Article 3, appointed by the Board to administer the Plan.

2.8 *Company* means The Allstate Corporation, a Delaware corporation, or any successor thereto as provided in Article 18 herein.

2.9 *Covered Employee* means any Participant who would be considered a "covered employee" for purposes of Section 162(m) of the Code.

2.10 *Disability* means a mental or physical condition which, in the opinion of the Committee, renders a Participant unable or incompetent to carry out the job responsibilities which such Participant held or the duties to which such Participant was assigned at the time the disability was incurred, and which is expected to be permanent or for an indefinite duration.

2.11 *Dividend Equivalent* means, with respect to Stock subject to an Award, a right to be paid an amount equal to dividends declared on an equal number of outstanding shares of Stock.

2.12 *Eligible Person* means a Person who is eligible to participate in the Plan, as set forth in Section 5.1 herein.

2.13 *Employee* means an individual who is paid on the payroll of the Company or of one of the Company's Subsidiaries, who is not covered by any collective bargaining agreement to which the Company or any of its Subsidiaries is a party, and is classified on the employer's human resource payroll system as a regular full-time or regular part-time employee.

2.14 *Exchange Act* means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.15 *Exercise Period* means the period during which an SAR or Option is exercisable, as set forth in the related Award Agreement.

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2.16 *Fair Market Value* means, as of any applicable date, the average of the high and low sale prices as reported in the consolidated transaction reporting system, or, if there was no such sale on the relevant date, then on the last previous day on which a sale was reported.

2.17 *Family Member* means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, or sibling, including adoptive relationships, a trust in which these persons have more than fifty (50) percent of the beneficial interest, a foundation in which these persons (or the Employee) control the management of assets, and any other entity in which these persons (or the Employee) own more than fifty (50) percent of the voting interests.

2.18 *Freestanding SAR* means an SAR that is not a Tandem SAR.

2.19 *Incentive Stock Option* or *ISO* means an option to purchase Stock, granted under Article 6 herein, which is designated as an Incentive Stock Option and satisfies the requirements of Section 422 of the Code.

2.20 *Minimum Consideration* means the \$.01 par value per share or such larger amount determined pursuant to resolution of the Board to be capital within the meaning of Section 154 of the Delaware General Corporation Law.

2.21 *Nonqualified Stock Option* or *NQSO* means an option to purchase Stock, granted under Article 6 herein, which is not intended to be an Incentive Stock Option under Section 422 of the Code.

2.22 *Option* means an Incentive Stock Option or a Nonqualified Stock Option.

2.23 *Option Exercise Price* means the price at which a share of Stock may be purchased by a Participant pursuant to an Option, as determined by the Committee and set forth in the Option Award Agreement.

2.24 *Participant* means an Eligible Person who has outstanding an Award granted under the Plan.

2.25 *Performance Goals* means the performance goals established by the Committee, which shall be based on one or more of the following measures: sales or revenues, earnings per share, stockholder return and/or value, funds from operations, operating income, gross income, net income, combined ratio, underwriting income, cash flow, return on equity, return on capital, return on assets, net earnings, earnings before interest, operating ratios, stock price, customer satisfaction, customer retention, accomplishment of mergers, acquisitions, dispositions or similar extraordinary business transactions, profit returns and margins, financial

performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure.

2.26 *Performance Period* means the time period during which Performance Unit/Performance Stock Performance Goals must be met.

2.27 *Performance Stock* means an Award described in Article 9 herein.

2.28 *Performance Unit* means an Award described in Article 9 herein.

2.29 *Period of Restriction* means the period during which the transfer of Restricted Stock is limited in some way, as provided in Article 8 herein.

2.30 *Person* means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

2.31 *Plan* means The Allstate Corporation 2001 Equity Incentive Plan.

2.32 *Qualified Restricted Stock* means an Award of Restricted Stock designated as Qualified Restricted Stock by the Committee at the time of grant and intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C).

2.33 *Qualified Restricted Stock Unit* means an Award of Restricted Stock Units designated as Qualified Restricted Stock Units by the Committee at the time of grant and intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C).

2.34 *Reload Option* means an additional Option described in Article 6 herein.

2.35 *Restricted Stock* means an Award described in Article 8 herein.

2.36 *Restricted Stock Unit* means an Award described in Article 8 herein.

2.37 *Retirement* means a Participant's termination from employment with the Company or a Subsidiary at the Participant's Early, Normal or Health Retirement Date, as applicable.

- (a) *Early Retirement Date*—shall mean the date prior to the Participant's Normal Retirement Date on which a Participant terminates employment, if such termination date occurs on or after the Participant attains age fifty-five (55) with twenty (20) years of service and such retirement is in accordance

with the voluntary early retirement policy of the Company or the Subsidiary with which the Participant is employed on the date of termination of employment.

- (b) *Normal Retirement Date*—shall have the meaning given to it by the Company or the Subsidiary with which the Participant is employed on the date of termination of employment, provided that such termination is voluntary and occurs on or after the Participant attains age sixty (60) with at least one (1) year of service at termination of employment.

- (c) *Health Retirement Date*—shall mean the date on which the Participant terminates employment for health reasons (as determined under the human resource policy of the Company or the Subsidiary with which the Participant is employed on the date of termination of employment), provided that such termination date occurs on or after the Participant attains age fifty (50) but before the Participant attains age sixty (60), with at least ten (10) years of continuous service at termination of employment.

2.38 *Securities Act* means the Securities Act of 1933, as amended.

2.39 *Stock* means the common stock, \$.01 par value, of the Company.

2.40 *Stock Appreciation Right* or SAR means a right, granted alone or in connection with a related Option, designated as an SAR, to receive a payment on the day the right is exercised, pursuant to the terms of Article 7 herein. Each SAR shall be denominated in terms of one share of Stock.

2.41 *Subsidiary* means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns, directly or indirectly, stock possessing 50 percent or more of the total combined Voting Power of all classes of stock in one of the other corporations in such chain.

2.42 *Tandem SAR* means an SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase Stock under the related Option (and when Stock is purchased under the Option, the Tandem SAR shall be similarly canceled).

2.43 *Termination of Employment* occurs the first day on which an individual is for any reason no longer employed by the Company or any of its Subsidiaries, or with respect to an individual who is an Employee of a Subsidiary, the first day on which the Company no longer owns, directly or indirectly, Voting Securities possessing at least 50% of the Voting Power of such Subsidiary. For purposes of the Plan, transfer of employment of a Participant between the

Company and any one of its Subsidiaries (or between Subsidiaries) shall not be deemed a termination of employment.

2.44 *Unrestricted Stock* means an Award of Stock not subject to restrictions described in Article 8 herein.

2.45 *Voting Power* means the combined voting power of the then-outstanding Voting Securities entitled to vote generally in the election of directors.

2.46 *Voting Securities* of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

Article 3. Administration

3.1 *The Committee.* The Plan shall be administered by the Compensation and Succession Committee or such other committee (the "Committee") as the Board of Directors shall select, consisting solely of two or more nonemployee members of the Board. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2 *Authority of the Committee.* The Committee shall have full power except as limited by law, the Articles of Incorporation or the Bylaws of the Company, subject to such other restricting limitations or directions as may be imposed by the Board and subject to the provisions herein, to determine the Eligible Persons to receive Awards; to determine when Awards may be granted and to grant Awards under the Plan (which may include substituted Awards as described in Article 17 herein); to determine the size and types of Awards; to determine the terms and conditions of such Awards; to determine whether Performance Goals have been met; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend or waive rules and regulations for the Plan's administration; to amend the terms and conditions of any outstanding Award, including but not limited to amendments with respect to exercisability and non-forfeatability of Awards upon a Termination of Employment; to make such adjustments or modifications to Awards to Participants working outside the United States as are necessary or advisable to fulfill the purposes of the Plan; to accelerate the exercisability of, and to accelerate or waive any or all of the restrictions and conditions applicable to, any Award; and to authorize any action of or make any determination by the Company as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan; *provided, however*, that the Committee may not amend the terms and conditions of any outstanding Award so as to adversely affect in any material way such Award without the written consent of the Participant holding such Award (or if the Participant is not then living, the Participant's personal representative or estate), unless such amendment is required by applicable law; and *provided, further*, that any discretion exercised by the Committee pursuant to section 4.2 and the following paragraph of this section 3.2 shall not be deemed to adversely affect in any material way an Award. The Committee may designate which Subsidiaries participate in the Plan and may authorize foreign Subsidiaries to

adopt plans as provided in Article 14. Further, the Committee shall interpret and make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.

The Committee may, in its discretion, elect at any time, should it determine it is in the best interest of the Company's stockholders to cancel any Awards granted hereunder, to cancel all or any of the Awards granted hereunder and pay the holders of any such Awards an amount (payable in such proportion as the Committee may determine in cash or in Stock (valued at the Fair Market Value of a share of Stock on the date of cancellation of such Award)) equal to (i) for Options, the number of shares of Stock subject to such cancelled Option, multiplied by the amount (if any) by which the Fair Market Value of Stock on the date of cancellation of the Option exceeds the Option Exercise Price; (ii) for Restricted Stock or Performance Stock, the number of shares of Restricted Stock or Performance Stock multiplied by the Fair Market Value of Stock on the date of cancellation of the Award; and (iii) for Restricted Stock Units or Performance Units, the number of units multiplied by an amount not less than the initial value thereof. Amounts payable may be prorated based upon the number of months elapsed in any related vesting period or Performance Period, in the sole discretion of the Committee. In no event shall the Committee have the right to amend an outstanding Option Award for the sole purpose of reducing the exercise price thereof.

3.3 *Delivery of Stock by Company; Restrictions on Stock.* Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any Stock or benefits under the Plan unless such delivery would comply with all applicable laws (including, without limitation, the Securities Act) and applicable requirements of any securities exchange or similar entity and unless the Participant's tax obligations have been satisfied as set forth in Article 16.

The Committee may impose such restrictions on any Stock acquired pursuant to Awards under the Plan as it may deem advisable, including, without limitation, restrictions to comply with applicable Federal securities laws, with the requirements of any stock exchange or market upon which such Stock is then listed and/or traded and with any blue sky or state securities laws applicable to such Stock.

3.4 *Decisions Binding.* All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its stockholders, Eligible Persons, Employees, Participants and their estates. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

3.5 *Costs.* The Company shall pay all costs of administration of the Plan.

Article 4. Stock Subject to the Plan

4.1 *Number of Shares.* Subject to Section 4.2 herein, the maximum number of shares of Stock available for grant under the Plan shall be 37,000,000 plus any shares of Stock remaining available for awards pursuant to the terms of The Allstate Corporation Equity Incentive Plan. Shares of Stock underlying lapsed or forfeited Awards, or Awards that are not paid in Stock, may be reused for other Awards; if the Option Exercise Price is satisfied by tendering Stock, only the number of shares issued net of the shares tendered shall be deemed issued under the Plan. Stock granted pursuant to the Plan may be (i) authorized but unissued shares of common stock or (ii) treasury stock.

4.2 *Adjustments in Authorized Stock and Awards.* In the event of any merger, reorganization, consolidation, recapitalization, liquidation, stock dividend, split-up, spin-off, stock split, reverse stock split, share combination, share exchange or other change in the corporate structure of the Company affecting the Stock, such adjustment shall be made in the number and class of shares of Stock which may be delivered under the Plan, and in the outstanding Awards granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights. Notwithstanding the foregoing, (i) each such adjustment with respect to an Incentive Stock Option shall comply with the rules of Section 424(a) of the Code and (ii) in no event shall any adjustment be made which would render any Incentive Stock Option granted hereunder to be other than an incentive stock option for purposes of Section 422 of the Code.

4.3 *Award Limitations.* Subject to Section 4.2 above, (i) the total number of shares of Stock with respect to which Options or SARs may be granted in any calendar year to any Covered Employee shall not exceed 1,200,000 shares; (ii) the total number of shares of Qualified Restricted Stock or Qualified Restricted Stock Units that may be granted in any calendar year to any Covered Employee shall not exceed 1,200,000 shares or Units, as the case may be; (iii) the total number of shares of Performance Stock or Performance Units that may be granted in any calendar year to any Covered Employee shall not exceed 1,200,000 shares or Units, as the case may be; (iv) the total number of shares of Stock that are intended to qualify for deduction under Section 162(m) of the Code granted pursuant to Article 10 herein in any calendar year to any Covered Employee shall not exceed 1,200,000 shares; (v) the total cash Award that is intended to qualify for deduction under Section 162(m) of the Code that may be paid pursuant to Article 10 herein in any calendar year to any Covered Employee shall not exceed \$1,200,000; and (vi) the aggregate number of Dividend Equivalents that are intended to qualify for deduction under Section 162(m) of the Code that a Covered Employee may receive in any calendar year shall not exceed 4,800,000.

No more than an aggregate of 9,000,000 shares of Stock may be granted under Article 8 (except in the form of Qualified Restricted Stock or Qualified Restricted Stock Units) and Article 10. The maximum number of shares of Stock that may be granted subject to Incentive Stock Options shall be 9,000,000 shares.

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Article 5. Eligibility and Participation

5.1 *Eligibility.* Persons eligible to participate in the Plan ("Eligible Persons") include all key Employees of the Company and its Subsidiaries, as determined by the Committee.

5.2 *Actual Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from all Eligible Persons those to whom Awards shall be granted.

Article 6. Stock Options

6.1 *Grant of Options.* Subject to the terms and conditions of the Plan, Options may be granted to an Eligible Person at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of shares of Stock subject to Options granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Options. The Committee may grant ISOs, NQSOs or a combination thereof.

6.2 *Option Award Agreement.* Each Option grant shall be evidenced by an Option Award Agreement that shall specify the Option Exercise Price, the term of the Option (which shall not be greater than ten (10) years), the number of shares of Stock to which the Option pertains, the Exercise Period and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control and any rights to Dividend Equivalents and Reload Options. The Option Award Agreement shall also specify whether the Option is intended to be an ISO or NQSO. The Option Exercise Price shall not be less than 100% of the Fair Market Value of the Stock on the date of grant.

6.3 *Exercise of and Payment for Options.* Options granted under the Plan shall be exercisable at such times and shall be subject to such restrictions and conditions as the Committee shall in each instance approve.

A Participant may exercise an Option at any time during the Exercise Period. Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of shares of Stock with respect to which the Option is to be exercised, accompanied by provision for full payment of the Stock.

The Option Exercise Price shall be payable: (i) in cash or its equivalent, (ii) by tendering (by actual delivery of shares or by attestation) previously acquired Stock (owned for at least six months) having an aggregate Fair Market Value at the time of exercise equal to the total Option Exercise Price, (iii) by broker-assisted cashless exercise or (iv) by a combination of (i), (ii) and/or (iii).

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Options may not be exercised for less than 25 shares of Stock unless the exercise represents the entire remaining balance of the Award.

Stock received upon exercise of an Option may be granted subject to any restrictions deemed appropriate by the Committee.

6.4 *Reload Options.* The Committee may provide in an Award Agreement that a Participant who exercises all or any portion of an Option with Stock which has a Fair Market Value equal to not less than 100% of the Option Exercise Price for such Option shall be granted, subject to Article 4, an additional option ("Reload Option") for a number of shares of Stock equal to the sum ("Reload Number") of the number of shares of Stock tendered in payment of the Option Exercise Price for the Options plus, if so provided by the Committee, the number of shares of Stock, if any, retained by the Company in connection with the exercise of the Options to satisfy any federal, state or local tax withholding requirements.

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 Option to which it relates;

(ii) subject to (iii) below, the Reload Option, upon vesting, may be exercised at any time during the unexpired term of the Option to which it relates (subject to earlier termination thereof as provided in the Plan and in the applicable Award Agreement); and

(iii) the terms of the Reload Option shall be the same as the terms of the Option to which it relates, except that (A) the Option Exercise Price shall be the Fair Market Value of the Stock on the grant date of the Reload Option and (B) the Reload Option shall be subject to new vesting provisions, commencing one (1) year after the grant date of the Reload Option and vesting upon the same schedule as the Option to which it relates.

Reload Options may not be granted to Participants who exercise Options after a Termination of Employment.

Stock subject to this Plan may be used for Reload Options granted under The Allstate Corporation Equity Incentive Plan.

6.5 *Termination.* Each Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee (subject to applicable law), shall be included in the Option Award Agreement entered into with Participants, need not be uniform among all Options granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination.

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To the extent the Option Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

6.6 *Transferability of Options.* Except as otherwise determined by the Committee, all Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant, and no Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. ISOs are not transferable other than by will or by the laws of descent and distribution.

The Committee shall have the authority, in its discretion, to grant (or to sanction by way of amendment to an existing Award) Nonqualified Stock Options, the vested portions of which may be transferred by the Participant during his lifetime to any Family Member. A transfer of an Option pursuant hereto may only be effected by the Company at the written request of a Participant and shall become effective only when recorded in the Company's record of outstanding Options. In the event an Option is transferred as contemplated herein, 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 Award Agreement, and the transferee shall be entitled to the same rights as the Participant, as if no transfer had taken place.

Article 7. Stock Appreciation Rights

7.1 *Grant of SARs.* Subject to the terms and conditions of the Plan, an SAR may be granted to an Eligible Person at any time and from time to time as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs or any combination of these forms of SARs.

The Committee shall have complete discretion in determining the number of SARs granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

7.2 *SAR Award Agreement.* Each SAR grant shall be evidenced by an SAR Award Agreement that shall specify the number of SARs granted, the Base Value, the term of the SAR, the Exercise Period and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control.

7.3 *Exercise and Payment of SARs.* Tandem SARs may be exercised for all or part of the Stock subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the shares of Stock for which its related Option is then exercisable.

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Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option Exercise Price of the underlying ISO and the Fair Market Value of the shares of Stock subject to the underlying ISO at the time the Tandem SAR is exercised; (iii) the Tandem SAR may be exercised only when the Fair Market Value of the shares of Stock subject to the ISO exceeds the Option Exercise Price of the ISO; and (iv) the Tandem SAR may be transferred only when the underlying ISO is transferable, and under the same conditions.

Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

A Participant may exercise an SAR at any time during the Exercise Period. SARs shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of SARs being exercised. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount equal to the product of:

- (a) the excess of (i) the Fair Market Value of a share of Stock on the date of exercise over (ii) the Base Value multiplied by
- (b) the number of shares of Stock with respect to which the SAR is exercised.

At the sole discretion of the Committee, the payment to the Participant upon SAR exercise may be in cash, in shares of Stock of equivalent value or in some combination thereof.

7.4 *Termination.* Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the SAR Award Agreement entered into with Participants, need not be uniform among all SARs granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination.

To the extent the SAR Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

7.5 *Transferability of SARs.* Except as otherwise determined by the Committee, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative, and no SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

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Article 8. Unrestricted Stock, Restricted Stock and Restricted Stock Units

8.1 *Grant of Unrestricted Stock, Restricted Stock and Restricted Stock Units.* Subject to the terms and conditions of the Plan, Unrestricted Stock, Restricted Stock and/or Restricted Stock Units may be granted to an Eligible Person at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of shares of Unrestricted Stock, Restricted Stock and/or Restricted Stock Units granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards.

In addition, the Committee may, prior to or at the time of grant, designate an Award of Restricted Stock or Restricted Stock Units as Qualified Restricted Stock or Qualified Restricted Stock Units, as the case may be, in which event it will condition the grant or vesting, as applicable, of such Qualified Restricted Stock or Qualified Restricted Stock Units, as the case may be, upon the attainment of the Performance Goals selected by the Committee.

8.2 *Unrestricted Stock, Restricted Stock/Restricted Stock Unit Award Agreement.* Each grant of Unrestricted Stock, Restricted Stock and/or Restricted Stock Units shall be evidenced by an Award Agreement that shall specify the number of shares of Unrestricted Stock, Restricted Stock and/or Restricted Stock Units granted, the initial value (if applicable), the Period or Periods of Restriction (if applicable), and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control.

8.3 *Transferability.* Restricted Stock and Restricted Stock Units granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Award Agreement. During the applicable Period of Restriction, all rights with respect to the Restricted Stock and Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant or his or her legal representative.

8.4 *Certificates.* No certificates representing Stock shall be delivered to a Participant until such time as all restrictions applicable to such shares have been satisfied.

8.5 *Removal of Restrictions.* Restricted Stock shall become freely transferable by the Participant after the last day of the Period of Restriction applicable thereto. Once Restricted Stock is released from the restrictions, the Participant shall be entitled to receive a certificate.

Payment of Restricted Stock Units shall be made after the last day of the Period of Restriction applicable thereto. The Committee, in its sole discretion, may pay Restricted Stock Units in cash or in shares of Stock of equivalent value (or in some combination thereof).

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8.6 *Voting Rights.* During the Period of Restriction, Participants may exercise full voting rights with respect to the Restricted Stock.

8.7 *Dividends and Other Distributions.* Subject to the Committee's right to determine otherwise at the time of grant, during the Period of Restriction, Participants shall receive all regular cash dividends paid with respect to the Restricted Stock while they are so held. All other distributions paid with respect to such Restricted Stock shall be credited to Participants subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid and shall be paid to the Participant promptly after the full vesting of the Restricted Stock with respect to which such distributions were made.

Rights, if any, to Dividend Equivalents on Restricted Stock Units shall be established by the Committee at the time of grant and set forth in the Award Agreement.

8.8 *Termination.* Each Restricted Stock/Restricted Stock Unit Award Agreement shall set forth the extent to which the Participant shall have the right to receive Restricted Stock and/or a Restricted Stock Unit payment following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all grants of Restricted Stock/Restricted Stock Units or among Participants and may reflect distinctions based on the reasons for termination.

To the extent the Restricted Stock/Restricted Stock Unit Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

Article 9. Performance Units and Performance Stock

9.1 *Grant of Performance Units and Performance Stock.* Subject to the terms and conditions of the Plan, Performance Units and/or Performance Stock may be granted to an Eligible Person at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of Performance Units and/or shares of Performance Stock granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards.

9.2 *Performance Unit/Performance Stock Award Agreement.* Each grant of Performance Units and/or shares of Performance Stock shall be evidenced by a Performance Unit and/or Performance Stock Award Agreement that shall specify the number of Performance Units and/or shares of Performance Stock granted, the initial value (if applicable), the Performance Period, the Performance Goals and such other provisions as the Committee shall determine,

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including but not limited to special provisions relating to a change of control and any rights to Dividend Equivalents.

9.3 *Value of Performance Units/Performance Stock.* Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. The value of a share of Performance Stock shall be equal to the Fair Market Value of the Stock. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units/Performance Stock that will be paid out to the Participants.

9.4 *Earning of Performance Units/Performance Stock.* After the applicable Performance Period has ended, the Participant shall be entitled to receive a payout with respect to the Performance Units/Performance Stock earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals have been achieved.

9.5 *Form and Timing of Payment of Performance Units/Performance Stock.* Payment of earned Performance Units/Performance Stock shall be made following the close of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Performance Stock in cash or in Stock (or in a combination thereof), which has an aggregate Fair Market Value equal to the value of the earned Performance Units/Performance Stock at the close of the applicable Performance Period. Such Stock may be granted subject to any restrictions deemed appropriate by the Committee.

9.6 *Termination.* Each Performance Unit/Performance Stock Award Agreement shall set forth the extent to which the Participant shall have the right to receive a Performance Unit/Performance Stock payment following termination of the Participant's employment with the Company and its Subsidiaries during a Performance Period. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all grants of Performance Units/Performance Stock or among Participants and may reflect distinctions based on reasons for termination.

To the extent the Performance Unit/Performance Stock Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

9.7 *Transferability.* Except as otherwise determined by the Committee, a Participant's rights with respect to Performance Units/Performance Stock granted under the Plan shall be available during the Participant's lifetime only to such Participant or the Participant's legal representative and Performance Units/Performance Stock may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

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Article 10. Other Awards

The Committee shall have the right to grant other Awards which may include, without limitation, the payment of Stock in lieu of cash, the payment of cash based on attainment of Performance Goals established by the Committee and the payment of Stock in lieu of cash under other Company incentive or bonus programs. Payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine.

Article 11. Deferrals

The Committee may, in its sole discretion, permit a Participant to defer the Participant's receipt of the payment of cash or the delivery of Stock that would otherwise be due to such Participant under the Plan. If any such deferral election is permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

Article 12. Rights of Participants

12.1 *Termination.* Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or other relationship with the Company or any Subsidiary at any time, for any reason or no reason in the Company's or the Subsidiary's sole discretion, nor confer upon any Participant any right to continue in the employ of, or otherwise in any relationship with, the Company or any Subsidiary.

12.2 *Participation.* No Eligible Person shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

12.3 *Limitation of Implied Rights.* Neither a Participant nor any other Person shall, by reason of the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets or other property which the Company or any Subsidiary, in their sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the Stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary. Nothing contained in the Plan shall constitute a guarantee that the assets of such companies shall be sufficient to pay any benefits to any Person.

Except as otherwise provided in the Plan, no Award under the Plan shall confer upon the holder thereof any right as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

12.4 *Waiver.* Each Participant, by acceptance of an Award, waives all rights to specific performance or injunctive or other equitable relief and acknowledges that he has an adequate remedy at law in the form of damages.

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Article 13. Termination of Employment

13.1 *Options.* If a Participant has a Termination of Employment, then, unless otherwise provided by the Committee or in the Award Agreement, the following provisions shall apply:

(i) if the Participant's Termination of Employment is on account of death or Disability, then all outstanding Options, to the extent not vested, shall vest, and all outstanding Options may be exercised, in whole or in part, by the Participant (or his personal representative, estate or transferee, as the case may be) at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) the second anniversary of the date of such Termination of Employment;

(ii) if the Participant's Termination of Employment is on account of Retirement at the Normal Retirement Date or Health Retirement Date, unvested Options shall continue to vest in accordance with their terms, and all outstanding Options, when vested, may be exercised, in whole or in part, by the Participant at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) the fifth anniversary of the date of such Termination of Employment;

(iii) if the Participant's Termination of Employment is on account of Retirement at the Early Retirement Date, unvested Options shall be forfeited, and Options, to the extent they are vested on the date of Termination of Employment, may be exercised, in whole or in part, by the Participant at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) the fifth anniversary of the date of such Termination of Employment;

(iv) if the Participant's Termination of Employment is for any other reason, unvested Options shall be forfeited, and Options, to the extent they are vested on the date of Termination of Employment, may be exercised, in whole or in part, by the Participant at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) three months after the date of such Termination of Employment; and

(v) if (A) the Participant's Termination of Employment is for any reason other than death and (B) the Participant dies after such Termination of Employment but before the date the Options must be exercised as set forth in the preceding subsections, unvested Options shall be forfeited and any Options, to the extent they are vested on the date of the Participant's death, may be exercised, in whole or in part, by the Participant's personal representative, estate or transferee, as the case may be, at any time on or before the earliest to occur of (x) the Expiration Date of the Option, (y) the second anniversary of the date of death and (z) the applicable anniversary of the Termination of Employment as set forth in subsections (i) through (iv) above.

Reload Options may not be granted after a Termination of Employment.

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13.2 *Other Awards.* If a Participant has a Termination of Employment, then, unless otherwise provided by the Committee or in the Award Agreement, all Awards other than Options shall terminate and be forfeited on the date of such Termination of Employment.

Article 14. Equity Incentive Plans of Foreign Subsidiaries

The Committee may authorize any foreign Subsidiary to adopt a plan for granting Awards ("Foreign Equity Incentive Plan") and awards granted under such Foreign Equity Incentive Plans may be treated as grants under the Plan, if the Committee so determines. Such Foreign Equity Incentive Plans shall have such terms and provisions as the Committee permits not inconsistent with the provisions of the Plan and which may be more restrictive than those contained in the Plan. Awards granted under such Foreign Equity Incentive Plans shall be governed by the terms of the Plan except to the extent that the provisions of the Foreign Equity Incentive Plans are more restrictive than the terms of the Plan, in which case such terms of the Foreign Equity Incentive Plans shall control.

Article 15. Amendment, Modification and Termination

The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part, without the approval of the stockholders of the Company, except as stockholder approval may be required (i) to permit the Company to deduct, in computing its income tax liability pursuant to the provisions of the Code, compensation resulting from Awards, (ii) to retain incentive stock option treatment under Section 422 of the Code or (iii) under the listing requirements of any securities exchange on which are listed any of the Company's equity securities.

No termination, amendment or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award, unless such termination, modification or amendment is required by applicable law and except as otherwise provided herein.

Article 16. Payment for Awards and Withholding

16.1 *Payment for Awards.* In the event a Participant elects to pay the Option Exercise Price or make payment for any other Award through tender of previously acquired Stock, (i) only a whole number of share(s) of Stock (and not fractional shares of Stock) may be tendered in payment, (ii) such Participant must present evidence acceptable to the Company that he has owned any such shares of Stock tendered in payment (and that such shares of Stock tendered have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise and (iii) Stock must be tendered to the Company, either by actual delivery of the shares or by attestation. When payment is made by tender of Stock, the difference, if any, between the

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aggregate amount payable and the Fair Market Value of the share(s) of Stock tendered in payment (plus any applicable taxes) shall be paid by check. No Participant may tender shares of Stock having a Fair Market Value exceeding the aggregate Option Exercise Price or other payment due.

16.2 *Loans and Guarantees.* The Committee may, in its discretion:

(i) allow a Participant to defer payment to the Company of all or any portion of (x) the Option Exercise Price of any option or (y) any taxes associated with a benefit hereunder which is not a cash benefit at the time such benefit is so taxable, or

(ii) cause the Company to guarantee a loan from a third party to the Participant, in an amount equal to all or any portion of such Option Exercise Price or any related taxes.

Any such payment deferral or guarantee by the Company pursuant to this section shall be on a secured or unsecured basis, for such periods, at such interest rates, and on such other terms and conditions as the Committee may determine. Notwithstanding the foregoing, a Participant shall not be entitled to defer the payment of such Option Exercise Price or any related taxes unless the Participant (x) enters into a binding obligation to pay the deferred amount and (y) except with respect to treasury stock, pays upon exercise of an Option an amount equal to or greater than the aggregate Minimum Consideration therefor. If the Committee has permitted a payment deferral or caused the Company to guarantee a loan pursuant to this section, then the Committee may, in its discretion, require the immediate payment of such deferred amount or the immediate release of such guarantee upon the Participant's Termination of Employment or if the Participant sells or otherwise transfers the Participant's shares of Stock purchased pursuant to such deferral or guarantee.

16.3 *Notification under Section 83(b)*. The Committee may, on the grant date or any later date, prohibit a Participant from making the election described below. If the Committee has not prohibited such Participant from making such election, and the Participant shall, in connection with the exercise of any Option, or the grant of any share of Restricted Stock, make the election permitted under Section 83(b) of the Code (i.e., an election to include in such Participant's gross income in the year of transfer the amounts specified in Section 83(b) of the Code), such Participant shall notify the Company of such election within 10 days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Section 83(b) of the Code.

16.4 *Tax Withholding*. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount (including any Stock withheld as provided below) sufficient to satisfy Federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to an Award made under the Plan.

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16.5 *Stock Withholding*. With respect to tax withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising out of or as a result of Awards granted hereunder, Participants may elect to satisfy the withholding requirement, in whole or in part, by tendering Stock held by the Participant (by actual delivery of the shares or by attestation) or by having the Company withhold Stock having a Fair Market Value equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing and signed by the Participant.

Article 17. Substituted Awards

The Committee may grant substituted awards for any cancelled Award granted under this Plan or any plan of any entity acquired by the Company or any of its Subsidiaries in accordance with this Article. If the Committee cancels any Award (granted under this Plan, or any plan of any entity acquired by the Company or any of its Subsidiaries), and a new Award is substituted therefor, then the Committee may, in its discretion, determine the terms and conditions of such new Award provided that, subject to Section 4.2, if the Award is an Option, the Option Exercise Price for the substituted Award shall not be less than the Option Exercise Price of the cancelled Award, and may provide that the grant date of the cancelled Award shall be the date used to determine the earliest date or dates for exercising or vesting the new substituted Award so that the Participant may exercise the substituted Award, or the substituted Award may vest, at the same time as if the Participant had held the substituted Award since the grant date of the cancelled Award.

Article 18. Successors

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise of all or substantially all of the business and/or assets of the Company.

Article 19. Legal Construction

19.1 *Gender and Number*. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

19.2 *Severability*. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

19.3 *Requirements of Law*. The granting of Awards and the issuance of Stock under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

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19.4 *Governing Law*. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with, and governed by, the laws of the State of Delaware, except with regard to conflicts of law provisions.

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**THE ALLSTATE CORPORATION
2001 EQUITY INCENTIVE PLAN
OPTION AWARD AGREEMENT**

[Addressee]

In accordance with the terms of The Allstate Corporation 2001 Equity Incentive Plan (the "Plan"), pursuant to action of the Compensation and Succession Committee of the Board of Directors, The Allstate Corporation hereby grants to you (the "Participant"), subject to the terms and conditions set forth in this Option Award Agreement (including Annex A hereto and all documents incorporated herein by reference) the right and option (the "Option") to purchase from the Company the number of shares of its common stock, par value \$.01 per share, set forth below:

Type of Option Granted:	Nonqualified
Number of Shares to which Option Pertains:	XXXXXX
Date of Grant:	May 15, 2001
Option Exercise Price:	\$, which is the Fair Market Value on the Date of Grant
Vesting:	Four equal installments, each for one-quarter of the total number of said shares, such installments to vest, respectively, on May 15, 2002, May 15, 2003, May 15, 2004 and May 15, 2005 (subject to Sections 2 and 4 of Annex A)
Expiration Date:	Close of business on May 15, 2011
Exercise Period:	Date of Vesting through Expiration Date (subject to Section 2 of Annex A)
Reload Options:	Reload Options are granted on the Option exercise for the number of shares of Stock tendered in payment of the Option Exercise Price

THIS OPTION IS SUBJECT TO FORFEITURE AS PROVIDED IN THIS OPTION AWARD AGREEMENT AND THE PLAN.

Further terms and conditions of the Award are set forth in Annex A, which is an integral part of this Option Award Agreement.

All terms, provisions and conditions applicable to the Awards set forth in the Plan and not set forth herein are hereby incorporated by reference. To the extent any provision hereof is inconsistent with a provision of the Plan, the provision of the Plan will govern. By accepting this Award, the Participant hereby acknowledges the receipt of a copy of this Option Award Agreement including Annex A and a copy of the Prospectus and agrees to be bound by all the terms and provisions hereof and thereof.

Edward M. Liddy
Chairman, President and Chief Executive Officer
THE ALLSTATE CORPORATION

PARTICIPANT AGREEMENT AND ACCEPTANCE

As consideration for the grant of the Option subject to this Option Award Agreement and the grant of all future Awards, notwithstanding the provisions of Section 2.3 of my Change of Control Employment Agreement ("COC Agreement"), I agree that upon a Change of Control as defined in my COC Agreement all Options or Restricted Stock shall, to the extent not previously exercisable or nonforfeitable, become fully exercisable or non-forfeitable, as applicable, upon the consummation, rather than upon stockholder approval, of a Change of Control as defined in Section 1.23(c) of my COC Agreement. I hereby waive any right that might otherwise exist under such Section 2.3 of my COC Agreement to accelerated vesting or nonforfeatability of this Option and future Awards upon stockholder approval rather than upon consummation of such a Change of Control.

Signature of Participant

Date

Attachment: Annex A

ANNEX A

TO

**THE ALLSTATE CORPORATION
2001 EQUITY INCENTIVE PLAN
OPTION AWARD AGREEMENT**

Further Terms and Conditions of Option. It is understood and agreed that the Award of the Option evidenced by this Option Award Agreement to which this is annexed is subject to the following additional terms and conditions:

1. *Exercise of Option.* To the extent vested and subject to Section 2 below, the Option may be exercised in whole or in part from time to time by delivery of written notice of exercise and payment to **Stock Option Record Office, The Allstate Corporation, 2775 Sanders Road, Ste F5, Northbrook, Illinois 60062, unless the Company advises the Participant to send the notice and payment to a different address or a designated representative.** Such notice and payment must be received not later than the Expiration Date, specifying the number of shares of Stock to be purchased. The minimum number of Shares to be purchased in a partial exercise shall be the lesser of 25 shares and the number of shares remaining unexercised under this Award. In the event that the Expiration Date falls on a day that is not a regular business day at the Company's executive offices in Northbrook, Illinois, such written notice must be delivered no later than the next regular business day following the Expiration Date.

The Option Exercise Price shall be payable: (a) in cash or its equivalent, (b) by tendering previously acquired Stock (owned for at least six months) having an aggregate Fair Market Value at the time of exercise equal to the total Option Exercise Price, (c) by broker-assisted cashless exercise or (d) by a combination of (a), (b), and/or (c).

With respect to tax withholding required upon exercise of the Option, the Participant may elect to satisfy such withholding requirements in whole or in part, by having Stock with a Fair Market Value equal to the minimum statutory total tax which could be imposed on the transaction withheld from the shares due upon Option exercise.

2. *Termination of Employment.* Except as otherwise specifically provided in Section 4 of this Annex A with respect to vesting, in The Allstate Corporation Change of Control Severance Plan (to the extent such plan is applicable to the Participant) or in another written agreement with the Company to which the Participant is a party, if the Participant has a Termination of Employment, the following provisions shall apply:

(i) if the Participant's Termination of Employment is on account of death or Disability, then the Option, to the extent not vested, shall vest, and the Option may be

exercised, in whole or in part, by the Participant (or his personal representative, estate or transferee, as the case may be) at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) the second anniversary of the date of such Termination of Employment;

(ii) if the Participant's Termination of Employment is on account of Retirement at the Normal Retirement Date or Health Retirement Date, the Option to the extent it is not vested, shall continue to vest in accordance with its terms, and when vested, may be exercised, in whole or in part, by the Participant at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) the fifth anniversary of the date of such Termination of Employment;

(iii) if the Participant's Termination of Employment is on account of Retirement at the Early Retirement Date, any portion of the Option that is not vested shall be forfeited, and the Option, to the extent it is vested on the date of Termination of Employment, may be exercised, in whole or in part, by the Participant at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) the fifth anniversary of the date of such Termination of Employment;

(iv) if the Participant's Termination of Employment is for any other reason, any portion of the Option that is not vested shall be forfeited, and the Option, to the extent it is vested on the date of Termination of Employment, may be exercised, in whole or in part, by the Participant at any time on or before the earlier to occur of (x) the Expiration Date of the Option and (y) three months after the date of such Termination of Employment; and

(v) if (A) the Participant's Termination of Employment is for any reason other than death and (B) the Participant dies after such Termination of Employment but before the date the Option must be exercised as set forth in the preceding subsections, any portion of the Option that is not vested shall be forfeited and the Option, to the extent it is vested on the date of the Participant's death, may be exercised, in whole or in part, by the Participant's personal representative, estate or transferee, as the case may be, at any time on or before the earliest to occur of (x) the Expiration Date of the Option, (y) the second anniversary of the date of death and (z) the applicable anniversary of the Termination of Employment as set forth in subsections (i) through (iv) above.

3. *Transferability of Options.* Except as set forth in this Section 3, the Option shall be exercisable during the Participant's lifetime only by the Participant, and may not be assigned or transferred other than by will or the laws of descent and distribution. The Option, to the extent vested, may be transferred by the Participant during his lifetime to any "Family Member", defined as any child, stepchild, grandchild, parent, stepparent, grandparent, spouse or sibling, including adoptive relationships; a trust in which these persons have more than fifty (50) percent of the beneficial interest; a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty (50) percent of the voting interests. A transfer of the Option pursuant to this Section 3 may only be effected by the

Company at the written request of a Participant and shall be effective only when recorded in the Company's record of outstanding Options. In the event an Option is transferred, any Reload Options associated with such transferred Option shall terminate. 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 this Option Award Agreement, and the transferee shall be entitled to the same rights as the Participant, as if no transfer had taken place.

4. *Change of Control.* (a) Except as otherwise specifically provided in The Allstate Corporation Change of Control Severance Plan (to the extent such plan is applicable to the Participant) or another written agreement with the Company to which the Participant is a party, the Option, to the extent not vested, shall vest (i) on the Change of Control Effective Date of a Change of Control, as defined in paragraphs (a), (b), (d) and (e) of the definition of Change of Control in Section 8, that is not a Merger of Equals, or (ii) on the Consummation Date of a Change of Control as defined in paragraph (c) of such definition of a Change of Control that is not a Merger of Equals or (iii) if applicable, on a later Merger of Equals Cessation Date, and the Option may be exercised in whole or in part, subject to the time periods for exercise set forth in Section 2 of this Annex A.

(b) Notwithstanding the vesting provisions in Section 2, if a Participant has a Termination of Employment during the Post-Merger of Equals Period, which Termination of Employment is initiated by the Participant's employer for a reason other than Cause or Disability, then the Option, to the extent not vested, shall vest and the Option may be exercised, in whole or in part, subject to the time periods for exercise set forth in Section 2 of this Annex A.

5. *Ratification of Actions.* By accepting the Award or other benefit under the Plan, the Participant and each person claiming under or through him shall be conclusively deemed to have indicated the Participant's acceptance and ratification of, and consent to, any action taken under the Plan or the Award by the Company, the Board or the Compensation and Succession Committee.

6. *Notices.* Any notice hereunder to the Company shall be addressed to its Stock Option Record Office and any notice hereunder to the Participant shall be addressed to him at the address specified on this Option Award Agreement, subject to the right of either party to designate at any time hereafter in writing some other address.

7. *Governing Law and Severability.* To the extent not preempted by Federal law, this Option Award Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflicts of law provisions. In the event any provision of the Option Award Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Option Award Agreement, and this Option Award Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

8. *Definitions.* In addition to the following definitions, capitalized terms not otherwise defined herein shall have the meanings given them in the Plan.

"*Allstate Incumbent Directors*" means, determined as of any date by reference to any baseline date:

(a) the members of the Board on the date of such determination who have been members of the Board since such baseline date, and

(b) the members of the Board on the date of such determination who were appointed or elected after such baseline date and whose election, or nomination for election by stockholders of the Company or the Surviving Corporation, as applicable, was approved by a vote or written consent of two-thirds (100% for purposes of paragraph (a) of the definition of "Merger of Equals") of the directors comprising the Allstate Incumbent Directors on the date of such vote or written consent, but excluding each such member whose initial assumption of office was in connection with (1) an actual or threatened election contest, including a consent solicitation, relating to the election or removal of one or more members of the Board, (2) a "tender offer" (as such term is used in Section 14(d) of the Exchange Act), (3) a proposed Reorganization Transaction, or (4) a request, nomination or suggestion of any Beneficial Owner of Voting Securities representing 15% or more of the aggregate voting power of the Voting Securities of the Company or the Surviving Corporation, as applicable.

"*Approved Passive Holder*" means, as of any date, any Person that satisfies all of the following conditions:

(a) as of such date, such Person is a 20% Owner, but is the Beneficial Owner of less than 30% of the then-outstanding Common Stock and of Voting Securities representing less than 30% of the combined voting power of all then-outstanding Voting Securities of the Company;

(b) prior to becoming a 20% Owner, such Person has filed, and as of such date has not withdrawn, or made any subsequent filing or public statement inconsistent with, a statement with the Securities Exchange Commission ("SEC") pursuant to Section 13(g) of the Exchange Act that includes a certification by such person to the effect that such beneficial ownership does not have the purpose or effect of changing or influencing the control of the Company; and

(c) prior to such Person's becoming a 20% Owner, at least two-thirds of the Allstate Incumbent Directors (such Allstate Incumbent Directors to be determined as of the Date of Grant as the baseline date) shall have voted in

favor of a resolution adopted by the Board to the effect that: (1) the terms and conditions of such Person's investment in the Company will not have the effect of changing or influencing the control of the Company, and (2) notwithstanding clause (a) of the definition of "Change of Control," such Person's becoming a 20% Owner shall be treated as though it were a Merger of Equals for purposes of the Plan.

"*Beneficial Owner*" means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

"*Cause*" means any of the events or conditions which constitute cause for immediate termination of employment of the Participant as provided from time to time in the applicable Human Resources Policy of the Company or one of its Subsidiaries.

"*Change of Control*" means, except as provided at the end of this definition, the occurrence of any one or more of the following:

(a) Any person (as such term is used in Rule 13d-5 of the SEC under the Securities Exchange Act of 1934, as amended ("Exchange Act")) or group (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than a Controlled Affiliate of the Company or any employee benefit plan (or any related trust) of the Company or any of its Controlled Affiliates, becomes the Beneficial Owner of 20% or more of the common stock of the Company or of Voting Securities representing 20% or more of the combined voting power of all Voting Securities of the Company (such a person or group that is not a Similarly Owned Company (as defined below), a "20% Owner"), except that no Change of Control shall be deemed to have occurred solely by reason of such beneficial ownership by a corporation (a "Similarly Owned Company") with respect to which both more than 70% of the common stock of such corporation and Voting Securities representing more than 70% of the combined voting power of the Voting Securities of such corporation are then owned, directly or indirectly, by the persons who were the direct or indirect owners of the common stock and Voting Securities of the Company immediately before such acquisition, in substantially the same proportions as their ownership, immediately before such acquisition, of the common stock and Voting Securities of the Company, as the case may be; or

(b) Allstate Incumbent Directors (as determined using the Date of Grant as the baseline date) cease for any reason to constitute at least two-thirds of the directors of the Company then serving (provided, however, that this clause (b) shall be inapplicable during a Post-Merger of Equals Period); or

(c) Approval by the stockholders of the Company of a merger, reorganization, consolidation, or similar transaction, or a plan or agreement for

the sale or other disposition of all or substantially all of the consolidated assets of the Company or a plan of liquidation of the Company (any of the foregoing, a "*Reorganization Transaction*") that, based on information included in the proxy and other written materials distributed to the Company's stockholders in connection with the solicitation by the Company of such stockholder approval, is not expected to qualify as an Exempt Reorganization Transaction; provided, however, that if (1) the merger or other agreement between the parties to a Reorganization Transaction expires or is terminated after the date of such stockholder approval but prior to the consummation of such Reorganization Transaction (a "*Reorganization Transaction*")

Termination") or (2) immediately after the consummation of the Reorganization Transaction, such Reorganization Transaction does qualify as an Exempt Reorganization Transaction notwithstanding the fact that it was not expected to so qualify as of the date of such stockholder approval, then such stockholder approval shall not be deemed a Change of Control for purposes of any Termination of Employment as to which the Termination Date occurs on or after the date of the Reorganization Transaction Termination or the date of the consummation of the Exempt Reorganization Transaction, as applicable; or

(d) The consummation by the Company of a Reorganization Transaction that for any reason fails to qualify as an Exempt Reorganization Transaction as of the date of such consummation, notwithstanding the fact that such Reorganization Transaction was expected to so qualify as of the date of such stockholder approval; or

(e) A 20% Owner who had qualified as an Approved Passive Holder ceases to qualify as such for any reason other than ceasing to be a 20% Owner (such cessation of Approved Passive Holder status to be considered for all purposes of the Plan (including the definition of "Change of Control Effective Date") a Change of Control distinct from and in addition to the Change of Control specified in clause (a) above).

Notwithstanding the occurrence of any of the foregoing events, a Change of Control shall not occur with respect to a Participant if, in advance of such event, such Participant agrees in writing that such event shall not constitute a Change of Control.

"Change of Control Effective Date" means the date on which a Change of Control first occurs while an Award is outstanding.

"Consummation Date" means the date on which a Reorganization Transaction is consummated.

"Controlled Affiliate" of a Person means any corporation, business trust, or

limited liability company or partnership with respect to which such Person owns, directly or indirectly, Voting Securities representing more than 50% of the aggregate voting power of the then-outstanding Voting Securities.

"Exempt Reorganization Transaction" means a Reorganization Transaction that results in the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of the Company immediately before such Reorganization Transaction becoming, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners, of both more than 70% of the then-outstanding common stock of the Surviving Corporation and Voting Securities representing more than 70% of the combined voting power of the then-outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Persons' ownership of the common stock and Voting Securities of the Company immediately before such Reorganization Transaction.

"Merger of Equals" means, as of any date, a transaction that, notwithstanding the fact that such transaction may also qualify as a Change of Control, satisfies all of the conditions set forth in paragraphs (a) or (b) below:

(a) if such date is on or after the Consummation Date, a Reorganization Transaction in respect of which all of the following conditions are satisfied as of such date, or if such date is prior to the Consummation Date, a proposed Reorganization Transaction in respect of which the merger agreement or other documents (including the exhibits and annexes thereto) setting forth the terms and conditions of such Reorganization Transaction, as in effect on such date after giving effect to all amendments thereof or waivers thereunder, require that the following conditions be satisfied on and, where applicable, after the Consummation Date:

(1) at least 50%, but not more than 70%, of the common stock of the surviving Corporation outstanding immediately after the consummation of the Reorganization Transaction, together with Voting Securities representing at least 50%, but not more than 70%, of the combined voting power of all Voting Securities of the Surviving Corporation outstanding immediately after such consummation shall be owned, directly or indirectly, by the persons who were the owners directly or indirectly of the common stock and Voting Securities of the Company immediately before such consummation in substantially the same proportions as their respective direct or indirect ownership, immediately before such consummation, of the common stock and Voting Securities of the Company, respective; and

(2) Allstate Incumbent Directors (determined as of such date using the date immediately preceding the Change of Control Effective Date as the baseline date) shall, throughout the period beginning on the

Change of Control Effective Date and ending on the third anniversary of the Change of Control Effective Date, continue to constitute not less than 50% of the members of the Board; and

(3) The person who was the CEO of the Company immediately prior to the Change of Control Effective Date shall serve as (x) the CEO of the Company throughout the period beginning on the Change of Control Effective Date and ending on the Consummation Date and (y) the CEO of the Surviving Corporation at all times during the period commencing on the Consummation Date and ending on the first anniversary of the Consummation Date;

provided, however, that a Reorganization Transaction that qualifies as a Merger of Equals shall cease to qualify as a Merger of Equals (a "Merger of Equals Cessation") and shall instead qualify as a Change of Control that is not a Merger of Equals from and after the first date during the Post-Change period (such date, the "Merger of Equals Cessation Date") as of which any one or more of the following shall occur for any reason:

(i) if any condition of clause (1) of paragraph (a) of this definition shall for any reason not be satisfied immediately after the consummation of the Reorganization Transaction; or

(ii) if as of the close of business on any date on or after the Change of Control Effective Date, any condition of clauses (2) or (3) of paragraph (a) of this definition shall not be satisfied; or

(iii) if on any date prior to the first anniversary of the Consummation Date, the Company shall make a filing with the SEC, issue a press release, or make a public announcement to the effect that the Company is seeking or intends to seek a replacement for the then-CEO of the Company, whether such replacement is to become effective before or after such first anniversary.

(b) As of such date, each Person who is a 20% Owner qualifies as an Approved Passive Holder.

The Committee shall give all Participants written notice of any Merger of Equals Cessation and the applicable Merger of Equals Cessation Date as soon as practicable after the Merger of Equals Cessation Date.

"*Merger of Equals Cessation Date*"—see the definition of "Merger of Equals".

"*Person*" means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency,

body or department.

"*Post-Change Period*" means the period commencing on the Change of Control Effective Date and ending on the third anniversary of the Change of Control Effective Date.

"*Post-Merger of Equals Period*" means the period commencing on a Change of Control Effective Date of a Change of Control that qualifies as a Merger of Equals and ending on the third anniversary of such Change of Control Effective Date or, if sooner, the Merger of Equals Cessation Date.

"*Reorganization Transaction*"—see clause (c) of the definition of "Change of Control."

"*Reorganization Transaction Termination*"—see clause (c) of the definition of "Change of Control."

"*Surviving Corporation*" means the corporation resulting from a Reorganization Transaction or, if securities representing at least 50% of the aggregate Voting Power of such resulting corporation are directly or indirectly owned by another corporation, such other corporation.

"*20% Owner*"—see clause (a) of the definition of "Change of Control."

"*Voting Securities*" of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

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 condensed consolidated financial statements of The Allstate Corporation and subsidiaries for the three-month and six-month periods ended June 30, 2001 and 2000, as indicated in our report dated August 10, 2001; because we did not perform an audit, we expressed no opinion on such financial statements.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001, is incorporated by reference in the following Registration Statements:

Forms S-3 Registration Nos.

333-34583
333-61817
333-95821
333-39640

Forms S-8 Registration Nos.

33-77928
33-93758
33-93760
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

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.

Deloitte & Touche LLP

Chicago, Illinois
August 10, 2001