ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

Combined Statutory-basis Financial Statements as of and for the Years Ended December 31, 2003 and 2002, Combined Statutory-basis Supplemental Schedules as of December 31, 2003, Combining Statutory-basis Schedules as of and for the Year Ended December 31, 2003

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

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COMBINED STATUTORY-BASIS STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003 AND 2002

(in millions except for par value and share data)

ADMITTED ASSETS	2003	2002
Bonds (NAIC fair value: $27,857 and $26,060)	$ 26,205	$ 24,410
Preferred stocks:		
Unaffiliated companies (NAIC fair value: $336 and $292)	331	290
Uncombined subsidiaries and affiliates (fair value: $45 and $45)	45	45
Common stocks:		
Unaffiliated companies (cost: $2,960 and $2,234)	4,081	2,637
Uncombined subsidiaries and affiliates (cost: $2,309 and $2,210)	5,146	4,473
Total preferred and common stocks	9,603	7,445
Mortgage loans on real estate	64	75
Real estate	340	372
Cash, cash equivalents and short-term investments	20	254
Other invested assets	471	638
Subtotals, cash and invested assets	36,703	33,194
Investment income due and accrued	477	417
Premiums and considerations	3,611	3,375
Reinsurance	116	107
Net deferred tax asset	1,037	1,221
Receivables from parent, uncombined subsidiaries and affiliates	465	331
Other assets	289	170
Total	$ 42,698	$ 38,815

LIABILITIES	2003	2002
Losses and loss adjustment expenses	$ 13,994	$ 13,323
Commissions payable, contingent commissions and other similar charges	1,517	1,610
Taxes, licenses and fees	215	189
Current federal and foreign income taxes	219	–
Borrowed money	619	357
Unearned premiums	7,939	7,503
Advance premiums	254	166
Securities lending	1,213	1,387
Accounts payable	312	190
Other liabilities	313	327
Total liabilities	26,595	25,052
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 12)		
CAPITAL AND SURPLUS		
Common capital stock ($100 par value; 42,000 shares authorized, issued and outstanding)	4	4
Gross paid in and contributed surplus	2,166	2,138
Unassigned funds (surplus)	13,876	11,561
Special surplus funds	57	60
Surplus as regards policyholders	16,103	13,763
Totals	$ 42,698	$ 38,815

See notes to combined statutory-basis financial statements.

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINED STATUTORY-BASIS STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2003 AND 2002

(in millions)	2003	2002
Premiums earned	$ 22,525	$ 21,415
Losses incurred	13,292	13,608
Loss expenses incurred	2,675	2,773
Other underwriting expenses incurred	5,733	5,242
Total underwriting deductions	21,700	21,623
Net underwriting gain or (loss)	825	(208)
Net investment income earned (net of expenses of $91 and $95)	1,772	1,757
Net realized capital gains or (losses)	272	(454)
Net investment gain or (loss)	2,044	1,303
Total other income	247	259
Net income, after dividends to policyholders but before federal and foreign income taxes	3,116	1,354
Federal and foreign income taxes incurred	389	(76)
Net income	$ 2,727	$ 1,430

See notes to combined statutory-basis financial statements.

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINED STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2003 AND 2002

(in millions)	2003	2002
Surplus as regards policyholders, December 31 prior year	$ 13,763	$ 13,777
Net income	2,727	1,430
Change in net unrealized capital gains or (losses)	1,123	(147)
Change in net deferred income tax	78	(148)
Change in nonadmitted assets	(754)	(111)
Change in provision for reinsurance	(19)	9
Surplus paid in	28	165
Dividends to stockholders	(1,273)	(675)
Change in additional minimum pension liability	430	(537)
Surplus as regards policyholders, December 31 current year	$ 16,103	$ 13,763

See notes to combined statutory-basis financial statements.

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED,
PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINED STATUTORY-BASIS STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

(in millions)	2003	2002
Cash from operations:		
Premiums collected net of reinsurance	$ 22,798	$ 21,848
Net investment income	1,705	1,691
Miscellaneous income	247	249
Total	24,750	23,788
Benefits and loss related payments	12,601	13,452
Commissions, expenses paid and aggregate write-ins for deductions	8,502	8,469
Federal and foreign income taxes paid (recovered)	152	36
Total	21,255	21,957
Net cash from operations	3,495	1,831
Cash from investments:		
Total investment proceeds	17,173	16,963
Total investments acquired	19,339	18,802
Net cash from investments	(2,166)	(1,839)
Cash from financing and miscellaneous sources:		
Capital and paid in surplus, less treasury stock	27	165
Borrowed funds received	262	(119)
Dividends to stockholders	1,273	675
Other cash provided (applied)	(579)	691
Net cash from financing and miscellaneous sources	(1,563)	62
Reconciliation of cash and short-term investments:		
Net change in cash and short-term investments	(234)	54
Cash and short-term investments, beginning of year	254	200
Cash and short-term investments, end of period	$ 20	$ 254

See notes to combined statutory-basis financial statements.

1. General

Nature of operations

The accompanying combined financial statements include the accounts of Allstate Insurance Company ("AIC") and the following United States domiciled, property and casualty directly and indirectly held insurance subsidiaries and affiliates: Allstate Indemnity Company, Allstate Property and Casualty Insurance Company, Deerbrook Insurance Company ("Deerbrook"), Northbrook Indemnity Company ("NIC"), Encompass Indemnity Company, Allstate Fire and Casualty Insurance Company, Allstate North American Insurance Company ("ANAIC"), Encompass Insurance Company ("EIC"), Allstate Texas Lloyd's ("ATL") and Allstate County Mutual ("ACM") (collectively referred to as the "Company"). All of these companies are domiciled in the State of Illinois except for ATL and ACM, which are domiciled in the State of Texas. AIC is a wholly owned subsidiary of The Allstate Corporation (the "Corporation"). All significant intercompany accounts and transactions have been eliminated.

The Company is engaged, principally in the United States, in the property-liability insurance business. The Company's primary business is the sale of private passenger auto and homeowners insurance. The Company also sells a variety of other personal property and casualty insurance products and selected commercial property and casualty coverages. The Company was the country's second largest insurer for both private passenger auto and homeowners insurance in 2002.

The Company is authorized to sell certain property-liability products in 50 states, the District of Columbia, and Puerto Rico. For 2003, the top geographic locations for premiums earned by the Company were Texas, California and New York. No other jurisdiction accounted for more than 5% of premiums earned. The Company primarily distributes its products through approximately 12,900 exclusive agencies and approximately 14,200 independent agencies.

The Company has exposure to catastrophes, an inherent risk of the property-liability insurance business, which has contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position. The level of catastrophic loss and weather related losses (wind, hail, lightning, freeze and water losses which include mold losses) experienced in any year cannot be predicted and could be material to results of operations and financial position. For the Company, areas of potential natural event catastrophe losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Areas in the United States with exposure to potential earthquake losses included California, areas surrounding the New Madrid fault system in the Midwest and faults in and surrounding Seattle, Washington and Charleston, South Carolina. The Company continues to evaluate alternative business strategies to more effectively manage its exposure to catastrophe losses in these and other areas. The Company also has exposure to environmental and asbestos claims and other discontinued exposures.

Allstate Life Insurance Company ("ALIC") is a wholly owned uncombined subsidiary of AIC. ALIC markets a diversified portfolio of retail and institutional products to meet customers' needs in the areas of financial protection, savings and retirement through a variety of distribution channels. The retail products include term life; permanent life such as whole life, interest-sensitive life, variable life, and single premium life; fixed annuities such as traditional deferred annuities, market value adjusted annuities, equity-indexed annuities, treasury-linked annuities and immediate annuities; variable annuities; and other protection products such as long-term care, accidental death, hospital indemnity and disability income insurance. Institutional products primarily include funding agreements sold to qualified investors.

ALIC and its subsidiaries are authorized to sell life insurance and investment products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For 2003, the top geographic locations for premiums and annuity considerations for ALIC and its subsidiaries were Delaware, California, New York, Florida, Texas and Pennsylvania. No other jurisdiction accounted for more than 5% of premiums and annuity considerations. ALIC distributes its products through a variety of distribution channels including AIC exclusive agencies, independent agents (including master brokerage agencies), financial institutions and broker/dealers. Although ALIC currently benefits from agreements with financial services entities that market and distribute its products, change in control of these non-affiliated entities could negatively impact ALIC's sales.

In accordance with statutory accounting principles, the Company reflects ALIC as a common stock investment, which is valued at its underlying statutory book value.

2. Summary of Significant Accounting Policies

Basis of presentation

The Company prepares its financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile of each of the companies included in the financial statements. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

States require their domestic insurance companies to prepare financial statements in conformity with the NAIC Accounting Practices and Procedures Manual ("Codification"), subject to any deviations prescribed or permitted by the insurance departments of the applicable states of domicile.

Accounting practices and procedures of the NAIC as prescribed or permitted by the insurance department of the applicable state of domicile comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences relevant to the Company are as follows:

a. Investments in bonds are generally stated at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's ability and intent to hold or trade the securities.

b. Investments in common and preferred stocks are valued as prescribed by the NAIC Securities Valuation Office ("SVO"), while under GAAP, they are reported at fair value.

c. Certain investments in joint ventures, partnerships and limited liability companies under GAAP are recorded utilizing the cost method of accounting. Under Codification, these investments require equity method of accounting and are nonadmitted if there are no audited GAAP financial statements.

d. Investments in certain uncombined non-insurance affiliates are carried at amounts prescribed by the NAIC. Investments in uncombined insurance subsidiaries and affiliates are included in common stock and accounted for on the equity method, with the net income of the insurance subsidiaries directly credited to the Company's unassigned surplus. GAAP requires either consolidation or the GAAP-basis equity or net income of subsidiaries to be included in the GAAP income statement.

e. Codification calculates goodwill as the difference between the cost of acquiring the entity and the reporting entity's share of the statutory book value of the acquired entity. Under Codification, goodwill is recorded as an admitted asset by the acquiring company subject to limitation and amortized using the straight-line method over 10 years. The statutory financial statements of the acquired company are not adjusted as a result of the acquisition. Goodwill under GAAP is calculated as the difference between the cost of acquiring the entity and the fair value of the assets acquired and liabilities assumed. The adoption of Financial Accounting Standards Board Statement of Financial Accounting Standard No. 142, *Goodwill and other Intangible Assets*, precludes the amortization of goodwill; instead, goodwill is capitalized and evaluated annually for impairment.

f. Codification requires that make whole fees and prepayment penalties received on bonds and mortgage loan investments be recorded as investment income. Under GAAP, they are recorded as realized gains and losses.

g. Under GAAP accounting, the ineffectiveness of a fair value hedge is recorded as realized capital gains and losses. On a statutory basis, derivatives which follow hedge accounting are reported in a manner consistent with the hedged item. In addition, under Codification, embedded derivative instruments, such as the conversion feature in convertible debt securities, are not recorded separately as a derivative in the statutory-basis financial statements. Under GAAP, such embedded options are recorded separately and marked to market through earnings.

h. Codification requires that, if in the aggregate, the Company has a net negative cash balance it shall be recorded as a negative asset, whereas GAAP classifies such negative cash balances as other liabilities.

i. Costs that vary with and are primarily related to acquiring property-liability insurance, principally agents' remuneration, premium taxes, inspection costs and certain underwriting costs, are expensed as incurred, while under GAAP, they are deferred and amortized to income as premiums are earned.

j. Both GAAP and Codification require a provision for deferred taxes on temporary differences between the reporting and tax bases of assets and liabilities. However, under Codification there are limitations as to the amount of deferred tax assets that may be reported as an admitted asset.

k. The effects of reinsurance are netted against the corresponding assets or liabilities versus reported on a gross basis for GAAP.

l. Certain assets, principally premiums receivable over 90 days past due, certain property and equipment and unsecured advances, are designated as nonadmitted assets and are charged directly to unassigned surplus, while under GAAP, nonadmitted assets are reinstated to the balance sheet, net of any valuation allowance.

m. Pension costs are to be recognized once a participant becomes vested in the plan under Codification. The costs related to services rendered prior to becoming vested are recognized in the period the participants become vested. GAAP requires pension costs to be accrued over the employee's years of service.

n. Codification requires certain postretirement benefits for eligible or vested employees to be accrued at the eligibility date. GAAP requires they be accrued during the employee's years of service.

o. GAAP requires the presentation of comprehensive income and its components in the financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

To conform to the 2003 presentation, certain amounts in the prior year's financial statements and notes have been reclassified.

Investments

Investments are stated at values prescribed by the NAIC. Bonds, including collateralized mortgage obligations and other structured securities, are stated at amortized cost using the scientific interest method with two exceptions. Bonds with an NAIC designation of 3 through 6 and 5* are carried at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus. 5* means the NAIC designation was assigned by the SVO in reliance on the insurer's certification that the issuer is current in all principal and interest payments. In addition, bonds with an NAIC designation of 6* are carried at zero. 6* means the NAIC designation was assigned by the SVO due to inadequate certification of interest and principal payments. To-be-announced bonds involved in dollar roll transactions are marked to market through realized capital gains and losses.

Loan-backed securities, which consist of single class and multi-class mortgage-backed and asset-backed securities, utilize anticipated repayments to determine the effective yield at purchase. Any significant changes in the anticipated repayments are incorporated when determining statement value. Generally, significant changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. Beneficial interests held in securitized assets, which are not of high credit quality, are accounted for using the prospective method.

Preferred stocks are carried at amortized cost or the lower of amortized cost or NAIC fair value, depending on the assigned credit rating and whether the preferred stock has a mandatory sinking fund provision. Common stocks are carried at NAIC fair value. For preferred stocks stated at NAIC fair value and common stocks, the difference between amortized cost and NAIC fair value are recorded as a change in net unrealized capital gains (losses), which is a component of unassigned surplus.

Investments in insurance subsidiaries are based on the underlying statutory equity of the subsidiary and adjusted for unamortized goodwill, if applicable. Investments in non-insurance subsidiaries, controlled and affiliated entities and joint ventures, limited partnerships and limited liability companies are generally recorded based on the underlying GAAP equity of the investee, with unrealized gains or losses reflected in unassigned surplus.

Mortgage loans are carried at outstanding principal value, net of unamortized premium or discount and book value adjustments. Book value adjustments include derivative hedging adjustments and other than temporary impairment adjustments. Generally, if the fair value of any collateral, less the estimated costs to obtain and sell, is less than the outstanding principal value and the decline is deemed to be other than temporary, an impairment is reflected in the carrying value and included in realized capital losses. If the decline is deemed to be temporary, the adjustment is reflected in a valuation allowance and included in unrealized capital losses.

Investments in real estate are stated at the lower of depreciated cost or fair value less encumbrances. The carrying value of real estate is adjusted for impairments that are other than temporary.

Short-term investments include investments whose maturities at the time of acquisition are one year or less and are stated at amortized cost, which approximates fair value.

Investment income consists primarily of interest and dividends, net investment income from partnership interests and income for certain derivative transactions. Interest is recognized on an accrual basis and dividends are recorded at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method, based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Investment income is recorded for joint ventures, limited partnerships and limited liability companies as distributions are received.

Realized capital gains and losses include gains and losses on investment dispositions, write-downs in value due to other than temporary declines in fair value and changes in the fair value of certain derivatives including related periodic and final settlements. Realized capital gains and losses are determined on a specific identification basis and recorded in operations.

The Company writes down to fair value any bond or equity security that is classified as other than temporarily impaired in the period the security is deemed to be other than temporarily impaired. Inherent in the Company's evaluation of a particular security are assumptions and estimates about the operations of the issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the recoverability of principal and interest; 3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for bonds; 4) the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect access to liquidity.

All due and accrued investment income, excluding mortgage loans, over 90 days past due is nonadmitted. Mortgage loans in default for which interest is 180 days past due are nonadmitted. All due and accrued investment income deemed uncollectible is written off in the period it is determined to be uncollectible. The total amount of due and accrued investment income nonadmitted was $49 thousand and $88 thousand at December 31, 2003 and 2002, respectively.

Derivative financial instruments

Derivative financial instruments used by the Company include equity foreign currency forwards, futures and written call options. When derivatives meet specific criteria, they may receive hedge accounting, which means they may be accounted for and reported on in a manner that is consistent with the hedged asset or liability. Derivatives that are not designated as accounting hedges are accounted for on a fair value basis, with changes in fair value recorded as unrealized gains or losses in unassigned surplus. The Company's accounting policy for these instruments is also discussed in Note 6.

Effective January 1, 2003, the Company adopted Statement of Statutory Accounting Principle ("SSAP") No. 86, *Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions* ("SSAP No. 86"). This statement supersedes SSAP No. 31, *Derivative Instruments*, and adopts certain definitional aspects and hedge effectiveness requirements of GAAP. The adoption of SSAP No. 86 resulted in no cumulative impact to unassigned funds (surplus).

However, the adoption of SSAP No. 86 has caused certain existing open derivative contracts which were previously marked to fair value through net investment income or net realized capital gains and losses under SSAP No. 31, and certain new derivative contracts entered January 1, 2003 and subsequent to be marked to fair value in unassigned funds (surplus). The adoption of SSAP No. 86 on January 1, 2003 did not have a material impact on the Statement of Operations for 2003.

Premium revenue

Premiums are deferred and earned on a pro rata basis over the policy period of the policies. The portion of premiums written applicable to the unexpired period of the policies is recorded as unearned premiums. Premiums received in advance of the policies' effective dates are recorded as advance premiums.

Premiums written and not yet collected and agents' balances are shown as a receivable. Premiums and agents' balances receivable older than 90 days are nonadmitted. The Company regularly evaluates premiums and agents' balances receivable that are less than 90 days and establishes valuation allowances as appropriate.

Reserves for losses and loss adjustment expenses

Reserves for losses and loss adjustment expenses are the estimated amounts necessary to settle both reported and unreported claims of insured losses, based upon the facts in each case and the Company's experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserves for losses and loss adjustment expenses. The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Reserve estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments are reflected in current operations. These adjustments may be material.

Reinsurance

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance from other insurers or reinsurers. Admitted assets include amounts billed to reinsurers for losses and loss adjustment expenses paid. A provision for reinsurance is established by the Company based on an evaluation of the admissibility, collectibility and collateralization of reinsurers' balances in accordance with NAIC guidelines and reported as a liability. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contract. Reserves are reported net of reinsurance recoverables. Prepaid reinsurance premiums are deferred and reflected as income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company's primary liability under the policies written.

Income taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the statutory financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences were nonadmitted assets, unearned premiums and insurance reserves. Deferred income taxes also arise from unrealized gains and losses on equity securities carried at fair value. The net change in deferred tax assets and liabilities is applied directly to unassigned surplus. The nonadmitted portion of a net deferred tax asset is determined by applying the rules prescribed by SSAP No. 10, Income Taxes.

Off-balance sheet financial instruments

Commitments to invest, commitments to extend mortgage loans and commitments to purchase private placement securities have off-balance sheet risk because their contractual amounts are not recorded in the Company's Statements of Financial Position. The contractual amounts and fair values of these instruments are outlined in Note 6.

Furniture, fixtures, equipment, leasehold improvements and buildings

Furniture, fixtures, equipment and leasehold improvements, which are nonadmitted assets and charged directly to unassigned surplus, are carried at cost less accumulated depreciation. Depreciation of furniture, fixtures and equipment is provided on a straight-line method over the estimated useful lives of the assets, generally 3 to 10 years. Leasehold improvements that increase the value and enhance the usefulness of the leased asset are depreciated on a straight-line basis over the lesser of their useful life or the remaining life of the original lease. Buildings occupied by the Company are also carried at cost less accumulated depreciation and are included as an admitted asset in real estate. In general, buildings are amortized on a straight-line basis over 40 years. Depreciation expense on furniture, fixtures, equipment, leasehold improvements and buildings was $96 million and $84 million for the years ended December 31, 2003 and 2002, respectively. The Company reviews its furniture, fixtures, equipment, leasehold improvements and buildings for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Security repurchase and resale and securities loaned

Securities purchased under agreements to resell and securities sold under agreements to repurchase, including the mortgage dollar roll program, are treated as financing arrangements and the related obligations to return the collateral are carried at the amounts which the securities will be subsequently resold or reacquired, including accrued interest, as specified in the respective agreements. The Company's policy is to take possession or control of securities purchased under agreements to resell. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through the right of substitution, maintains the right and ability to redeem the collateral on short notice. The market value of securities to be repurchased or resold is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure.

Securities loaned are treated as financing arrangements and the collateral received is recorded in short-term investments, bonds and other liabilities and accrued expenses. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of domestic and foreign securities, respectively. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary. Substantially all of the Company's securities loaned are on loan with large brokerage firms.

Security repurchase and resale agreements and securities lending transactions are used to generate net investment income. The cash received from repurchases and resale agreements also provides a source of liquidity. These instruments are short-term in nature (usually 30 days or less) and are collateralized principally by U.S. Government and mortgage-backed securities. The carrying values of these instruments approximate fair value because of their relatively short-term nature.

See Note 14 for additional information relating to the Company's securities lending agreements.

Pending accounting standards

In September 2002, the NAIC issued SSAP No. 87, *Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82* ("SSAP No. 87"). This statement required the Company to establish and disclose a written capitalization policy that includes predefined thresholds for capitalization of each asset class identified by SSAP Nos. 19, 29, 73, 79 and 82. Items not meeting the predefined thresholds are to be expensed in the period incurred. This statement is effective for years beginning January 1, 2004. The adoption of SSAP No. 87 is not expected to have a material impact on the financial position or results of operations of the Company.

3. Business Combinations and Goodwill

On January 1, 2000, the Company purchased all the outstanding common stock of NIC for $26 million from St. Paul Fire & Marine Insurance Company ("St. Paul"). The Company acquired NIC as part of its plans to further develop the personal lines' independent agency business. The transaction was accounted for using the statutory purchase method. At the purchase date, goodwill of $429 thousand was recorded and is being amortized on a straight-line basis over 10 years. In 2003 and 2002, the Company recognized goodwill amortization of $43 thousand each year related to this acquisition.

On November 8, 1993, the Company purchased all the outstanding common stock of Deerbrook, formerly known as Belvedere American Reinsurance Company, for $22 million from Christiania General Insurance Corporation of New York. The Company acquired Deerbrook in order to utilize its insurance licenses. The transaction was accounted for using the statutory purchase method. At the purchase date, goodwill of $1 million was recorded and is being amortized on a straight-line basis over 10 years. In 2003 and 2002, the Company recognized goodwill amortization of $104 thousand and $125 thousand, respectively, related to this acquisition.

Unamortized goodwill, reported as a component of the investment in the acquired entities, did not exceed 10% of the Company's capital and surplus at December 31, 2003 or 2002.

4. Investments

NAIC fair values

The statement value, gross unrealized gains, gross unrealized losses and NAIC fair value of the Company's bonds were as follows:

(in millions)	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
At December 31, 2003				
U.S. governments	$ 828	$ 57	$ -	$ 885
All other governments	126	17	-	143
States, territories and possessions	-	-	-	-
Political subdivisions	675	78	-	753
Special revenue	19,350	1,208	(22)	20,536
Public utilities	100	8	-	108
Industrial and miscellaneous	5,126	319	(13)	5,432
Total bonds	$ 26,205	$ 1,687	$ (35)	$ 27,857

(in millions)	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
At December 31, 2002				
U.S. governments	$ 875	$ 86	$ -	$ 961
All other governments	134	19	-	153
States, territories and possessions	17	1	-	18
Political subdivisions	813	104	-	917
Special revenue	17,815	1,145	(20)	18,940
Public utilities	123	8	(1)	130
Industrial and miscellaneous	4,633	321	(13)	4,941
Total bonds	$ 24,410	$ 1,684	$ (34)	$ 26,060

Scheduled maturities

The scheduled maturities for bonds were as follows at December 31, 2003:

(in millions)	Statement Value	NAIC Fair Value
Due in one year or less	$ 235	$ 250
Due after one year through five years	2,420	2,599
Due after five years through ten years	4,385	4,760
Due after ten years	14,889	15,862
Subtotal	21,929	23,471
Mortgage-backed and asset-backed securities	4,276	4,386
Total	$ 26,205	$ 27,857

Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

Net realized capital gains and losses

Gross realized gains and losses from investment securities consist of the following:

(in millions)	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Year Ended December 31, 2003			
Bonds	$ 256	$ 128	$ 128
Unaffiliated preferred stocks	3	6	(3)
Unaffiliated common stocks	248	117	131
Real estate	1	-	1
Derivative instruments	62	55	7
Other invested assets	26	18	8
	$ 596	$ 324	$ 272

(in millions)	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Year Ended December 31, 2002			
Bonds	$ 233	$ 207	$ 26
Unaffiliated preferred stocks	4	14	(10)
Unaffiliated common stocks	381	675	(294)
Real estate	-	-	-
Derivative instruments	225	420	(195)
Other invested assets	22	3	19
	$ 865	$ 1,319	$ (454)

Proceeds from the sales of bonds, exclusive of calls and maturities, were $12.77 billion and $11.19 billion in 2003 and 2002, respectively. Gross gains of $256 million and $223 million, and gross losses of $70 million and $139 million, were realized on sales of bonds during 2003 and 2002, respectively.

Mortgage loans

The Company did not reduce interest rates on any outstanding mortgage loans in 2003. In 2002, the Company reduced the interest rate on one floating rate commercial mortgage loan that had a carrying value, excluding accrued interest, of $22 million. The interest rate on the loan was reduced by 0.42% to 2.91%.

State and municipal bonds

The Company maintains a diversified portfolio of state and municipal bonds. At December 31, the largest geographic concentrations of state and municipal bonds are presented below:

(% of total state and municipal bond statement value)	2003	2002
California	11.8 %	8.7 %
Texas	11.3	11.6
Illinois	8.8	9.4
New York	6.1	8.7

No other state exceeded 5% of the portfolio at December 31, 2003.

Debt restructuring

The total recorded investment in restructured mortgage loans and bonds was $32 million and $33 million at December 31, 2003 and 2002, respectively. The Company did not recognize any realized capital losses related to troubled mortgage loans and bond restructuring in 2003. The Company recognized realized capital losses of $3 million in 2002 related to troubled mortgage loans and bond restructuring.

The Company's policy is to generally accrue interest income on impaired mortgage loans and bonds to the extent it is deemed collectible and the investment continued to perform under its original or restructured terms. Interest income on nonperforming mortgage loans is generally recognized on a cash basis. Interest income on nonperforming bonds is recognized on a cash basis once the original cost of the investment is recovered.

Loan-backed securities

The Company elected not to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date. Prepayment assumptions for single class and multi-class mortgage-backed and asset-backed securities were obtained from broker/dealers and internal estimates. The Company used the NAIC fair value to determine the fair value of its loan-backed securities. In 2003 and 2002, there were no securities with negative yields requiring the Company to change methodologies from retrospective to prospective.

Real estate impairments

In 2003, the Company did not recognize any impairment loss related to its investments in real estate. In 2002, the Company recognized an impairment loss of $235 thousand on a Texas apartment building that had been acquired in 2001 through the default of a municipal bond. The real estate was initially recorded by the Company at its pending sale price, however, the sale was never executed. In order to calculate the write-down, the fair value of the property was determined by an external appraisal in December 2002. The loss was included in net realized capital gains and losses.

5. Joint Ventures, Partnerships and Limited Liability Companies

The Company recognized impairment write-downs on joint ventures, partnerships and limited liability companies of $14 million and $3 million for the years ended December 31, 2003 and 2002, respectively. The fair value of these investments was determined by an analysis of both the underlying assets of the investment and the existing economic conditions.

6. Financial Instruments

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving derivative financial instruments and other off-balance sheet financial instruments. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value. The disclosures that follow do not reflect the fair value of the Company as a whole, since a number of the Company's significant assets (including net deferred tax asset) and liabilities (including reserves for losses and loss adjustment expenses) are not considered financial instruments and are not carried at fair value. Other assets and liabilities considered financial instruments, such as premiums and agents' balances receivable, advance premiums, investment income due and accrued, and cash net of outstanding claim checks are generally of a short-term nature. Their carrying values are deemed to approximate fair value.

Financial assets

The statement value and NAIC fair value of financial assets at December 31 were as follows:

	2003		2002	
(in millions)	**Statement Value**	**NAIC Fair Value**	**Statement Value**	**NAIC Fair Value**
Bonds	$ 26,205	$ 27,857	$ 24,410	$ 26,060
Unaffiliated preferred stocks	331	336	290	292
Unaffiliated common stocks	4,081	4,081	2,637	2,637
Mortgage loans on real estate	64	69	75	83
Short-term investments	649	649	951	951

Fair values of bonds are based on valid NAIC market prices as determined by the SVO. For exchange-traded bonds, if a valid NAIC market price is not available, fair value is based upon quoted market prices or dealer quotes. For non-exchange traded bonds, if a valid NAIC market price is not available, fair value is determined by independent third party pricing sources or widely accepted pricing valuation models, which utilize internally developed ratings and independent third party data.

Unaffiliated preferred and common stocks are valued based on market prices as determined by the SVO.

Mortgage loans are valued based on discounted contractual cash flows. Discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar properties as collateral. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral.

Mortgage loans are impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company did not have any investments in impaired loans at December 31, 2003 and 2002.

Short-term investments are highly liquid investments with maturities of one year or less. Their statement values are deemed to approximate fair value.

Financial liabilities

For borrowed money, the statement value equaled the fair value at December 31, 2003 and 2002.

Derivative financial instruments

Derivative financial instruments utilized by the Company include equity foreign currency forwards, futures and written call options contracts. The Company's primary use of derivative financial instruments is to reduce its exposure to market risk (principally interest rate, equity price, and foreign currency risk) on its invested assets and certain liabilities. The Company does not hold or issue these instruments for trading purposes.

The following table summarizes the contract or notional amount, credit exposure, statement value and fair value of the Company's derivative financial instruments at December 31:

	2003			
(in millions)	**Notional Amount**	**Credit Exposure**	**Statement Value Assets (Liabilities)**	**Fair Value**
Interest rate contracts				
Futures contracts	$ 290	$ -	$ -	$ -
Equity and index contracts				
Index futures contracts	90	-	-	-
Total derivative financial instruments	$ 380	$ -	$ -	$ -

	2002			
(in millions)	**Notional Amount**	**Credit Exposure**	**Statement Value Assets (Liabilities)**	**Fair Value**
Interest rate contracts				
Futures contracts	$ 455	$ -	$ -	$ -
Equity and index contracts				
Index futures contracts	55	-	-	-
Total derivative financial instruments	$ 510	$ -	$ -	$ -

Equity foreign currency forward contracts involve the future exchange or delivery of foreign currencies based on terms negotiated at the inception of the contract which are settled at the end of the contract. The Company utilizes both index and interest rate futures. Futures are defined as commitments to buy or sell designated financial instruments based on specified prices, yields or indexes. Written call option contracts are exchange-traded call option contracts on specific equities.

Market risk is the risk that the Company will incur losses due to adverse changes in equity, interest, or currency exchange rates and prices. Market risk exists for all of the derivative financial instruments that the Company holds, as these instruments can become less valuable due to adverse changes in market conditions. To limit this risk, the Company has established risk control limits. In addition, changes in the value of the Company's derivative instruments designated as hedges are generally offset by changes in the value of the hedged risk component of the related assets and liabilities.

Credit exposure represents the Company's potential loss if all counterparties fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of contracts with a positive fair value at the reporting date reduced by the effect, if any, of master netting agreements. Foreign currency swaps and equity foreign currency forward contracts utilized by the Company primarily have credit exposure.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. The Company utilizes master netting agreements for all over-the-counter derivative transactions. These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. To date, the Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance.

Futures contracts have limited credit exposure as they are executed on organized exchanges and require collateral, as well as the daily cash settlement of margins. The written call options utilized by the Company are all exchanged-traded and have limited credit exposure.

The cash requirements of the derivatives vary by instrument. Equity foreign currency forward contracts require cash settlements when the contract matures. For equity foreign currency forward contracts, the amount of cash exchanged is based on the difference between the rates agreed to at the date the contract was entered into (contract rate) compared to the actual rate on the settlement date. If the contract rate is less than the actual rate on the settlement date, the Company receives cash equal to the difference in rates multiplied by an agreed to notional amount. If the contract rate is greater than the actual rate on the settlement date, the Company pays cash equal to the difference in rates multiplied by an agreed to notional amount. Daily cash settlement of variation margins, which are based on the changes in the daily prices, is required for futures. The final settlement of interest rate futures may be settled in cash or through delivery of an underlying instrument (e.g. specified bond). The final settlement of indexed futures may only be settled in cash. The Company receives cash equal to the premium of written call options when the contract is established. If the written covered call options are exercised, the Company receives cash equal to the price mutually agreed to in the contract (strike price) in exchange for the equity the call option was written on. If the options are not exercised, then no cash is exchanged when the contract expires.

Equity foreign currency forward contracts are utilized to hedge the currency risk associated with securities owned and denominated in foreign currencies. The Company utilizes futures contracts to reduce the duration of its bond portfolio and to reduce market risk associated with certain deferred compensation contracts. These futures hedge the changes in fair value of assets or liabilities. Written covered call options used for income generation provide limited protection against declines in the underlying market price of equities owned by the Company.

The contract or notional amounts are used to calculate the exchange of contractual payments under agreements and are not representative of the potential for gain or loss on these agreements.

Written call option contracts are reported on Schedule DB - Part B. The premium received on written call options is recorded as a liability. The change in the fair value of written covered call options is recorded as unrealized gains or losses, with a corresponding liability. If the written covered call option is exercised by the counterparty, the difference between the strike price and the cost basis of the equity, adjusted for the amount of premium received, is recorded as a realized gain or loss. If the written covered call options expire without being exercised, the premium received is classified as a realized gain and the corresponding liability previously recorded is reversed.

Equity foreign currency forward contracts are also reported in Schedule DB - Part C and do receive hedge accounting. The final delivery of foreign currency is reflected in the book value of the hedged item at purchase, or it is reflected in the proceeds from the sale of the hedged item.

Futures are reported in Schedule DB - Part D and receive either fair value hedge accounting or non-hedge accounting, depending on the strategy daily cash settlement of margin gains or losses are recognized in either realized capital gains and losses or as an offset to the expense related to the hedged obligation depending on the derivative strategy. Termination gains or losses on financial futures are incorporated into the daily cash settlement of margins. For those futures contracts that are utilized to reduce the duration on the bond portfolio and are open at the end of the reporting period, the daily cash settlement is reported as unrealized gains and losses in surplus.

The Company did not have any net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness.

The Company did not have any net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting.

The Company did not have any derivatives accounted for as cash flow hedges of a forecasted transaction.

Off-balance-sheet financial instruments

The contractual amounts and fair values of off-balance-sheet financial instruments at December 31 were:

(in millions)	2003		2002	
	Contractual Amount	Fair Value	Contractual Amount	Fair Value
Commitments to invest	$ 382	$ -	$ 136	$ -
Commitments to extend mortgage loans	14	-	-	-
Private placement commitments	6	-	-	-

The contractual amounts represent the amount at risk if the contract was fully drawn upon, the counterparty defaulted and the value of any underlying security became worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Commitments to invest generally represent commitments to acquire financial interests or instruments. The Company enters into these agreements to allow for additional participation in certain limited partnership investments. Since investments in the limited partnerships are not actively traded, it is not practical to estimate the fair value of these commitments. Commitments to invest are generally callable at the counterparty's request.

Commitments to extend mortgage loans are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses. The fair value of these commitments are estimated based upon discounted contractual cash flows, adjusted for changes in current rates at which loans would be made to borrowers with similar credit risk using similar properties as collateral.

Private placement commitments represent conditional commitments to purchase private placement debt and equity securities at a specified future date. The Company regularly enters into these agreements in the normal course of business. The fair value of these commitments generally cannot be estimated on the date the commitment is made, as the terms and conditions of the underlying private placement securities are not yet final.

7. Income Taxes

At December 31, 2003, the Company had $3 million of net operating loss carryforwards originating in 1996 through 1998, which expire, if unused in years 2011 through 2018.

The following were income taxes incurred by the Company in the current and prior years that will be available for recoupment in the event of future net losses:

(in millions)		
2003	$	525
2002		69

The provision for incurred income taxes for the years ended December 31 was:

(in millions)	**2003**	**2002**
Federal income tax - excluding net capital gains (losses)	$ 299	$ 71
Federal income tax on net capital gains (losses)	90	(147)
Federal income taxes incurred	$ 389	$ (76)

The provision for federal income taxes incurred was different from that which would have been obtained by applying the statutory federal income tax rate to income before taxes. The significant items causing these differences were as follows at December 31:

(in millions)	**2003**	**Effective Tax Rate**	
Provision computed at statutory rate	$ 1,092	35.0	%
Nondeductible profit sharing expense	31	1.0	
Nondeductibles	1	-	
Tax exempt interest	(278)	(8.9)	
Intercompany dividends	(111)	(3.5)	
Adjustment of prior year tax liabilities	(50)	(1.6)	
Dividends received deduction	(12)	(0.4)	
Prior year true-up	(3)	(0.1)	
Other	(5)	(0.2)	
Change in net deferred income taxes	(276)	(8.8)	
Total statutory income taxes	$ 389	12.5	%

(in millions)	**2002**	**Effective Tax Rate**	
Provision computed at statutory rate	$ 474	35.0	%
Nondeductible profit sharing expense	-	-	
Nondeductibles	34	2.5	
Tax exempt interest	(261)	(19.3)	
Adjustment of prior year tax liabilities	(92)	(6.8)	
Intercompany dividends	(85)	(6.3)	
Dividends received deduction	(9)	(0.6)	
Prior year true-up	(6)	(0.4)	
Change in net deferred income taxes	(131)	(9.7)	
Total statutory income taxes	$ (76)	(5.6)	%

The components of the net deferred tax asset were as follows at December 31:

(in millions)	**2003**	**2002**
Total of gross deferred tax assets	$ 1,802	1,726
Total of deferred tax liabilities	(679)	(220)
Net deferred tax asset	1,123	1,506
Deferred tax asset nonadmitted	86	285
Net admitted deferred tax asset	$ 1,037	1,221
(Increase) decrease in nonadmitted asset	$ 199	

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities were as follows at December 31:

(in millions)	2003	2002
Deferred tax assets:		
Nonadmitted assets	$ 574	$ 241
Adjustment for unearned premiums	573	543
Reserve discounting	422	480
Additional minimum pension liability	81	312
Investments	65	23
Deposit accounting adjustments	18	23
Alternative minimum tax	-	43
Guaranty fund assessments	-	15
Uncollectible reinsurance	11	10
Other	58	36
Total deferred tax assets	1,802	1,726
Nonadmitted deferred tax assets	86	285
Admitted deferred tax assets	1,716	1,441
Deferred tax liabilities:		
Unrealized net gains	(370)	(141)
Employee benefits	(228)	(3)
Fixed assets	(51)	(53)
Salvage and subrogation discounting	(14)	(15)
Premium acquisition expense	(7)	(8)
Other	(9)	-
Total deferred tax liabilities	(679)	(220)
Net admitted deferred tax asset	$ 1,037	$ 1,221

The change in net deferred income tax was comprised of the following (this analysis is exclusive of nonadmitted assets, as the change in nonadmitted assets is reported separately from the change in net deferred income tax in the Statements of Changes in Capital and Surplus):

	December 31		
(in millions)	2003	2002	Change
Total deferred tax assets	$ 1,802	$ 1,726	$ 76
Total deferred tax liabilities	(679)	(220)	(459)
Net deferred tax asset (liability)	$ 1,123	$ 1,506	(383)
Tax effect of unrealized gains (losses)			230
Tax effect of additional minimum pension liability			231
Change in net deferred income tax			78
Tax effect of changes in accounting principles			-
Adjustment of prior year tax liabilities			(21)
Tax effect of nonadmitted assets			(333)
Change in net deferred income tax relating to the provision			$ (276)

(in millions)	December 31 2002	December 31 2001	Change
Total deferred tax assets	$ 1,726	$ 1,508	$ 218
Total deferred tax liabilities	(220)	(281)	61
Net deferred tax asset (liability)	$ 1,506	$ 1,227	279
Tax effect of unrealized gains (losses)			(137)
Tax effect of additional minimum pension liability			(290)
Change in net deferred income tax			(148)
Tax effect of changes in accounting principles			60
Adjustment of prior year tax liabilities			27
Tax effect of nonadmitted assets			(70)
Change in net deferred income tax relating to the provision			$ (131)

The Corporation's federal income tax return for the year ended December 31, 2003 is consolidated with the entities listed below:

AFD, Inc.
AFDW, Inc.
ALFS, Inc.
Allstate Assignment Company
Allstate Bank
Allstate California Insurance Company
Allstate Enterprises, Inc.
Allstate Financial Corporation
Allstate Fire and Casualty Insurance Company
Allstate Floridian Indemnity Company
Allstate Floridian Insurance Company
Allstate Indemnity Company
Allstate Insurance Company
Allstate International Insurance Holdings, Inc.
Allstate Investment Management Company
Allstate Investments, LLC
Allstate Life Insurance Company
Allstate Life Insurance Company of New York
Allstate Motor Club, Inc.
Allstate New Jersey Insurance Company
Allstate Non-Insurance Holdings, Inc.
Allstate North American Insurance Company
Allstate Property and Casualty Insurance Company
Allstate Reinsurance Ltd. (Bermuda)
Allstate Settlement Corporation
Allstate Texas Lloyd's
Allstate Texas Lloyd's, Inc.
American Heritage Life Investment Corporation
American Heritage Service Company
Bob Thompson Enterprises, Inc.
Champion's Pride Electronics and Trim, Inc.
Colonial Reinsurance, Ltd.
Deerbrook General Agency, Inc.
Deerbrook Insurance Company
Direct Marketing Center, Inc.
Encompass Indemnity Company
Encompass Insurance Company
Encompass Insurance Company of New Jersey
Encompass Texas Lloyd's, Inc.
Enterprises Services Corporation
ERJ Insurance Group, Inc.
First Colonial Agency
Florida Associated Services, Inc.
Glenbrook Life and Annuity Company
Ivantage Select Agency, Inc.
JSI Collision Centers, Inc.
Kennett Capital, Inc.
Lincoln Benefit Life Company
Northbrook Indemnity Company
Northbrook Life Insurance Company
Northbrook Services, Inc.
Pacific Painters, Inc.
Pembridge America, Inc.
Rescue Express, Inc.
Roadway Protection Auto Club, Inc.
Sterling Collision Centers, Inc.
Surety Life Insurance Company
Tech-Cor, Inc.
The Allstate Corporation
Westborn Collision, Inc.

The Company, except for ACM, joins the Corporation and its eligible domestic subsidiaries in the filing of a consolidated federal income tax return. The consolidated group elected under Internal Revenue Code Section 1552(a)(2) to allocate the consolidated federal income tax liability based on each member's federal income tax liability computed on a separate return basis, except all tax benefits resulting from operating losses and tax credits are allocated to the Company to the extent they can be utilized in the consolidated return. In years when the consolidated tax return results in an alternative minimum tax liability, the regular tax is allocated first as described above, and the excess of the alternative minimum tax over the regular tax is allocated to the members whose tax posture gave rise to the alternative minimum tax. The excess alternative minimum tax is available as a credit. In 2003, the Company's net utilization of the alternative minimum tax credit carryforward is $110 million.

8. Information Concerning Parent, Subsidiaries and Affiliates

The following transactions were entered into by the Company with related parties in 2003 and 2002 that involved more than ½ of 1% of the Company's admitted assets. Reinsurance agreements, insurance contracts and cost allocation transactions in accordance with intercompany agreement provisions were excluded.

Related party transactions

The Company paid the following cash dividends to its parent, the Corporation, in 2003 and 2002:

(in millions)

Date of payment	2003	2002
February 4	$ 150	$ -
April 1	300	-
May 1	-	200
July 1	175	175
September 3	-	150
October 1	-	150
November 3	150	-
December 5	400	-
Total	$ 1,175	$ 675

On November 26, 2003, the Company paid a dividend with a fair value of $29 million to the Corporation using investment securities.

On June 19, 2003, the Company paid a dividend with a fair value of $69 million to the Corporation using investment securities.

In addition, on December 23, 2002, the Corporation made a cash capital contribution of $100 million to the Company. The Corporation also contributed all its outstanding shares of Pafco Underwriting Managers, Inc., including its ownership interest in Pembridge Insurance Company, with a cost of $56 million, to the Company on December 31, 2002.

On December 3, 2002, the Company extended the maturity date of the $405 million Demand Promissory Note ("Note") executed by the Corporation and payable to the Company from April 13, 2003 to December 1, 2007, or on demand. In addition, the interest rate on the Note was adjusted to reflect current market conditions.

The Company made cash capital contributions of $350 million to ALIC in 2002: $150 million on June 28 and $100 million each on September 30 and December 23.

The Company received cash dividends on common stock from ALIC as follows in 2003 and 2002:

(in millions)

Date of payment	2003	2002
March 28	$ -	$ 44
September 30	25	-
Total	$ 25	$ 44

The Company received dividends in the form of securities with a fair value of $98 million from ALIC in 2003: $69 million on June 19 and $29 million on November 26.

In addition, on December 30, 2002, ALIC contributed its 100% ownership in Allstate Financial Services, LLC ("AFS"), with a cost of $2 million to the Company.

The Company reported the following amounts as receivable from its affiliates at December 31:

(in millions)	2003	2002
The Allstate Corporation	$ 281	$ 183
Allstate Life Insurance Company	92	73
Glenbrook Life and Annuity Company	20	17
Lincoln Benefit Life Company	15	7
Allstate New Jersey Insurance Company	13	6
Allstate Floridian Insurance Company	10	10
Allstate Investments, LLC	7	4
Allstate Financial Services, LLC	7	4
Allstate Motor Club, Inc.	6	4
Allstate Distributors, LLC	3	-
AHL Investment Corporation	3	-
Allstate Floridian Indemnity Company	2	1
Allstate Life Insurance Company of New York	1	2
Allstate Bank	1	1
Columbia Universal Life Insurance Company	1	-
Northbrook Services, Inc.	1	1
Allstate Insurance Company of Canada	1	-
Sterling Collision Centers, Inc.	1	-
Northbrook Life Insurance Company	-	13
AFDW, Inc.	-	2
Deerbrook General Agency, Inc.	-	1
Other	-	2
Total	$ 465	$ 331

The intercompany balance from the Corporation includes the Note executed by the Corporation and payable to the order of the Company on December 1, 2007, or on demand. See “Related party transactions” on prior page for more information on the Note.

The Company entered into an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation can have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. From time to time, the Company borrows money from the Corporation to meet its short-term cash needs. At December 31, 2003, the Company did not have any outstanding intercompany loan balance. At December 31, 2002, the Company's total outstanding intercompany loan balance, excluding interest, was $100 million. The interest rate on the loan outstanding at December 31, 2002, was 1.25%. The maturity date on the intercompany loan outstanding at December 31, 2002 was two days. Total interest paid on intercompany debt during 2003 and 2002 was $1 million. Since this debt is payable to the Corporation, it is combined with other amounts due to and payable from the Corporation and classified as a receivable from parent, subsidiary and affiliates on the Statements of Financial Position.

At December 31, 2003 and 2002, the total amounts payable to affiliates were less than $1 million.

Intercompany receivables and payables are generally cash settled at least quarterly.

Related party commitments

The Company purchased structured settlement annuities, a type of immediate annuity, at prices determined based on interest rates in effect at the time of purchase, to fund structured settlements from ALIC and two of its subsidiaries, Allstate Life Insurance Company of New York and Lincoln Benefit Life Company. Prior to July 1, 2001, these annuities were issued to Allstate Settlement Corporation (“ASC”), a subsidiary of ALIC. Annuities sold subsequent to July 1, 2001, involving the Company were issued to Allstate Assignment Company (“AAC”), a subsidiary of ALIC. Most of the structured settlements issued to ASC and AAC were under a “qualified assignment”, meaning these entities assumed the Company's obligation to make future payments.

The Company issued surety bonds to guarantee the payment of structured settlement benefits assumed by ASC (from both the Company and non-related parties) and funded by certain annuity contracts issued by ALIC, Lincoln

Benefit Life Company and Allstate Life Insurance Company of New York. ASC has entered into General Indemnity Agreements pursuant to which it indemnified the Company for any liabilities associated with the surety bonds and providing the Company certain collateral security rights with respect to the annuities and certain other rights in the event of default. For contracts written on or after July 1, 2001, the Company no longer issues surety bonds to guarantee the payment of structured settlement benefits. Alternatively, ALIC guarantees the payment of structured settlement benefits on all contracts issued on or after July 1, 2001. Reserves recorded by the Company for annuities related to the surety bonds were $5.35 billion and $5.34 billion at December 31, 2003 and 2002, respectively.

Related party service agreements

Effective April 29, 2003, the Company entered into a Service and Expense Agreement with certain of its affiliated insurance companies pursuant to which the Company furnishes a variety of services and facilities to those affiliates. The agreement provides for the cost sharing and allocation of operating expenses among the parties to the agreement.

Effective January 1, 2002, the Company entered into an Investment Management Agreement and Amendment to Certain Service and Expense Agreements with Allstate Investments, LLC ("AILLC") whereby AILLC provides investment management services to the Company.

Effective January 1, 2002, the Company entered into a Reimbursement Agreement with the Corporation under which the Corporation sponsors certain benefit and compensation plans.

Effective January 1, 1999, the Company and certain of its affiliated insurance companies entered into a Service and Expense Agreement pursuant to which the Company furnishes a variety of services to the Corporation and certain subsidiaries and affiliates of the Company. The agreement provides for cost sharing and allocation of operating expenses among the parties to the agreement.

Ownership in ultimate parent

At both December 31, 2003 and 2002, the Company owned 37,471 common shares of the Corporation with a cost of $1 million. The entire amount of the investment was reported as a nonadmitted asset.

9. Debt

The Company had reverse dollar repurchase agreements outstanding as of December 31, 2003 and 2002 with total book values of $619 million and $357 million, respectively, and fair values of $622 million and $349 million, respectively. Interest on reverse dollar repurchase agreements paid during the years ending December 31, 2003 and 2002 was $31 million and $30 million, respectively. The weighted average coupon for these transactions was 5.18% in 2003 and 5.83% in 2002. These agreements generally utilize mortgage-backed securities. All of these transactions end by February 19, 2004.

To manage short-term liquidity, the Company may draw on its credit facilities as well as utilize security repurchase and resale agreements. The Company, together with the Corporation, currently maintains three credit facilities as a potential source of funds. These include a $575 million five-year revolving line of credit expiring in 2006, a $575 million 364-day revolving line of credit expiring in 2004, and a $50 million one-year revolving line of credit expiring in 2004. The right to borrow from the five-year and 364-day lines of credit are subject to requirements customary for facilities of this size, type and purpose. For example, the Company's debt to consolidated net capital (as defined in the agreement) must not exceed a designated level. No amounts were outstanding under any of these lines of credit during 2003 or 2002.

10. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

Defined benefit pension plans cover most domestic full-time, certain part-time employees and certain employee agents. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. The Company adopted SSAP No. 89, *Accounting for Pensions, a replacement of SSAP No. 8*, on December 31, 2003. Upon adoption, the Company elected, with regard to its incremental liability, to amortize it as a component of net periodic pension cost, and with regard to its incremental asset, to offset future periodic pension expense. The Company's funding policy for the pension plans is to make annual contributions in accordance with regulations under the Internal Revenue Code and in accordance with generally accepted actuarial principles.

The Company also provides certain health care and life insurance subsidies for employees hired before January 1, 2003 when they retire. Qualified employees may become eligible for these benefits if they retire in accordance with the Company's established retirement policy and are continuously insured under the Company's group plans or other approved plans in accordance with the plans' participation requirements. The Company shares the cost of the retiree medical benefits with retirees based on their years of service, with the Company's share being subject to a 5% limit on annual medical cost inflation after retirement. The Company's postretirement benefit plans are not funded. The Company has the right to modify or terminate these plans.

The Company calculates benefit obligations based upon generally accepted actuarial methodologies using the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation for other postretirement plans. The determination of pensions costs and other postretirement obligations as of December 31 are determined using an October 31 measurement date.

The change in benefit obligations for all plans for the year ended December 31, were as follows:

	Pension Benefits		Postretirement Benefits	
(in millions)	**2003**	**2002**	**2003**	**2002**
Benefit obligation, beginning of year	$ 3,543	$ 3,078	$ 786	$ 722
Service cost	139	134	21	20
Interest cost	243	222	54	51
Participant contributions	-	-	33	24
Actuarial loss	437	403	(11)	36
Benefits paid	(239)	(260)	(82)	(67)
Plan amendments	-	(28)	-	-
Other	(8)	(6)	-	-
Benefit obligation, end of year	$ 4,115	$ 3,543	$ 801	$ 786

There was no pension benefit obligation for non-vested employees at December 31, 2003 and 2002. The postretirement benefit obligation for non-vested employees was $317 million and $212 million at December 31, 2003 and 2002, respectively.

Pension plan assets at December 31, 2003 and 2002 comprise primarily equity securities and long-term corporate and United States Government obligations. The Company's other postretirement benefit plans currently are not funded.

The change in pension plan assets for the years ended December 31, were as follows:

(in millions)	**2003**	**2002**
Fair value of plan assets, beginning of year	$ 2,236	$ 2,444
Employer contributions	851	263
Benefits paid	(239)	(260)
Actual return on plan assets	461	(205)
Other	(7)	(6)
Fair value of plan assets, end of year	$ 3,302	$ 2,236

The plans' funded status, which was calculated as the difference between the projected benefit obligation and plan assets for pension benefits, and the difference between the accumulated benefit obligation and plan assets for other postretirement benefits was as follows:

	Pension Benefits		Postretirement Benefits	
(in millions)	**2003**	**2002**	**2003**	**2002**
Funded status	$ (813)	$ (1,307)	$ (801)	$ (786)
Unamortized prior service cost	(29)	(32)	(12)	(13)
Unrecognized net actuarial loss (gain)	2,180	2,151	116	129
Unamortized transition obligation	(232)	(528)	158	175
Minimum liability adjustment	(309)	(973)	-	-
Accrued benefit cost	$ 797	$ (689)	$ (539)	$ (495)

The Company did not make any contributions between the measurement date and the end of the year in 2003. In addition, as of December 31, 2003 and 2002 an admitted intangible asset of $68 million and $81 million, respectively, was recorded related to the benefit plans.

A minimum pension liability adjustment was required when the actuarial present value of accumulated benefits exceeded plan assets and accrued pension liabilities. At December 31, 2003 and 2002, the minimum liability adjustment, less allowable intangible assets, net of tax benefit, was $241 million and $828 million, respectively, and was reported as an adjustment to surplus.

The components of net periodic cost (benefit) for all plans for the year ended December 31, were as follows:

	Pension Benefits		Postretirement Benefits	
(in millions)	**2003**	**2002**	**2003**	**2002**
Service cost	$ 139	$ 134	$ 21	$ 20
Interest cost	243	222	54	51
Expected return on plan assets	(208)	(286)	-	-
Unrecognized transition obligation	(273)	(120)	18	17
Prior service cost recognized	(3)	4	(1)	(1)
Unrecognized prior period (gain) or loss amortization	113	41	2	1
Settlement loss	18	23	-	-
Net periodic cost or (benefit)	$ 29	$ 18	$ 94	$ 88

Weighted average assumptions used in the determination of the projected pension benefit obligation and plan assets at December 31, which were based on an October 31 measurement date, were:

	2003	**2002**
Discount rate	6.25%	7.00%
Rate of compensation increase	4.00% - 4.50%	4.00% - 4.50%
Expected long-term rate of return on plan assets	8.50%	9.50%

The weighted average health care trend rate used in measuring the accumulated postretirement benefit obligation was 11.9% for 2004, gradually declining to 5.5% in 2010, and remaining level thereafter.

A one percentage-point increase in assumed health care cost trend rates would increase the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the accumulated postretirement benefit obligation by $2 million and $12 million, respectively. A one percentage-point decrease in assumed health care cost trend rates would decrease the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the accumulated postretirement benefit obligation by $4 million and $26 million, respectively.

Most domestic full-time, certain part-time employees and certain employee agents of the Company are eligible to participate in The Savings and Profit Sharing Fund of Allstate Employees ("Fund"). Employer contributions to the Fund are based on actual performance levels and matching obligations under the Fund. The cost allocated to the Company for this benefit was $92 million and $99 million in 2003 and 2002, respectively.

11. Capital and Surplus and Dividend Restrictions

Dividend restrictions

The ability of the Company to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends and other relevant factors. The payment of shareholder dividends by the Company without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus as specified under Illinois insurance law. The maximum amount of dividends the Company can distribute during 2004 without prior Illinois Department of Insurance ("IL DOI") approval is $2.71 billion. Dividends are not cumulative.

Special surplus funds

In September 1996, the Company completed the sale of its United States based reinsurance operations for policies written after 1984 to SCOR U.S. Corporation ("SCOR"). The transaction consisted of the sale of certain non-insurance assets, liabilities and renewal rights and a reinsurance transaction for the insurance liabilities. The Company followed NAIC accounting guidance for the treatment of retroactive contracts and reported the gain on the sale as a "write-in" adjustment to special surplus from retroactive reinsurance account. The balance of the special surplus funds was $57 million at December 31, 2003 compared to $60 million at December 31, 2002. The change in the special surplus funds balance was due to payment activity.

Unassigned surplus

The components contributing to the cumulative increase or (reduction) of unassigned surplus at December 31 were as follows:

(in millions)	2003	2002
Unrealized gains and losses	$ 3,744	$ 2,620
Nonadmitted asset values	(1,728)	(975)
Reinsurance in unauthorized companies	(70)	(52)

12. Commitments and Contingencies

Contingent commitments

The Company has the following contingent commitments in addition to the related party commitments described in Note 8.

California Earthquake Authority ("CEA")

Exposure to certain potential losses from earthquakes in California is limited by the Company's participation in the CEA, which provides insurance for California earthquake losses.

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

Should losses arising from an earthquake cause a deficit in the CEA, additional funding would be obtained through assessments on participating insurance companies, reinsurance proceeds and bond issuances funded by future policyholder assessments. Participating insurers are required to pay an assessment, currently estimated not to exceed $2.18 billion, if the capital of the CEA falls below $350 million. Participating insurers are required to pay a second assessment, currently estimated not to exceed $1.46 billion, if aggregate CEA earthquake losses exceed $5.55 billion and the capital of the CEA falls below $350 million. At December 31, 2003, the CEA's capital balance was approximately $1.48 billion. If the CEA assesses its member insurers for any amount, the amount of future assessments on members is reduced by the amounts previously assessed. To date, the only assessment made by the CEA has been its initial assessment paid by participating insurers beginning in 1996. The authority of the CEA to assess participating insurers for the first assessment expires when it has completed twelve years of operation, at year-end 2008.

All future assessments on participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. As of December 31, 2003, the Company's share of the CEA was 23%. The Company does not expect its CEA market share to materially change. At this level, the Company's maximum possible CEA assessment would be $837 million. However, the Company does not expect its portion of these additional contingent assessments, if any, to exceed $502 million, its share of the first assessment. This is based on the low likelihood of an event exceeding the CEA claims paying capacity of $5.55 billion, and therefore the need for a second assessment is remote. Management believes the Company's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

Hurricane exposure

The Company has also mitigated its ultimate exposure to hurricanes through policy brokering. Examples include the Company's brokering of insurance coverage in certain areas of Florida and in Hawaii for hurricane insurance coverage to a non-affiliated company. However, the Company continues to own two subsidiaries, Allstate Floridian Insurance Company and Allstate Floridian Indemnity Company, that write homeowners business in the state of Florida.

Shared markets

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

PMI runoff support agreement

The Company has certain limited rights and obligations under a Capital Support Agreement ("Runoff Support Agreement") with PMI Mortgage Insurance Company ("PMI"), the primary operating subsidiary of The PMI Group, Inc. Under the Runoff Support Agreement, the Company would be required to pay claims on PMI policies written prior to October 28, 1994 if PMI fails certain financial covenants and fails to pay such claims. In the event any amounts are so paid, the Company would receive a commensurate amount of preferred stock or subordinated debt of The PMI Group, Inc. or PMI. The Runoff Support Agreement also restricts PMI's ability to write new business and pay dividends under certain circumstances. Management does not believe this agreement will have a material adverse effect on results of operations, liquidity or financial position of the Company.

Morgan Stanley guarantee

The Company executed a guarantee to Morgan Stanley DW, Inc. ("Morgan Stanley), related to the obligations of Northbrook Holdings, LLC ("Northbrook"), a wholly owned subsidiary of the Company under a certain Note Purchase Agreement between Northbrook and Morgan Stanley and promissory notes issued by Northbrook pursuant thereto. The balance of the notes was $77 million and $104 million at December 31, 2003 and 2002, respectively.

Allstate real estate trust guarantee

The Company has guaranteed debt issued by Allstate Real Estate Trust, an unconsolidated special purpose entity, from which it leases an office building. The lease contains a residual value guarantee for the properties covered by the lease. The maximum amount of potential future payments for the guarantee of the debt or the residual value guarantee or the combined debt and residual value guarantee was $66 million and $62 million at December 31, 2003 and 2002, respectively. The guarantee for the office building expires on December 28, 2006.

SunTrust guarantee

The Company provides residual value guarantees on Company leased automobiles under an operating lease from Sun Trust. If all outstanding leases were terminated effective December 31, 2003, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $19 million at December 31, 2003. The remaining term of each residual value guarantee is equal to the term of the underlying lease, which ranges from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

Assessments

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. The Company's policy is to accrue guaranty fund assessments based on notification of new and ongoing insolvencies received from individual state guaranty associations. At December 31, 2003 and 2002, the Company had accrued $97 million and $80 million, respectively, for future guaranty fund assessments and $32 million and $34 million, respectively, for the related premium tax offset expected to be paid. The period over which assessments are expected to be paid varies. Premium tax offsets are realized on a straight-line basis over the period allowed by each individual state once the guaranty fund assessment has been paid.

The Company is subject to assessments from the Florida Hurricane Catastrophe Fund ("FHCF"). The FHCF has the authority to issue bonds to pay its obligations to participating insurers. The bonds issued by the FHCF would be funded by assessments on all property and casualty premiums written in the state, except accident and health insurance. These assessments would be limited to 4% of the Company's Florida direct premiums written in first year of assessment, and up to a total of 6% of the Company's Florida direct premiums written in the second and subsequent years. The Company is allowed to recoup assessments through increases in policyholder rates. A rate filing or any portion of a rate change attributable entirely to an assessment would be deemed approved when made with the Florida Office of Insurance Regulation ("FL OIR"), subject to the FL OIR's statutory authority to review the adequacy of any rate at any time. Assessments in the amount of $3 million and $2 million were paid to the FHCF in 2003 and 2002, respectively.

Regulations and legal proceedings

The Company is subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to influence and restrict premium rates in a manner adverse to insurers, restrict the ability of insurers to cancel policies, limit insurers' ability to impose underwriting standards, remove barriers preventing banks from engaging in the securities and insurance businesses, change tax laws affecting the taxation of insurance companies and the tax treatment of insurance products or competing non-insurance products that may impact the relative desirability of various personal investment products and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company's business, if any, are uncertain.

As described below, the Company and certain of its subsidiaries are named as defendants in a number of lawsuits and other legal proceedings arising out of various aspects of its business. These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the timing of their resolutions relative to other similar cases brought against other companies, the fact that many of these matters are putative class actions in which the purported class is not clearly defined, the fact that many of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies.

In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought include punitive or treble damages or are not specified. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In those cases where plaintiffs have made a specific demand for monetary damages, whether to support minimum jurisdictional requirements or otherwise, it is our experience that such demands may be misleading indicators of what the ultimate loss, if any, will be to the Company.

It is not possible to make meaningful estimates of the amount or range of loss that could result from these matters. The Company reviews these matters on an on-going basis. In the opinion of the Company's management, while some of these matters may be material to the Company's operating results for any particular period if an unfavorable outcome results, none will have a material adverse effect on the consolidated financial condition of the Company.

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

There are a number of statewide and nationwide class action lawsuits pending against the Company alleging that its failure to pay “inherent diminished value” to insureds under the collision, comprehensive, uninsured motorist property damage, or auto property damage liability provisions of auto policies constitutes breach of contract and fraud. Plaintiffs define “inherent diminished value” as the difference between the market value of the insured automobile before an accident and the market value after repair. Plaintiffs allege that they are entitled to the payment of inherent diminished value under the terms of the policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. These lawsuits are pending in various state and federal courts, and they are in various stages of development. Classes have been certified in two cases. Both are multi-state class actions. A trial in one of these multi-state class action cases involving collision and comprehensive coverage concluded on April 29, 2004, with a jury verdict in favor of the Company. The Company has been vigorously defending all of these lawsuits and, since 1998, has been implementing policy language in more than 40 states reaffirming that its collision and comprehensive coverages do not include diminished value claims. The outcome of the remaining disputes is currently uncertain; 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 remaining disputes is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

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

A number of nationwide and statewide putative class actions are pending against the Company, which challenge the Company'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 the Company has been vigorously defending them, but the outcome of these disputes is currently uncertain.

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

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a number of putative class actions and one certified class action challenging the overtime exemption claimed by the Company under the Fair Labor Standards Act or state wage and hour laws. Plaintiffs seek monetary relief, such as penalties and liquidated damages, and non-monetary relief, such as injunctive relief and an accounting. These class actions mirror similar lawsuits filed recently against other carriers in the industry and other employers. A putative nationwide class action filed by former employee agents also includes a worker classification issue; these agents are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. The Company has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is also defending certain matters relating to the Company's agency program reorganization announced in 1999. These matters include an investigation by the U.S. Department of Labor, a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") alleging retaliation under federal civil rights laws and a class action filed in August 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act, breach of contract and ERISA violations. In April 2004, the U.S. Department of Labor notified the Company that it has closed its investigation and contemplates no further action on this matter at this time. In March 2004, in the EEOC and class action lawsuits, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release for purposes of effecting the court's declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to the Company “any and all benefits received by the [agent] in exchange for signing the release.” The court also “concluded that, on the undisputed facts of record, there is no basis for claims of age discrimination.” The EEOC and plaintiffs have asked the court to clarify and/or reconsider its memorandum and order. The case otherwise remains pending. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA. This matter was dismissed with prejudice in March 2004 by the trial court but will be the subject of further proceedings, which may include appeals. In these matters, plaintiffs seek compensatory and punitive damages, and equitable relief. The Company has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, the Company is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the EEOC with respect to allegations of age discrimination and retaliation. The Company is cooperating fully with the agency investigation and will continue to vigorously defend these and other claims related to the life agency program reorganization. The outcome of these disputes is currently uncertain.

The Company is defending various lawsuits and regulatory proceedings that allege that it engaged in business or sales practices inconsistent with state or federal law. Plaintiffs seek a variety of remedies including monetary and equitable relief. The Company has been vigorously defending these matters, but their outcome is currently uncertain.

Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts. This litigation is based on a variety of issues including insurance and claim settlement practices. The outcome of these disputes is currently unpredictable. 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.

13. Leases

The Company leases certain office facilities and computer equipment. Total rental expense for all leases was $349 million and $433 million in 2003 and 2002, respectively.

At January 1, 2004, the minimum aggregate rental commitments under noncancelable operating leases with an initial or remaining term of more than one year as of December 31, 2003 are as follows:

(in millions)	
2004	$ 234
2005	179
2006	123
2007	93
2008	72
Thereafter	152
Total	$ 853

During 2002, the Company entered into a transaction whereby it sold computer equipment to Meridian Leasing Corporation. Simultaneously, the Company entered into a three-year noncancelable agreement to lease the computer equipment back for $32 thousand a month. The lease agreement contains provisions for the Company to repurchase the computer equipment or extend the lease at the end of its term. The transaction described above was not accounted for as a deposit.

14. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

Transfer and servicing of financial assets

The Company entered into securities lending agreements using U.S. Treasury bonds, corporate bonds and domestic and foreign equities in 2003 and 2002. Securities lent were either specifically identified by the lending bank or segregated into a separate custody account. The amounts on loan were $1.21 billion and $1.39 billion at December 31, 2003 and 2002, respectively.

Wash sales

In the course of managing the Company's investment portfolio, securities are sold and reacquired within 30 days of the sale date. This practice is referred to as wash sales. The details, by NAIC designation 3 or below, of bonds and preferred stock sold during 2003 and 2002 and reacquired within 30 days of the sale date were:

	2003			
($ in millions)	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Gain/ (Loss)
Bonds				
NAIC 3	3	$ 1	$ 1	$ -
NAIC 4	7	11	12	(1)
NAIC 5	3	2	2	-
Preferred Stocks				
NAIC P4	1	-	-	-

	2002			
($ in millions)	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Gain/ (Loss)
Bonds				
NAIC 3	8	$ 5	$ 6	$ (1)
NAIC 4	14	11	24	(13)
NAIC 5	-	-	-	-
Preferred Stocks				
NAIC P4	-	-	-	-

15. Reinsurance

Unsecured reinsurance recoverables

The Company had unsecured reinsurance recoverables of $561 million and $589 million at December 31, 2003 and 2002, respectively, with the Michigan Catastrophic Claim Association (NAIC Group Code 00000, FEIN AA-9991159). The Company had no other unsecured reinsurance recoverables that exceeded 3% of the Company's unassigned surplus at December 31, 2003 or 2002.

Reinsurance assumed and ceded

The maximum amount of return commission which would have been due to reinsurers if they or the Company had canceled all of the Company's reinsurance or if the Company or a reinsurer had canceled all the Company's insurance assumed as of December 31 with the return of unearned premium reserve was as follows:

(in millions)	2003					
	Assumed Reinsurance Premium Reserve	Assumed Reinsurance Commission Equity	Ceded Reinsurance Premium Reserve	Ceded Reinsurance Commission Equity	Net Premium Reserve	Net Commission Equity
Affiliates	$ -	$ -	$ -	$ -	$ -	$ -
All other	814	137	(125)	(18)	689	119
Total	$ 814	$ 137	$ (125)	$ (18)	$ 689	$ 119

Direct unearned premiums at December 31, 2003 were: $7.26 billion

(in millions)	2002					
	Assumed Reinsurance Premium Reserve	Assumed Reinsurance Commission Equity	Ceded Reinsurance Premium Reserve	Ceded Reinsurance Commission Equity	Net Premium Reserve	Net Commission Equity
Affiliates	$ -	$ -	$ -	$ -	$ -	$ -
All other	810	122	(105)	(16)	705	106
Total	$ 810	$ 122	$ (105)	$ (16)	$ 705	$ 106

Direct unearned premiums at December 31, 2002 were: $6.79 billion

Uncollectible reinsurance

The Company wrote off reinsurance balances for incurred losses of $10 million and $168 thousand in 2003 and 2002, respectively. In 2003, $8 million and $2 million of the write-offs were attributable to reinsurance with Fremont Indemnity Company and Home Insurance Company, respectively. In 2002, $161 thousand and $7 thousand of the write-offs were attributable to reinsurance with Daiichi Mutual Fire and Marine Insurance Company and Folksam International Insurance, respectively.

Commutation of ceded reinsurance

In 2003, the Company reported an adjustment to incurred losses of $2 million as a result of the commutation of reinsurance with New England Reinsurance Corporation ($2 million).

In 2002, the Company reported an adjustment to incurred losses of $926 thousand as a result of the commutation of reinsurance with Taisei Fire and Marine Insurance Company, Limited ($748 thousand), First Capital/Public Insurance Company ($176 thousand) and Central Reinsurance Corporation ($2 thousand).

Retroactive reinsurance

The Company entered into an Assumption and Indemnity Retrocession Agreement with SCOR.

(in millions)		2003		2002
a. Reserves transferred:				
1. Initial reserves	$	411	$	411
2. Adjustments – prior years		(351)		(354)
3. Adjustments – current year		(3)		3
4. Current total	$	57	$	60
b. Consideration paid	$	348	$	348
c. Paid losses reimbursed or recovered	$	-	$	-
d. Special surplus from retroactive reinsurance				
1. Initial surplus gain or loss	$	63	$	63
2. Adjustments – prior years		(3)		(6)
3. Adjustments – current year		(3)		3
4. Current year restricted surplus	$	57	$	60
Cumulative total transferred to unassigned surplus	$	-	$	-

SCOR (NAIC number 30058) was the only cedant involved in all the transactions included in the summary totals above.

Reinsurance accounted for as a deposit

On October 1, 1999, the Company completed the acquisition of the personal lines business from CNA Financial Corporation (“CNA”). The transaction included, among other things, an indemnity reinsurance agreement and a reserve agreement. The reserve agreement guaranteed the adequacy, in all material respects, of the loss reserves transferred by CNA under the indemnity reinsurance agreement. The Company used deposit accounting to account for the indemnity reinsurance agreement, as the portion of the indemnity reinsurance agreement governing the transfer of the loss reserves did not, despite its form, transfer both components of insurance risk. In accordance with the requirements of deposit accounting, an initial asset deposit of $1.03 billion was recorded. The inception-to-date payments for this agreement totaled $1.01 billion and $946 million at December 31, 2003 and 2002, respectively. In 2003, an additional $50 million was recognized as being due to the Company under the reinsurance agreement. The balance of the reserves on deposit was $68 million and $89 million at December 31, 2003 and 2002, respectively.

16. Retrospectively Rated Contracts

The Company estimated accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing the known loss development, including incurred but not reported (“ IBNR”), with that anticipated in the policy contract to arrive at the best estimate of returned or additional retrospective premium. The Company recorded accrued retrospective premium as an adjustment to earned premiums.

The amount of net premiums written by the Company subject to retrospective rating features was $(93) thousand and $152 thousand, respectively, for the years ending December 31, 2003 and 2002. In both 2003 and 2002, the net premiums written by the Company subject to retrospective rating features represented less than one half of one percent of the total net premiums written by the Company.

The Company nonadmitted ten percent of the amount of accrued retrospective premiums not offset by retrospective return premiums, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as permitted by SSAP No. 66, Retrospectively Rated Contracts, as follows:

(in millions)	2003	2002
a. Total accrued retro premiums	$ 7	$ 5
b. Unsecured amount	5	2
c. Less: Nonadmitted amount (10%)	-	-
d. Less: Nonadmitted for any person for whom agents' balances or uncollected premiums are nonadmitted	1	1
e. Admitted amount (a) – (c) – (d)	$ 6	$ 4

17. Changes in Incurred Losses and Loss Adjustment Expenses

As described in Note 2, the Company establishes reserves for losses and loss adjustment expenses on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretations of circumstances and internal factors including the Company's experience with similar cases, historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, loss management programs and product mix. In addition, the reserve estimates are influenced by external factors including law changes, court decisions, changes to regulatory requirements, economic conditions, and public attitudes. The Company, in the normal course of business, may also supplement its claim processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Reserves are estimates of losses that have occurred, including IBNR losses, making the establishment of appropriate reserves, including reserves for catastrophes, an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determinable.

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for 2003 and 2002:

(in millions)	2003	2002
Balance at January 1	$ 13,323	$ 13,272
Incurred related to:		
Current year	15,494	15,681
Prior years	473	700
Total incurred	15,967	16,381
Paid related to:		
Current year	9,554	9,871
Prior years	5,742	6,459
Total paid	15,296	16,330
Balance at December 31	$ 13,994	$ 13,323

Incurred losses and loss adjustment expenses attributable to insured events of prior years were $473 million and $700 million as a result of the reestimation of unpaid losses and loss adjustment expenses for the years ending December 31, 2003 and 2002, respectively. For the year ended December 31, 2003 the incurred loss and loss adjustment expense related to prior years was primarily due to higher than expected losses for asbestos exposures partially offset by favorable development in auto liability coverages. The increase in 2002 was primarily due to upward development of homeowners losses resulting from claim severity inflation and late reported loss development that was greater than anticipated in previous reserve estimates, including losses related to mold claims in Texas, and the reestimation of liabilities for asbestos, environmental and other mass tort exposures.

Anticipated salvage and subrogation of $598 million and $646 million was included as a reduction of loss reserves at December 31, 2003 and 2002, respectively.

18. Structured Settlements

To settle certain claims, the Company purchased annuities from various life insurers where the claimant was the payee and the Company remained contingently liable in the event the issuer of the annuity was unable to perform. The aggregate amount due from life insurers at December 31, 2003 and 2002 was $372 million and $361 million, respectively.

There was only one instance where the total value of all annuities due from a life insurer either equaled or exceeded 1% of the Company's policyholder surplus at December 31. The statement value (i.e. present value) of annuities due from ALIC was $259 million in both 2003 and 2002. This affiliated life insurer is licensed in the Company's state of domicile.

19. High Deductibles

At December 31, 2003 and 2002, the amount of reserve credit recorded for high deductibles on unpaid claims was $398 thousand and $312 thousand, respectively. The amount billed and recoverable on paid claims was $49 thousand and $176 thousand at December 31, 2003 and 2002, respectively.

20. Environmental and Asbestos Reserves

Reserves for environmental and asbestos claims were an accumulation of the estimated amounts necessary to settle all outstanding claims, including claims that have been incurred but not reported as of the reporting date. These reserve estimates were 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 and pending levels of unpaid claims. In addition, the reserve estimates were also influenced by external factors including court decisions, economic conditions and public attitudes.

The Company's exposure to asbestos and environmental claims arises principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large United States companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on Fortune 500 companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s.

In 1986, the general liability policy form used by the Company 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. General liability policies issued in 1987 and thereafter contain annual aggregate limits for all coverages. The Company's experience to date has been that these policy form changes have limited the extent of our exposure to environmental and asbestos claim risks.

The Company's exposure to liability for asbestos and environmental losses manifests differently depending on whether it arises from assumed reinsurance, direct excess insurance or direct primary commercial insurance. The direct insurance coverage the Company provided for these exposures was substantially "excess" in nature.

Direct excess insurance, and reinsurance, involve coverage written by the Company for specific layers of protection above retentions and other insurance plans. The nature of excess coverage and reinsurance provided to other insurers limits the Company's exposure to loss to specific layers of protection in excess of policyholder retention or primary insurance plans. Our exposure is further limited by the significant reinsurance that we have purchased on our excess business.

The Company's assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which the Company participates may be a proportion of all eligible losses or eligible losses in excess of defined retentions.

Liability for actual and potential asbestos losses has caused a number of companies to file for bankruptcy protection. The Company has pending claims related to excess policies issued to five large asbestos manufacturers that have filed for bankruptcy protection, and have not resolved payment plans within the bankruptcies. Reserves related to liability for these companies, whose claims are still in the process of adjudication, are appropriately established based on claims that have occurred and other related information.

The process of adjudicating claims in the asbestos bankruptcies is lengthy and involves, among other factors, filing notices of claim by all current claimants, estimating the number and cost of resolving pre-petition and post-petition claims, negotiations among the various creditor groups and the debtors and, if necessary, evidentiary hearings by the bankruptcy court. Management will continue to monitor the relevant bankruptcies.

The Company's exposure, if any, to bankruptcies of major asbestos manufacturers, including any currently in bankruptcy, would also arise if assumed reinsurance was written for an insurer providing insurance protection to a major asbestos manufacturer, and then only in proportion to the Company's participation share. The Company assesses its potential liability to each of its reinsurance programs and adjusts reserves accordingly based on its knowledge of the losses of each reinsured exposure.

Establishing net loss reserves for environmental and asbestos claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, evolving and expanding theories of liability, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements and estimating the extent and timing of any contractual liability, and other uncertainties. There are complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses were deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future, and the ultimate cost may vary materially from the amounts currently recorded resulting in an increase in loss reserves.

The table below summarizes the Company's reserve and claim activity for asbestos claims before (gross) and after (net) the effects of ceded reinsurance.

(in millions)	**2003**	**2002**
Gross of Ceded Reinsurance		
Beginning reserves	$ 902	$ 926
Incurred losses and loss adjustment expenses	799	180
Calendar year payments for losses and loss adjustment expenses	121	204
Ending reserves	$ 1,580	$ 902
	2003	**2002**
Net of Ceded Reinsurance		
Beginning reserves	$ 634	$ 673
Incurred losses and loss adjustment expenses	519	121
Calendar year payments for losses and loss adjustment expenses	77	160
Ending reserves	$ 1,076	$ 634

Ending reserves at December 31, 2003 presented in the table above included IBNR reserves of $906 million gross of ceded reinsurance and $657 million net of ceded reinsurance. Ending reserves at December 31, 2002 presented in the table above included IBNR reserves of $480 million gross of ceded reinsurance and $358 million net of ceded reinsurance.

Ending reserves at December 31, 2003 presented in the table above included reserves for allocated loss adjustment expenses (including coverage dispute costs) of $250 million gross of ceded reinsurance and $153 million net of ceded reinsurance. Ending reserves at December 31, 2002 presented in the table above included reserves for allocated loss adjustment expenses (including coverage dispute costs) of $110 million gross of ceded reinsurance and $70 million net of ceded reinsurance.

The table below summarizes the Company's reserve and claim activity for environmental claims before (gross) and after (net) the effects of reinsurance.

(in millions)	2003	2002
Gross of Ceded Reinsurance		
Beginning reserves	$ 388	$ 439
Incurred losses and loss adjustment expenses	(1)	32
Calendar year payments for losses and loss adjustment expenses	76	83
Ending reserves	$ 311	$ 388

	2003	2002
Net of Ceded Reinsurance		
Beginning reserves	$ 300	$ 339
Incurred losses and loss adjustment expenses	2	23
Calendar year payments for losses and loss adjustment expenses	49	62
Ending reserves	$ 253	$ 300

Ending reserves at December 31, 2003 presented in the table above included IBNR reserves of $176 million gross of ceded reinsurance and $139 million net of ceded reinsurance. Ending reserves at December 31, 2002 presented in the table above included IBNR reserves of $187 million gross of ceded reinsurance and $143 million net of ceded reinsurance.

Ending reserves at December 31, 2003 presented in the table above included reserves for allocated loss adjustment expenses (including coverage dispute costs) of $50 million gross of ceded reinsurance and $44 million net of ceded reinsurance. Ending reserves at December 31, 2002 presented in the table above included reserves for allocated loss adjustment expenses (including coverage dispute costs) of $54 million gross of ceded reinsurance and $46 million net of ceded reinsurance.

21. Software and Electronic Data Processing ("EDP") Equipment

Effective January 1, 2002, the Company adopted SSAP No. 82, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs ("SSAP No. 82"). SSAP No. 82 requires internal and external costs incurred to develop internal-use computer software and web sites during the application development stage and infrastructure stage to be capitalized and costs incurred during the preliminary project stage and post-implementation/operation stage be expensed as incurred. Amortization guidelines outlined in Codification are applicable for all operating and non-operating software. The adoption of SSAP No. 82 had no impact to surplus because the entire amount of costs capitalized, $173 million, were nonadmitted. The ongoing impact of the adoption of SSAP No. 82 will be increased depreciation expense. For the year ending December 31, 2002, depreciation expense increased $23 million, after intercompany allocations and reinsurance due to the adoption of SSAP No. 82.

Internally developed software consisted of the following at December 31:

(in millions)	2003	2002
Adoption of SSAP 82:		
Costs capitalized		$ 214
Accumulated depreciation		(41)
January 1, beginning balance	$ 153	173
Capitalized cost	9	25
Depreciation	(43)	(45)
December 31, ending balance	$ 119	$ 153

EDP equipment is carried at cost less accumulated depreciation and included in other assets. Depreciation expense is computed using the straight-line method over the lesser of its estimated useful life or three years. Non-operating systems software is a nonadmitted asset, which is depreciated on a straight-line basis over the lesser of the software's useful life or five years. The Company had no operating systems software capitalized at December 31, 2003 or 2002.

EDP equipment consisted of the following at December 31:

(in millions)	2003	2002
Cost	$ 274	$ 269
Accumulated depreciation	(226)	(224)
Balance, net	$ 48	$ 45

Depreciation and amortization expense related to EDP equipment and non-operating systems software totaled $63 million and $62 million at December 31, 2003 and 2002, respectively.

22. Other Items

Balances reasonably possible to be uncollectible

Premiums receivable are recorded net of the allowance for uncollectible amounts less than 90 days old. The allowance is determined based on the age of the receivable and prior collection experience. The Company routinely assesses the collectibility of its premium receivables. Premium receivables older than 90 days are nonadmitted. The allowance balance for admitted premium installment receivables, after reinsurance, was $15 million and $21 million at December 31, 2003 and 2002, respectively.

September 11 events

In 2003, the Company did not recognize any catastrophe losses related to the September 11, 2001 attack on the World Trade Center in New York City, the Pentagon in Washington D.C., and the plane crash in Pennsylvania. In 2002, the Company recognized $2 million of pre-tax catastrophe losses, net of reinsurance, related to the attack. Management does not expect any future contingencies or unpaid claims or losses related to these events to have a material impact on the Company’s financial statements.

Noncash transactions

The Company reported the following noncash investing activities within its Statements of Cash Flows for the years ended December 31:

(in millions)	2003	2002
Proceeds from investments sold, matured or repaid	$ 282	$ 368
Cost of investments acquired	281	362

The Company did not have any noncash financing activities within its Statements of Cash Flows for the years ended December 31, 2003 or 2002.

COMBINED STATUTORY-BASIS SUPPLEMENTAL SCHEDULE OF INVESTMENT RISKS INTERROGATORIES DECEMBER 31, 2003

OF The (Name). Allstate Insurance Company and Combined US Domiciled Property and Casualty Insurance Subsidiaries.
Address (City, State and Zip Code) …Northbrook, IL 60062…………………………………………………….
NAIC Group Code …008… NAIC Company Code …19232. Employer's ID Number …36-0719665………

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by stating the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1 through 4, 11, 13 through 17, 19 and if applicable, 20 through 24. Answer each of interrogatories 5 through 10 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 4 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 12 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 11 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 18 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 17 equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts. For Property Casualty blank, responses are to exclude Protected Cell Accounts.

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement. $42,698,000,000...

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the Company, and policy loans.

	Investment Category		Amount	Percentage of Total Admitted Assets
2.01	Common Stock – Allstate Life Insurance Company	$	3,478,077,725	8.1%
2.02	Common Stock – Allstate New Jersey Holdings, Inc.	$	691,496,388	1.6%
2.03	Common Stock – Allstate Holdings, Inc.	$	626,904,321	1.5%
2.04	Common Stock – Allstate Insurance Company of Canada	$	309,036,871	0.7%
2.05	Long Term Bonds – IL Health Fac	$	164,140,845	0.4%
2.06	Long Term Bonds – Jefferson County AL Wtr Works	$	148,148,756	0.3%
2.07	Long Term Bonds – New Jersey Transit Trust Fd Auth	$	143,198,076	0.3%
2.08	Long Term Bonds – Chicago IL Brd of ED GO Sch Reform	$	142,616,212	0.3%
2.09	Long Term Bonds – WA St GO	$	118,059,589	0.3%
2.10	Long Term Bonds – Long Island Pwr Auth NY Elec Sys	$	111,947,666	0.3%

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds		1	2		Preferred stocks		1	2
3.01	NAIC-1	$	22,930,105,053	53.7%	3.07	P/ RP-1	$	278,142,505	0.7%
3.02	NAIC-2	$	2,478,704,873	5.8%	3.08	P/RP-2	$	72,729,610	0.2%
3.03	NAIC-3	$	619,334,437	1.5%	3.09	P/RP-3	$	16,736,352	0.0%
3.04	NAIC-4	$	487,721,994	1.1%	3.10	P/RP-4	$	6,359,320	0.0%
3.05	NAIC-5	$	286,046,391	0.7%	3.11	P/RP-5	$	2,281,440	0.0%
3.06	NAIC-6	$	49,668,005	0.1%	3.12	P/RP-6	$	0.00	0.0%

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 – Derivative Instruments and SSAP No. 86 – Derivative Instruments), including (4.01) foreign-currency-denominated investments of $0.00; 0.00% (4.02) supporting insurance liabilities denominated in that same foreign currency of $ 000; 0.00% and excluding (4.03) Canadian investments and currency exposure of $000; 0.00%

   Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 5 – 10. (4.04)………………………………………………………….Yes [X] No [ ]

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

			1	2
5.01	Countries rated NAIC – 1	$	-	-%
5.02	Countries rated NAIC – 2	$	-	-%
5.03	Countries rated NAIC – 3 or below	$	-	-%

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

			1	2
	Countries rated NAIC – 1			
6.01	Country:	$	-	-%
6.02	Country:	$	-	-%
	Countries rated NAIC – 2			
6.03	Country:	$	-	-%
6.04	Country:	$	-	-%
	Countries rated NAIC – 3 or below			
6.05	Country:	$	-	-%
6.06	Country:	$	-	-%

7. Aggregate unhedged foreign currency exposure

	1	2
$	-	-%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

			1	2
8.01	Countries rated NAIC – 1	$	-	-%
8.02	Countries rated NAIC – 2	$	-	-%
8.03	Countries rated NAIC – 3 or below	$	-	-%

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

			1	2
	Countries rated NAIC – 1			
9.01	Country:	$	-	-%
9.02	Country:	$	-	-%
	Countries rated NAIC – 2			
9.03	Country:	$	-	-%
9.04	Country:	$	-	-%
	Countries rated NAIC – 3 or below			
9.05	Country:	$	-	-%
9.06	Country:	$	-	-%

10. List the 10 largest non-sovereign (i.e. non-governmental) foreign issues:

	1 NAIC Rating	2	3
10.01		$ -	-%
10.02		$ -	-%
10.03		$ -	-%
10.04		$ -	-%
10.05		$ -	-%
10.06		$ -	-%
10.07		$ -	-%
10.08		$ -	-%
10.09		$ -	-%
10.10		$ -	-%

11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of (11.01) $298,981,436; 0.07% supporting Canadian-denominated insurance liabilities of (11.02) $0.00; 0.00%

    Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. (11.03) ……………………………………………………………Yes [X] No [ ]

12. Aggregate Canadian Investment exposure.

		1	2
12.01	Canadian investments	$ -	-%
12.02	Unhedged Canadian currency exposure	$ -	-%

13. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

    Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13. ………………………………….Yes [X] No [ ]

	1	2	3
13.01	Aggregate statement value of investments with contractual sale restrictions	$ -	-%
	Largest 3 investments with contractual sales restrictions:		
13.02		$ -	-%
13.03		$ -	-%
13.04		$ -	-%

14. State the aggregate amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to SVO Practices and Procedures Manual as exempt or Class 1).

    Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 14. ……………………………………………………………………………Yes [ ] No [X]

	1 Investment Category		2	3
14.01	Common Stock – Allstate Life Insurance Company	$	3,478,077,725	8.1%
14.02	Common Stock – Allstate New Jersey Holdings, Inc.	$	691,496,388	1.6%
14.03	Common Stock – Allstate Holdings, Inc.	$	626,904,321	1.5%
14.04	Common Stock – Allstate Insurance Company of Canada	$	309,036,871	0.7%
14.05	Common Stock – Ivantage Group, LLC.	$	92,696,424	0.2%
14.06	Common Stock – General Electric	$	88,828,954	0.2%
14.07	Common Stock – Microsoft Corp.	$	85,055,012	0.2%
14.08	Common Stock – Pfizer, Inc.	$	81,328,070	0.2%
14.09	Common Stock – Citigroup Inc.	$	69,762,319	0.2%
14.10	Common Stock – Exxon Mobil Corporation	$	67,990,628	0.2%

15. State the amounts and percentages of the entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

    Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. ……………………………………………….Yes [X] No [ ]

	1		2	3
15.01	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	-	-%
	Largest 3 investments held in nonaffiliated, privately placed equities:			
15.02			-	-%
15.03			-	-%
15.04			-	-%

16. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities).

    Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 16. ……………………………………………………….Yes [X] No [ ]

	1		2	3
16.01	Aggregate statement value of investments held in general partnership interests	$	-	-%
	Largest 3 investments held in general partnership interests:			
16.02		$	-	-%
16.03		$	-	-%
16.04		$	-	-%

17. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held.

    Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 17 and 18. ……………………..………………………………..Yes [X] No [ ]

    Each of the 10 largest aggregate mortgage interests. The aggregate mortgage interest represents the combined value of all mortgages secured by the same property or same group of properties:

	1 Type (Residential, Commercial, Agricultural)		2	3
17.01		$	-	-%
17.02		$	-	-%
17.03		$	-	-%
17.04		$	-	-%
17.05		$	-	-%
17.06		$	-	-%
17.07		$	-	-%
17.08		$	-	-%
17.09		$	-	-%
17.10		$	-	-%

18. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

			Residential				Commercial				Agricultural		
	Loan-to-Value		1	2			3	4			5	6	
18.01	above 95%	$	-	-	%	$	-	-	%	$	-	-	%
18.02	91% to 95%	$	-	-	%	$	-	-	%	$	-	-	%
18.03	81% to 90%	$	-	-	%	$	-	-	%	$	-	-	%
18.04	71% to 80%	$	-	-	%	$	-	-	%	$	-	-	%
18.05	below 70%	$	-	-	%	$	-	-	%	$	-	-	%

			1	2
18.06	Construction loans	$	-	-%
18.07	Mortgage loans over 90 days past due	$	-	-%
18.08	Mortgage loans in the process of foreclosure	$	-	-%
18.09	Mortgage loans foreclosed	$	-	-%
18.10	Restructured mortgage loans	$	-	-%

19. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the Company.

Assets held in each of the five largest investment in one parcel or group of contiguous parcels of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 19. ……………………………………………………………………….Yes [X] No [ ]

	1		2	3
19.01		$	-	-%
19.02		$	-	-%
19.03		$	-	-%
19.04		$	-	-%
19.05		$	-	-%

b. 20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

COMBINED STATUTORY-BASIS SUPPLEMENTAL SCHEDULE OF INVESTMENT RISKS INTERROGATORIES
DECEMBER 31, 2003

		At Year-end		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 1,212,543,571	0.03%	$ 1,479,480,255	$ 1,137,627,970	$ 1,255,912,865
20.02	Repurchase agreements	$	-%	$	$	$
20.03	Reverse repurchase agreements	$	-%	$	$	$
20.04	Dollar repurchase agreements	$	-%	$	$	$
20.05	Dollar reverse repurchase agreements	$ 617,830,823	-%	$ 565,229,886	$ 554,798,683	$ 589,206,418

c. 21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$ -	- %	$ -	- %
21.02	Income generation	$ -	- %	$ -	- %
21.03	Other	$ -	- %	$ -	- %

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards:

		At Year-end		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
22.01	Hedging	$ -	-%	$ -	$ -	$ -
22.02	Income generation	$ -	-%	$ -	$ -	$ -
22.03	Replications	$ -	-%	$ -	$ -	$ -
22.04	Other	$ -	-%	$ -	$ -	$ -

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement instructions) for futures contracts:

		At Year-end		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
23.01	Hedging	$ 7,753,500	-%	$ 3,591,000	$ 3,810,750	$ 8,386,000
23.02	Income generation	$ -	-%	$ -	$ -	$ -
23.03	Replications	$ -	-%	$ -	$ -	$ -
23.04	Other	$ -	-%	$ -	$ -	$ -

24. State the amounts and percentages of the 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule.

	1		2	3	
24.01	Security Lending Principal	$	25,458,692	0.1	%
24.02		$	-	-	%
24.03		$	-	-	%
24.04		$	-	-	%
24.05		$	-	-	%
24.06		$	-	-	%
24.07		$	-	-	%
24.08		$	-	-	%
24.09		$	-	-	%
24.10		$	-	-	%

COMBINED STATUTORY-BASIS SUPPLEMENTAL SUMMARY OF INVESTMENT SCHEDULE
DECEMBER 31, 2003

(in millions) **Investment Categories**	**Gross Investment Holdings***	**Admitted Assets as Reported in the Annual Statement**
Bonds:		
U.S. Treasury securities	$ 579	$ 579
U.S. government agency and corporate obligations (excluding mortgage-backed securities):		
Issued by U.S. government agencies	-	-
Issued by U.S. government sponsored agencies	110	110
Foreign government (including Canada, excluding mortgage-backed securities)	101	101
Securities issued by states, territories and possessions and political subdivisions in the U.S.:		
States, territories and possessions general obligations	1,043	1,043
Political subdivisions of states, territories and possessions and political subdivisions general obligations	12,308	12,308
Revenue and assessment obligations	3,984	3,984
Industrial development and similar obligations	875	875
Mortgage-backed securities (includes residential and commercial MBS):		
Pass-through securities:		
Guaranteed by GNMA	224	224
Issued by FNMA and FHLMC	1,791	1,791
Privately issued	-	-
CMOs and REMICs:		
Issued by FNMA and FHLMC	125	125
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC	-	-
All other privately issued	9	9
Other debt and other fixed income securities (excluding short-term):		
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	4,422	4,422
Unaffiliated foreign securities	634	634
Affiliated securities	-	-
Equity interests:		
Investments in mutual funds	2	2
Preferred stocks:		
Affiliated	45	45
Unaffiliated	331	331
Publicly traded equity securities (excluding preferred stocks):		
Affiliated	-	-
Unaffiliated	4,079	4,079
Other equity securities:		
Affiliated	5,146	5,146
Unaffiliated	-	-
Other equity interests including tangible personal property under lease:		
Affiliated	-	-
Unaffiliated	-	-

* Valuation of gross investment holdings are in compliance with the *NAIC Accounting Practices and Procedures Manual*.

ALLSTATE INSURANCE COMPANY AND COMBINED, U. S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINED STATUTORY-BASIS SUPPLEMENTAL SUMMARY OF INVESTMENT SCHEDULE
YEAR ENDED DECEMBER 31, 2003

(in millions) **Investment Categories**		**Gross Investment Holdings***		**Admitted Assets as Reported in the Annual Statement**
Mortgage loans:				
Construction and land development	$	-	$	-
Agricultural		-		-
Single family residential properties		-		-
Multifamily residential properties		-		-
Commercial loans		64		64
Mezzanine real estate loans		-		-
Real estate investments:				
Property occupied by the company		340		340
Property held for the production of income (includes $___ of property acquired in satisfaction of debt)		-		-
Property held for sale ($___ including property acquired in satisfaction of debt)		-		-
Contract loans		-		-
Receivables for securities		23		23
Cash and short-term investments		20		20
Other invested assets		448		448
Total invested assets	$	36,703	$	36,703

* Valuation of gross investment holdings are in compliance with the NAIC *Accounting Practices and Procedures Manual*.

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINING STATUTORY-BASIS STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003

(in millions) ADMITTED ASSETS	Combined	Intercompany Eliminations/ Reclasses	Allstate Insurance Company	Allstate Indemnity Company	Allstate Property and Casualty Insurance Company	Deerbrook Insurance Company	Allstate Texas Lloyd's	Allstate County Mutual Insurance Company	Allstate Fire and Casualty Insurance Company	Allstate North American Insurance Company	Encompass Indemnity Company
Bonds (NAIC fair value $27,857)	26,205		25,972	97	19	29	3	–	15	11	16
Preferred stocks											
Unaffiliated companies (NAIC fair value: $336)	331	–	331	–	–	–	–	–	–	–	–
Uncombined subsidiaries and affiliates (fair value: $45)	45	–	45	–	–	–	–	–	–	–	–
Common stocks											
Unaffiliated companies (cost: $2,960)	4,081	–	4,081	–	–	–	–	–	–	–	–
Uncombined subsidiaries and affiliates (cost: $2,309)	5,146	(301) (A)	5,389	–	–	–	–	–	–	–	–
Total preferred and common stocks	9,603	(301)	9,846	–	–	–	–	–	–	–	–
Mortgage loans on real estate	64	–	64	–	–	–	–	–	–	–	–
Real estate	340	–	340	–	–	–	–	–	–	–	–
Cash, cash equivalents and short-term investments	20	–	9	2	1	1	–	2	1	–	2
Other invested assets	471	–	471	–	–	–	–	–	–	–	–
Subtotals, cash and invested assets	36,703	(301)	36,702	99	20	30	3	2	16	11	18
Investment income due and accrued	477	(3) (C)	476	2	–	1	–	–	–	–	–
Premiums and considerations	3,611	–	3,611	–	–	–	–	–	–	–	–
Reinsurance	116		113	3	–	–	–	–	–	–	–
Net deferred tax asset	1,037	–	1,036	–	–	–	–	–	–	–	1
Receivables from parent, subsidiaries and affiliates	465	(3) (B)	468	–	–	–	–	–	–	–	–
Other assets	289	–	285	–	–	–	–	–	–	–	4
Total	$ 42,698	$ (307)	$ 42,691	$ 104	$ 20	$ 31	$ 3	$ 2	$ 16	$ 11	$ 23 $

Continued on page 49

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINING STATUTORY-BASIS STATEMENTS OF FINANCIAL POSITION - CONTINUED
DECEMBER 31, 2003

(in millions except for par value and share data) LIABILITIES	Combined	Intercompany Eliminations/ Reclasses	Allstate Insurance Company	Allstate Indemnity Company	Allstate Property and Casualty Insurance Company	Deerbrook Insurance Company	Allstate Texas Lloyd's	Allstate County Mutual Insurance Company	Allstat Fire an Casual Insuran Compa
Losses and loss adjustment expenses	$ 13,994	$ –	$ 13,990	$ –	$ –	$ –	$ –	$ –	$
Commissions payable, contingent commissions and other similar charges	1,517	–	1,517	–	–	–	–	–	
Taxes, licenses and fees	215	–	215	–	–	–	–	–	
Current federal and foreign income taxes	219	–	218	1					
Borrowed money	619	–	619	–	–	–	–	–	
Unearned premiums	7,939	–	7,939	–	–	–	–	–	
Advance premiums	254	–	254	–	–	–	–	–	
Securities lending	1,213	–	1,213	–	–	–	–	–	
Accounts payable	312	–	312						
Other liabilities	313	(6) (B)	314	3					
Total liabilities	26,595	(6)	26,591	4	–	–	–	–	
COMMITMENTS AND CONTINGENCIES (Note 12)									
CAPITAL AND SURPLUS									
Common capital stock ($100 par value; 42,000 shares authorized, issued and outstanding)	4	(39) (A)	4	4	4	5	–	–	
Gross paid in and contributed surplus	2,166	(153) (A)	2,165	2	6	16	–	–	
Unassigned funds (surplus)	13,876	(107) (A)	13,874	94	10	10	1	2	
Special surplus funds	57	(2) (A)	57	–	–	–	2	–	
Surplus as regards policyholders	16,103	(301)	16,100	100	20	31	3	2	
Totals	$ 42,698	$ (307)	$ 42,691	$ 104	$ 20	$ 31	$ 3	$ 2	$

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINING STATUTORY-BASIS STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2003

(in millions)	Combined	Intercompany Eliminations/ Reclasses	Allstate Insurance Company	Allstate Indemnity Company	Allstate Property and Casualty Insurance Company	Deerbrook Insurance Company	Allstate Texas Lloyd's	Allstate County Mutual Insurance Company	Allstate Fire and Casualty Insurance Company
Premiums earned	$ 22,525	$ –	$ 22,525	$ –	$ –	$ –	$ –	$ –	$ –
Losses incurred	13,292	–	13,292	–	–	–	–	–	–
Loss expenses incurred	2,675	–	2,675	–	–	–	–	–	–
Other underwriting expenses incurred	5,733	–	5,733	–	–	–	–	–	–
Total underwriting deductions	21,700	–	21,700	–	–	–	–	–	–
Net underwriting gain or (loss)	825	–	825	–	–	–	–	–	–
Net investment income earned (net of expenses of $91)	1,772	(3) (C)	1,758	6	1	2	–	–	1
Net realized capital gains or (losses)	272	–	271	1	–	–	–	–	–
Net investment gain or (loss)	2,044	(3)	2,029	7	1	2	–	–	1
Total other income	247	–	247	–	–	–	–	–	–
Net income, after dividends to policyholders but before federal and foreign income taxes	3,116	(3)	3,101	7	1	2	–	–	1
Federal and foreign income taxes incurred	389	–	388	1	–	–	–	–	–
Net income	$ 2,727	$ (3)	$ 2,713	$ 6	$ 1	$ 2	$ –	$ –	$ 1

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINING STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2003

(in millions)	Combined	Intercompany Eliminations	Allstate Insurance Company	Allstate Indemnity Company	Allstate Property and Casualty Insurance Company	Deerbrook Insurance Company	Allstate Texas Lloyd's	Allstate County Mutual Insurance Company
Surplus as regards policyholders, December 31 prior year	$ 13,763	$ (289)	$ 13,761	$ 94	$ 19	$ 32	$ 3	$ 2
Net income	2,727	(3)	2,713	6	1	2	–	–
Change in net unrealized capital gains or (losses)	1,124	(12)	1,137	–	–	–	–	–
Change in net deferred income tax	78	–	79	–	–	–	–	–
Change in nonadmitted assets	(754)	–	(755)	–	–	–	–	–
Change in provision for reinsurance	(19)	–	(18)	–	–	–	–	–
Surplus paid in	27	–	27	–	–	–	–	–
Dividends to stockholders	(1,273)	3 (C)	(1,273)	–	–	(3)	–	–
Change in additional minimum pension liability	430	–	430	–	–	–	–	–
Surplus as regards policyholders, December 31 current year	$ 16,103	$ (301)	$ 16,101	$ 100	$ 20	$ 31	$ 3	$ 2

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED, PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINING STATUTORY-BASIS STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2003

(in millions)	Combined	Intercompany Eliminations/ Reclasses	Allstate Insurance Company	Allstate Indemnity Company	Allstate Property and Casualty Insurance Company	Deerbrook Insurance Company	Allstate Texas Lloyd's	Allstate County Mutual Insurance Company	Allstat Fire ar Casua Insurar Compa
Cash from operations:									
Premiums collected net of reinsurance	$ 22,798	$ –	$ 22,797	$ –	$ –	$ –	$ –	$ –	$
Net investment income	1,705	(18)	1,708	6	1	2	–	–	
Miscellaneous income	247	–	247	–	–	–	–	–	
Total	24,750	(18)	24,752	6	1	2	–	–	
Benefits and loss related payments	12,601	–	12,600	–	–	–	–	–	
Commissions, expenses paid and aggregate write-ins for deductions	8,502	–	8,502	–	–	–	–	–	
Federal and foreign income taxes paid (recovered)	152		151	1					
Total	21,255	–	21,253	1	–	–	–	–	
Net cash from operations	3,495	(18)	3,499	5	1	2	–	–	
Cash from investments:									
Total investment proceeds	17,173		17,124	29	1	7	2	–	
Total investments acquired	19,339	–	19,310	9	–	5	–	–	
Net cash from investments	(2,166)	–	(2,186)	20	1	2	2	–	
Cash from financing and miscellaneous sources:									
Capital and paid in surplus, less treasury stock	27	–	27	–	–	–	–	–	
Borrowed funds received	262		262	–	–	–		–	
Dividends to stockholders	1,273	(18)	1,273	9	2	3		–	
Other cash provided (applied)	(579)	–	(556)	(21)	–	(1)	(2)	–	
Net cash from financing and miscellaneous sources	(1,563)	18	(1,540)	(30)	(2)	(4)	(2)	–	
Reconciliation of cash and short-term investments:									
Net change in cash and short-term investments	(234)	–	(227)	(5)	–	–	–	–	
Cash and short-term investments, beginning of year	254	–	236	7	1	1	–	2	
Cash and short-term investments, end of period	$ 20	$ –	$ 9	$ 2	$ 1	$ 1	$ –	$ 2	$

ALLSTATE INSURANCE COMPANY AND COMBINED, U.S. DOMICILED,
PROPERTY AND CASUALTY INSURANCE SUBSIDIARIES AND AFFILIATES

COMBINING STATUTORY-BASIS SCHEDULE OF INTERCOMPANY ELIMINATING ENTRIES

DECEMBER 31, 2003

(in millions)		**Debit**		**Credit**
(A)				
Common capital stock	$	39		
Gross paid in and contributed surplus		153		
Unassigned funds (surplus)		107		
Special surplus funds		2		
Common stocks - uncombined subsidiaries and affiliates			$	301
(Elimination of intercompany investments)				
(B)				
Payables to parent, subsidiares and affiliates	$	3		
Receivables from parent, subsidiaries and affiliates			$	3
(Elimination of intercompany receivables and payables)				
(C)				
Investment income due and accrued	$	3		
Dividends to stockholders			$	3
(Elimination of dividends paid from subsidaries combined)				