

The Allstate Corporation  
2775 Sanders Road  
Northbrook, Illinois 60062-6127



*The Allstate Customer Family*



About the Cover

Colin Newbold of Bedford, New Hampshire, is one of the youngest of millions of customers who make up our Allstate customer family. They use our products and services not only when there's a claim, but at every stage of life, whenever a change in assets or status requires new coverage. To read how we're working to grow our businesses by strengthening the customer experience, see the Shareholder Letter on page 2, and the customer stories that begin on page 6.

Table of Contents

Allstate At a Glance	>
Financial Highlights	1
Shareholder Letter	2
Our Customer Family	6
Our Employee and Agent Family	22
Our Communities	23
Glossary of Terms	26
Financial Strength	27
Board of Directors	38
Senior Management Team	39
Shareholder Information	40

*The Allstate Corporation is the parent of Allstate Insurance Company, the nation's largest publicly held personal lines insurance company. Allstate insures one of every eight cars and homes in the U.S., and is also a major life insurer. The company serves more than 14 million households through some 15,500 agents and 780 life specialists in the U.S. and Canada.*

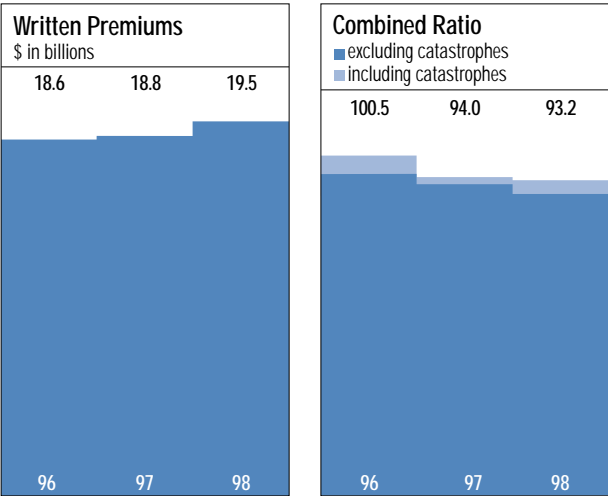


Property-Liability

Allstate is the second largest insurer of autos and homes in the U.S., with some 30 million policies in force. We have a 12.3 percent share of the private passenger auto market and an 11.3 percent share of the homeowners market. Throughout the country, 17 regional offices, 8 regional commercial centers and 7 operations processing and support centers enable our agents to meet the insurance needs of our customers. Allstate is also the nation's largest writer of non-standard auto insurance, which serves customers with higher-than-average risk profiles due to lack of prior coverage, driving record or type of car. We sell non-standard auto insurance through Allstate Indemnity Company and Deerbrook Insurance Company. Allstate offers extended auto warranties through its Parts and Labor Plus product. Allstate Motor Club serves 3.5 million members.

Distribution

- > 15,500 full-time Allstate agents
- > 3,000 independent agents in rural areas
- > Almost 13,000 independent agents and brokers writing business through Deerbrook Insurance Company

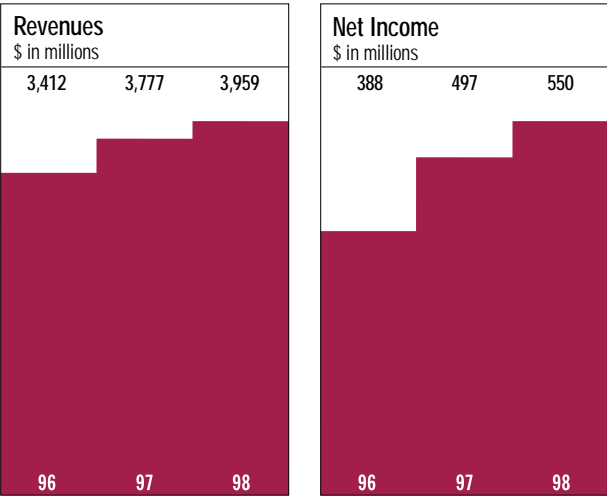


Life and Savings

The Allstate Life Insurance Group markets a broad line of life insurance, annuity and group pension products through a wide variety of distribution channels. We are the 13th largest life insurance company in the U.S. based on 1997 ordinary life insurance in force and have been among the top 10 issuers of ordinary life face amount since 1992. In 1997 we ranked in the top 20 for variable annuity assets and sales as well as being among the 20 largest life insurance companies based on total assets. Allstate Life is a member of the Insurance Marketplace Standards Association and continues to meet the high standards of ethical conduct in the advertising, sales and service of individual life insurance and annuity products.

Distribution

- > 15,500 full-time Allstate agents
- > 780 Allstate Life Specialists
- > Financial institutions, including banks, national and regional broker-dealers and financial advisers
- > 95,000 independent agents and brokers appointed by Lincoln Benefit Life Company and Surety Life Insurance Company
- > Internet and direct response marketing
- > Specialized brokers for pension products and structured settlement annuities



Investments

Overview and Strategy

An insurance company's strength and stability depend significantly on how well its investments are managed. These assets are the ultimate resource for making good on insurance obligations. Allstate has adopted a conservative philosophy for managing its two major investment portfolios: property-liability (\$33.7 billion) and life (\$31.8 billion). We continued to maintain high-quality investment portfolios in 1998. Our policies and objectives emphasize safety of principal, predictability of income, diversification of assets, liquidity and long-term growth of capital.

Strengths

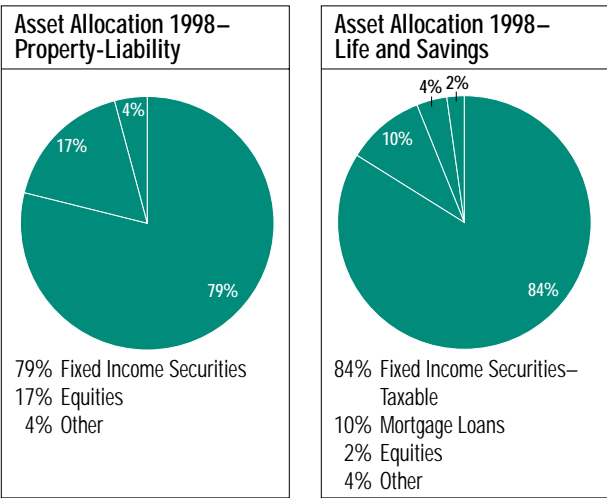
- Highly skilled professional investment team
- > Competitive risk adjusted returns
- > Sound risk management practices
- > Leverage in the marketplace given the size of Allstate's portfolio
- > Competitive cost structure

Property-Liability Investments

- > Investments are made to generate current income and to grow our capital and surplus.
- > Approximately 79 percent of our assets are invested in fixed income securities, including high-quality municipal bonds, corporate bonds, mortgage and asset backed securities, U.S. government bonds and other assets.
- > The remaining assets are invested primarily in equity securities, including common stock, real estate securities and private equities.

Life and Savings Investments

- > Investments are made to support product sales and to grow our capital and surplus.
- > We utilize a disciplined asset liability management process designed to assure our portfolio meets our obligations to our customers.
- > As a result, Life Company assets consist primarily of a well-diversified portfolio of fixed income securities, including high quality public and private corporate bonds, mortgage and asset backed securities, U.S. government bonds and mortgage loans.
- > We also invest in a modest amount of equity securities, including common stocks and convertibles to grow our capital and surplus.



Common Stock and Dividend Information\*

	High	Low	Close	Dividends declared
1998				
First quarter	49 <sup>3</sup> / <sub>16</sub>	40 <sup>1</sup> / <sub>16</sub>	45 <sup>3</sup> / <sub>32</sub>	.135
Second quarter	50 <sup>3</sup> / <sub>16</sub>	44 <sup>3</sup> / <sub>16</sub>	45 <sup>3</sup> / <sub>32</sub>	.135
Third quarter	52 <sup>3</sup> / <sub>16</sub>	36 <sup>3</sup> / <sub>16</sub>	41 <sup>1</sup> / <sub>2</sub>	.135
Fourth quarter	48 <sup>3</sup> / <sub>16</sub>	37	38 <sup>1</sup> / <sub>2</sub>	.135

1997				
First quarter	34 <sup>3</sup> / <sub>16</sub>	28 <sup>3</sup> / <sub>16</sub>	29 <sup>1</sup> / <sub>16</sub>	.12
Second quarter	38 <sup>3</sup> / <sub>16</sub>	29 <sup>3</sup> / <sub>16</sub>	36 <sup>3</sup> / <sub>16</sub>	.12
Third quarter	40 <sup>3</sup> / <sub>16</sub>	35 <sup>1</sup> / <sub>32</sub>	40 <sup>3</sup> / <sub>16</sub>	.12
Fourth quarter	47 <sup>3</sup> / <sub>16</sub>	38 <sup>1</sup> / <sub>32</sub>	45 <sup>3</sup> / <sub>16</sub>	.12

Stock price ranges are from the New York Stock Exchange Composite Listing. At February 18, 1999, there were 184,332 shareholders of record.

\*Restated for the effects of the 2-for-1 stock split paid on July 1, 1998.

Investor Inquiries

Investor Relations  
The Allstate Corporation  
3075 Sanders Road  
Northbrook, IL 60062-7127  
(800) 416-8803

Media Inquiries

Allstate Media Relations  
2775 Sanders Road  
Northbrook, IL 60062-6127  
(847) 402-5600

Form 10-K, Other Reports

Shareholders may receive, without charge, a copy of The Allstate Corporation's Form 10-K annual report (filed with the Securities and Exchange Commission) and other public financial information, for the year ended December 31, 1998, by contacting:

Investor Relations  
The Allstate Corporation  
3075 Sanders Road  
Northbrook, IL 60062-7127  
(800) 416-8803

Annual Report Recordings

Audio cassette tapes of the Allstate annual report are available to the visually impaired, without charge, by calling (800) 416-8803.

Stock Exchange Listing

The Allstate Corporation's common stock is listed on the New York Stock Exchange under the trading symbol ALL. Common stock is also listed on the Chicago Stock Exchange.

Independent Auditors

Deloitte & Touche LLP  
Two Prudential Plaza  
180 North Stetson Avenue  
Chicago, IL 60601-6779

## Financial Highlights

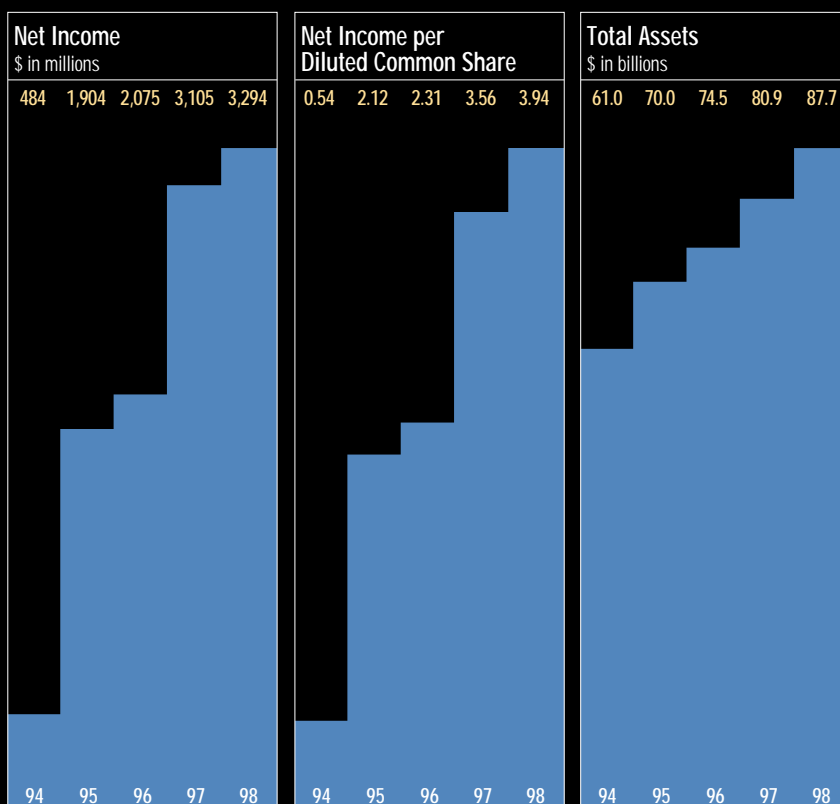
\$ in millions except per share data

	1998	1997	% change
Revenues	\$25,879	\$24,949	3.7
Operating income	2,573	2,429	5.9
Net income	3,294	3,105	6.1
Total assets	87,691	80,918	8.4
Shareholders' equity	17,240	15,610	10.4

### Per Common Share\*

Operating income	3.08	2.78	10.8
Net income	3.94	3.56	10.7
Dividends	0.54	0.48	12.5
Shareholders' equity	21.00	18.28	14.9
Market value—closing	38 ½	45 ¼	
—high	52 ⅞	47 ⅞	
—low	36 ⅞	28 ⅞	

\*Per common share data have been restated for the effects of the 2-for-1 stock split paid on July 1, 1998.



*Ed Liddy with  
Jerry Choate  
(at right, below,  
and bottom  
photo), former  
chairman and  
chief executive  
officer.*



**T**his is my first letter to shareholders as chairman, president and chief executive officer of Allstate. I welcome the opportunity to lead 53,000 of the finest employees and agents in America, whose combined efforts led to another record year for the company.

1998 was a watershed year for another reason, too: Jerry Choate, my predecessor and good friend, announced his retirement after a stellar 37-year career at Allstate. Starting as an operations supervisor in California, Jerry rose through the company and graced everything and everyone he touched with a sense of purpose and integrity. He took over as CEO in 1994 and under his stewardship the company and its shareholders thrived. From 1994 to 1998, during his leadership, we increased operating income to \$2.6 billion and improved earnings per share from \$.30 to \$3.08. The value of Allstate stock, although down in 1998, increased more than \$21 billion, from \$11.88 to \$38.50 per share.

His emphasis on people resulted in numerous employee and diversity honors, including “best company to work for” awards from *Fortune*, *Working Mother* and *Minority MBA* magazines in 1998. He leaves a very strong legacy.

#### **Outstanding Results**

In 1998 we achieved outstanding bottom line results in the face of an increasingly competitive market. Operating income was \$2.6 billion, or \$3.08 per share, a 10.8 percent increase on a per-share basis, over the prior year. Net income, which includes capital gains, was a record \$3.3 billion, or \$3.94 per share. Our capital position, which helps fund new growth, is in the best condition in the company’s history.

Most importantly, we continued to sharpen the strategies and accelerate the programs that will enhance our sales and claims operations, bond

old and new customers ever more closely to us through unrivaled service, and position the corporation to generate strong growth in the future.

We are blessed with many unique assets. We have the most highly recognized brand name in the business. We have a dedicated agency force 15,500 strong and a claims organization second to none. We have a broad range of insurance products, making it easy for consumers to get the protection they need. We have a high-quality investment portfolio that consistently achieves excellent returns. And we have world-class research facilities and data management skills that provide us with ongoing insights into what customers want.

#### **The Need to Grow**

Our challenge is to use our strengths to grow — faster and more profitably. It won't be easy, because the competitive environment is fierce. New as well as traditional competitors are finding more ways to deliver an increasing array of financial products and services. Strong industry operating and investment performance are creating substantial excess capital, intensifying the battle for the customer. Declining inflation and lower interest rates are adding more pressure on companies to find innovative ways to grow their business. All of this has led to intense price competition.

In this competitive environment, our premium growth is not yet in line with our own or the market's expectations. As a result, our stock price fell 15 percent in 1998, after having soared 56 percent the previous year.

Profitable top-line growth, the engine for prosperity in the years ahead, is our No. 1 priority in the company.

So how do we get there? We're focusing on improving our core business, and also looking at new opportunities for growth as well. We plan to grow Allstate faster, in more ways, more places and with more products than ever before.

#### **Strengthening the Customer Experience**

First and foremost, we're strengthening the Allstate customer experience. For two years we've been focusing on the best ways to provide a unique insurance experience to our customers. That, in turn, will drive higher satisfaction, greater retention and improved growth rates. In last year's annual report letter, we described how our intensive research has yielded highly valuable information about what customers want and the type of service that appeals to them.

Since then our efforts have accelerated. In 1998, we readied new programs to sell and service the customer better, to provide faster and more efficient claims service, to improve our reliability and prove our loyalty, and to price our product more effectively.

Many important initiatives in sales and claims are being introduced in 1999, including:

- Expanded agency hours during the week and on Saturdays, to make it more convenient for customers to have access to account information and talk with a licensed insurance professional. We also plan to add several hundred agents to our sales force.
- Seamless phone links from agents' offices to call centers where sales representatives can answer customer questions 24 hours a day, seven days a week. No other insurer can offer all these benefits — licensed professionals to serve customers in person, weekend and longer weekday office hours and 24-hour coverage. Quite simply, we're making it easier for customers to do business with us.
- New target marketing programs to make us more attractive and competitive with selected Allstate customers and prospects.
- An easier renewal process and increased contact with key customers to encourage new policy purchases and improve retention rates.



■ New desktop technology and processes to handle questions and allow customers to give us claim information more easily. This is important at a claim “moment of truth,” when customers look to us for fast and empathetic help.

■ Introduction of property claims coordinators as a single point of contact to help guide customers through the claims process.

■ Customer contact in most cases within 24 hours of notice of loss. In some states we’re testing a program to repair cars with minor damage within 72 hours. We’re working to reduce significantly the number of days it takes to inspect and settle auto claims.

Overall, in both our sales and claims organizations, we’ve been re-engineering the way we operate to make it easier for the customer to do business with us. The goal is to raise service levels to new heights, thereby attracting more new customers and retaining more current ones. An improvement of just 1 point in retention is worth \$180 million a year in incremental revenue, so retention initiatives are a high priority.

#### **New Ways to Grow**

The experience, expertise and scale of our agency and claims organizations give us a huge competitive advantage in our core markets. But just as important, our strengths also serve us well as we increase our focus on other channels of distribution. We plan to build or buy capabilities that will make us a force beyond our traditional base.

One important channel is independent agents, who sell Allstate and other insurance company products countrywide. We already have extensive experience in this area. We’ve worked with rural independent agents for more than 25 years. More recently we’ve built our Deerbrook brand into a top player by selling non-standard insurance through the independent agency channel. We plan to significantly increase our presence in

this market, in order to reach customers who prefer to do business this way.

We will also be expanding our life and savings business, starting with our own auto and homeowner customers. Only 1 in 11 Allstate auto and homeowner customers currently are insured with our life and savings products, so increasing cross-line sales is a major priority within the company. We’re also developing new life and savings products. To that end, we set up the Allstate Federal Savings Bank in 1998 to begin providing new financial products, such as cash management and personal trust services, to our customers. And in March 1999, we announced a joint venture with Putnam Investments to sell variable annuity insurance products. We’re piloting programs to train and license some of our life specialists and producers as fully accredited financial advisers, and we’re looking at acquiring companies whose producers provide financial advice. We’re also exploring the expanded use of new Internet channels to sell our life and savings products, some of which are sold on line now.

Another sizable opportunity lies outside the U.S. We already market a full range of personal property and liability products in Canada. We have aggressive growth plans in Germany and Japan, where we currently have just auto insurance, and also in South Korea, the Philippines and Indonesia, where we sell life coverage. We’ll introduce auto insurance in Italy later this year. We intend to build solid businesses in countries we view as long-term attractive markets.

#### **The Core of Allstate**

Our core is, and will continue to be, the Allstate brand and the Allstate agent. That’s where we’ll focus most of our attention and where most of our success in 1999 and the years ahead will come. But for us to achieve sustainable, profitable growth year-in and year-out, we must utilize additional channels, brands and products. We must start reaching segments of the marketplace we don’t

currently reach. Ever-changing customer needs for products and services demand it. The Allstate Corporation will, over time, be multi-channel, multi-brand, multi-product and multi-national. Not all these initiatives will bear fruit right away, but they plant the seeds for future growth.

In the pages that follow, we describe how our product breadth and expertise can help serve customers for a lifetime, building relationships that generate trust, loyalty and greater business. And we go on to describe the high standards set by our employees, in the workplace as well as in the communities they serve.

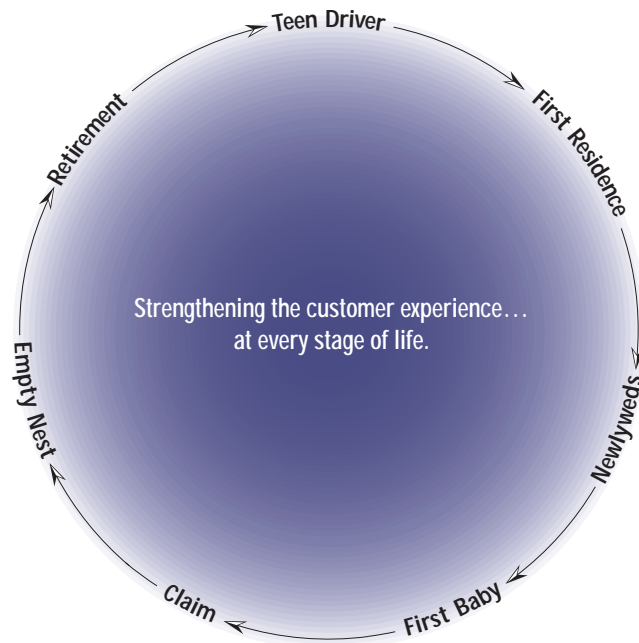
Allstate is a great company, a caring company, with a strong record of safety innovations, product and service excellence, community support, and solid shareholder returns. I'm confident that with our strengths, strategies and the resolve to provide the highest level of service in the industry, we're on the right track for continued growth and prosperity.

Finally, I'd like to express my thanks to one of our directors, Mary Alice Taylor, who stepped down from the board last year following the merger of Citibank and Travelers. Mary Alice made valuable contributions to the board and corporation during her tenure here, and we will miss her. I'd like to welcome to the board two new directors — Ronald T. LeMay, president and chief operating officer of Sprint Corporation, and H. John Riley Jr., chairman, president and chief executive officer of Cooper Industries Inc. I'd also like to acknowledge Edward W. Young, who headed the international and specialty operations and retired in 1998 after a 33-year career at Allstate. Our board and senior management team are crucial to Allstate's future, and their outstanding services were instrumental in guiding us through our first five years as a public company.



A handwritten signature in dark ink, reading "E. M. Liddy". The signature is written in a cursive, flowing style.

*Edward M. Liddy  
Chairman, President and  
Chief Executive Officer*



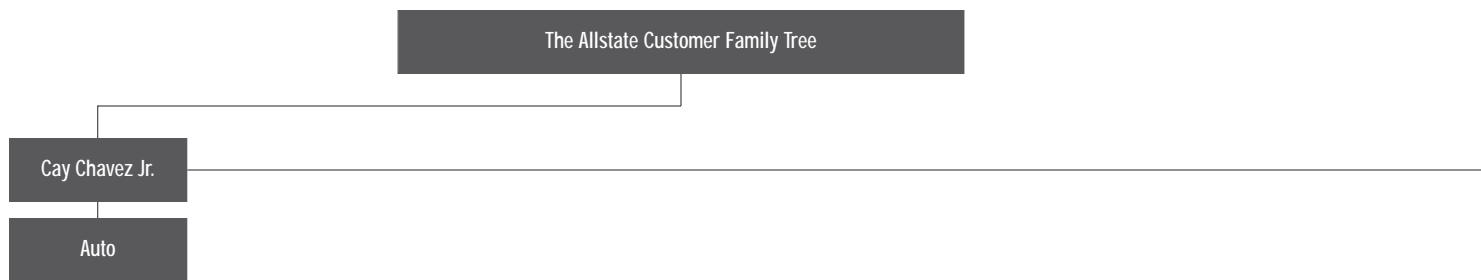
*Building Stronger Relationships: At Allstate, satisfying customers means more than just great claims service. It also means providing advice, information and the right coverage for the changing needs of our customer family at every stage of life. We're building on our world-class reputation for product excellence and superior service to deliver greater reliability, to enhance loyalty and to strengthen our best-in-class claims operation. The stories that follow relate how, as our customer relationships grow, we can build stronger ties and generate more business.*



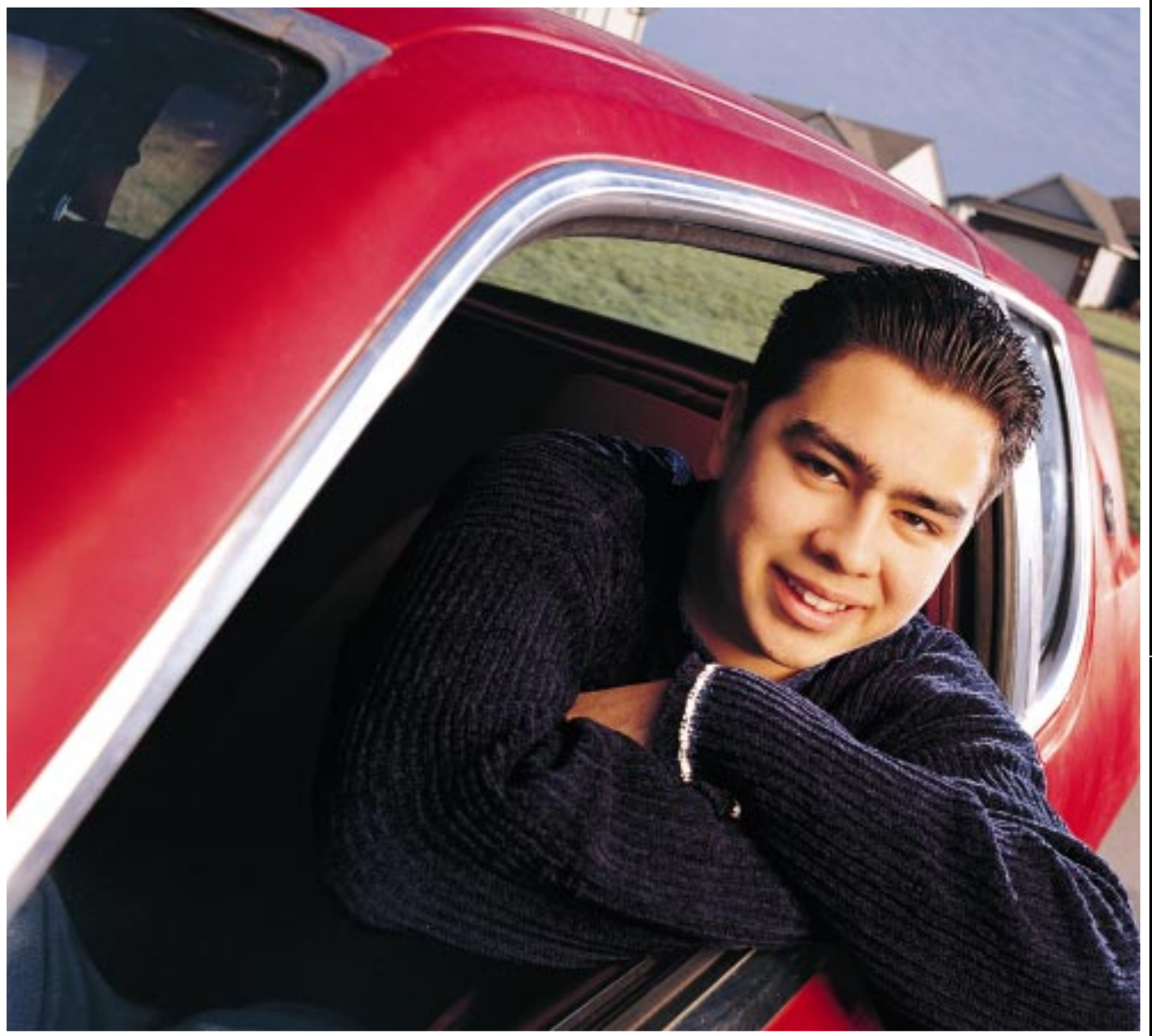
Strong customer relations, like strong family ties, are built on dependability, loyalty and understanding. For more than 60 years Allstate has served the insurance needs of millions of customers —

from newborns to retirees and new drivers to empty nesters. The stories that follow illustrate how great service can lead to strong relationships, and increased business over time.





*New Drivers: Every year 1.5 million 16-year-olds slide behind the wheel for the first time. Allstate can meet their needs with our broad auto coverage and auto safety programs. Allstate strongly supports teen safety programs and graduated licensing laws. Last year Allstate agents ordered almost 1 million company safety brochures and videos to distribute to their teenage customers. Safer, more experienced drivers make the nation's roadways safer for everyone.*



Cay Chavez Jr., 17, with the '85 Cougar he bought and restored last year, when he began driving: "I love this car but it costs money, so I'm working to help pay for the upkeep and the insurance." Before he got his driver's license, his mom took him to

see their Allstate agent, who talked to them about the responsibilities of safe driving. "We got the teen driver brochure, and I signed the contract that says I'll call home for a ride if I'm ever out drinking," Cay says. "It makes a lot of sense."

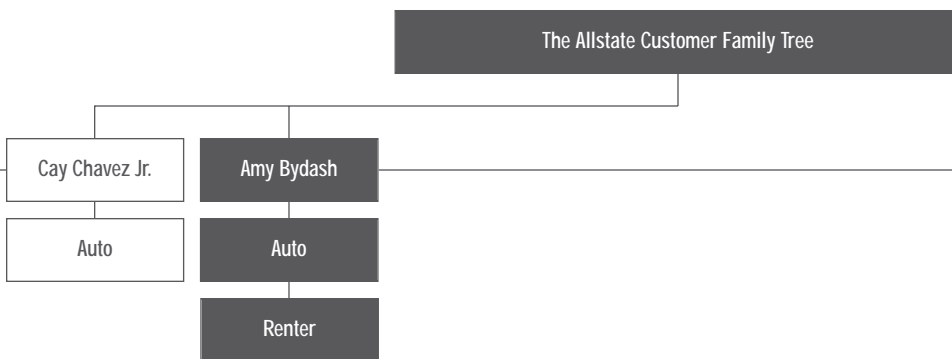




Amy Bydash, 21, on campus at the University of Toledo: "When I got my car and my own apartment, I went to my Allstate agent and he set me up with the insurance I needed. Even with my limited income, these policies are very affordable. I had no idea how

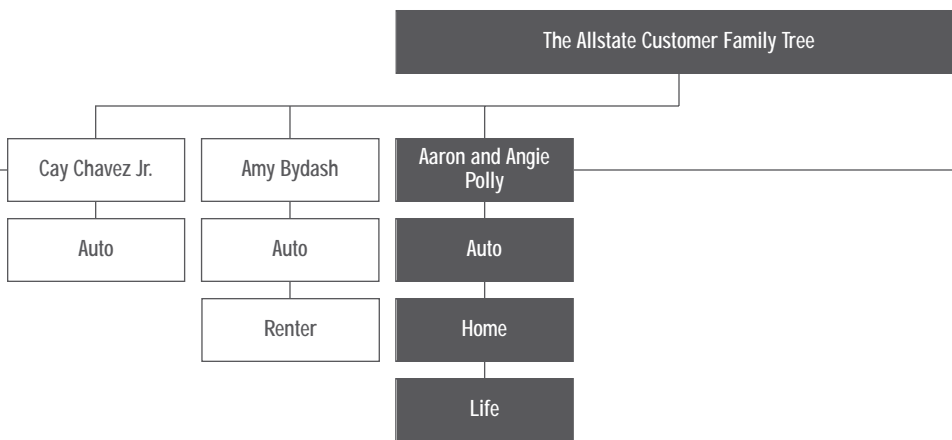
any of it worked, so my agent explained the various provisions. He made it real easy for me." Amy has never had an accident or break-in, but she says her policies give her a good feeling. "I know if something happened with my car or apartment, I'm covered all around."





*Going it Alone: Settling into a first household is a big move. Proper liability protection and coverage for personal belongings, even for young people just starting out on their own, is important. And many mortgage companies require proof of adequate coverage before they'll approve a loan. Whether it's an apartment, condo or house, Allstate has the protection and agent expertise to help first-time renters and buyers feel right at home.*





*Wedding Vows: Young married couples pledge their devotion “in sickness and in health,” but don’t always plan for life’s unexpected problems. Allstate agents can help newlyweds get a good start by providing financial advice and proper coverage for their belongings, as well as adequate life insurance. There’s peace of mind in knowing if something unexpected happened, they’re financially protected.*



Aaron and Angie Polly were far-sighted about their financial responsibilities: "We're committed to life-time planning and saving for the future," says Aaron. "When we first got married, we went to my Allstate agent and he guided us to the best plan for our needs, now and

in the future." He enabled them to lower their rates, too. "I had another auto policy at the time, but my Allstate agent showed us how a multiple line discount was actually less expensive. We want the best for each other and our future. Allstate is helping us make that happen."





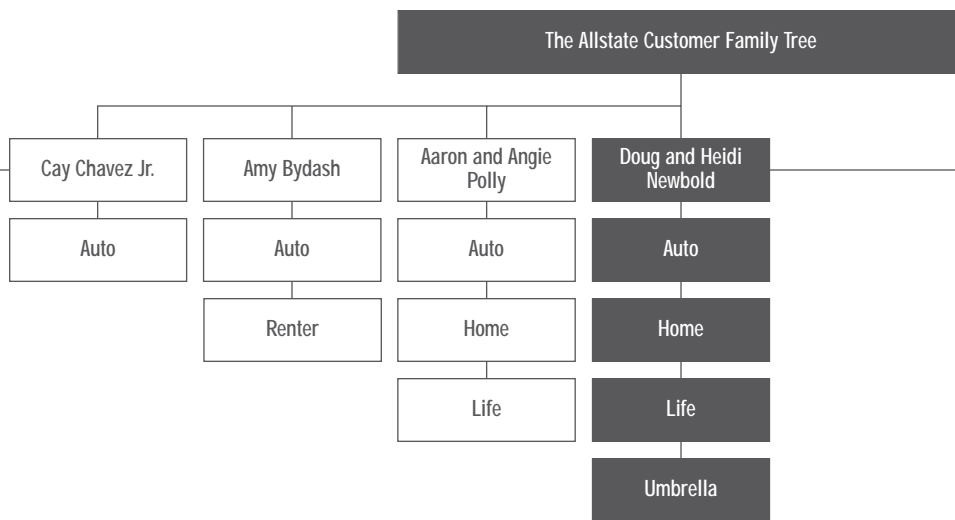


Heidi and Doug Newbold with their baby: "When Colin was born our Allstate agent helped set up life coverage for him. In the future he can convert it to his own universal life

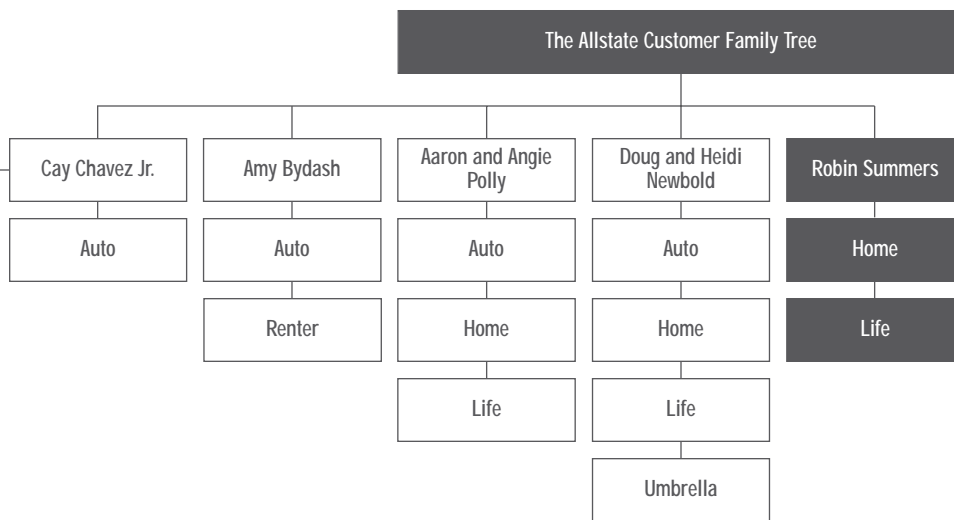
policy. And in the meantime, if something happens to us, he's protected." The Newbolds also rely on their agent for auto and home-owner insurance. "It gives us peace of mind to know we have the right coverage."



➤ Doug and Heidi Newbold  
with 6-month-old Colin  
Bedford, New Hampshire  
Allstate Customers: 10 years  
Policies: 4  
Agent: Jim Parolin



*Baby Makes Three: 4 million babies are born in the U.S. every year. Newborns are a blessing, but they also create huge financial responsibilities. Allstate agents can offer a wide variety of life insurance policies to make sure the family wage earners, as well as the infant, have adequate coverage. It's also a good time to review auto and home-owner policies. That way the expanding family has the broadest and best protection possible.*



*Moment of Truth: Life is unpredictable. When an accident or tragedy occurs, good insurance coverage helps put people back on their feet. At Allstate, we deliver on the promise to help people recover. A strong brand name, financial strength, almost 70 years of experience and a claim organization second to none keep our customers protected—and secure against the unexpected.*





Robin Summers remembers her husband LeVerne: "He was well-educated, well-respected, well-loved, a good spirit." He was also a hero: In May 1998 LeVerne, an actor, was returning home from his agent's office when he saw a car bearing down on a little boy. He pushed the boy to safety but was killed in the accident. Robin's Allstate agent was there to help. "He was so supportive, a good friend of the family. And without the life policy he sold us, I wouldn't have the financial security I have today."

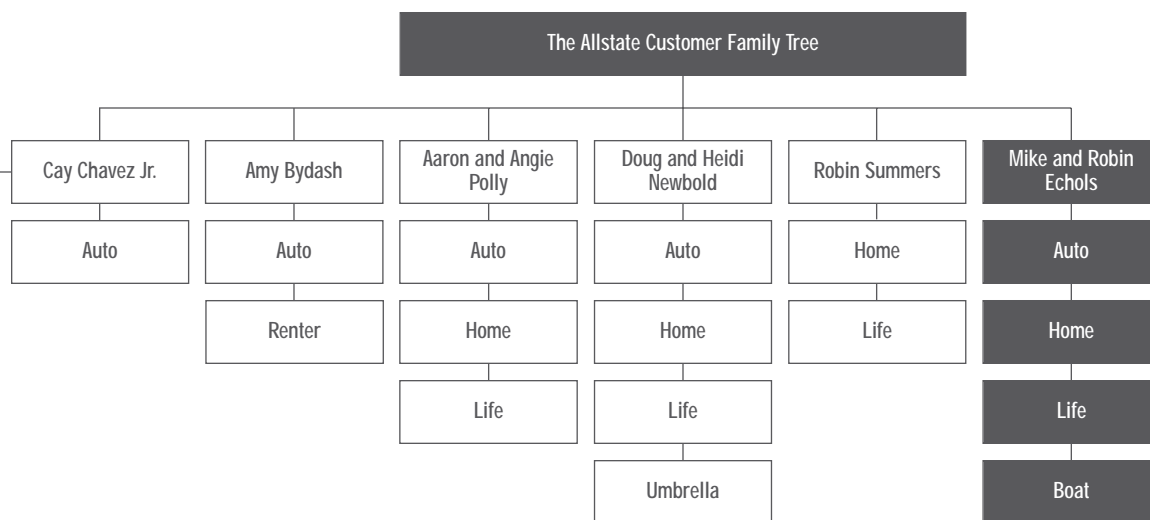




Robin and Mike Echols, fishing near their home: "With our three kids grown up, we have more time to relax. But we're also working for the day we can retire. These are our prime savings years." To help out, their Allstate agent set up a life insurance policy that

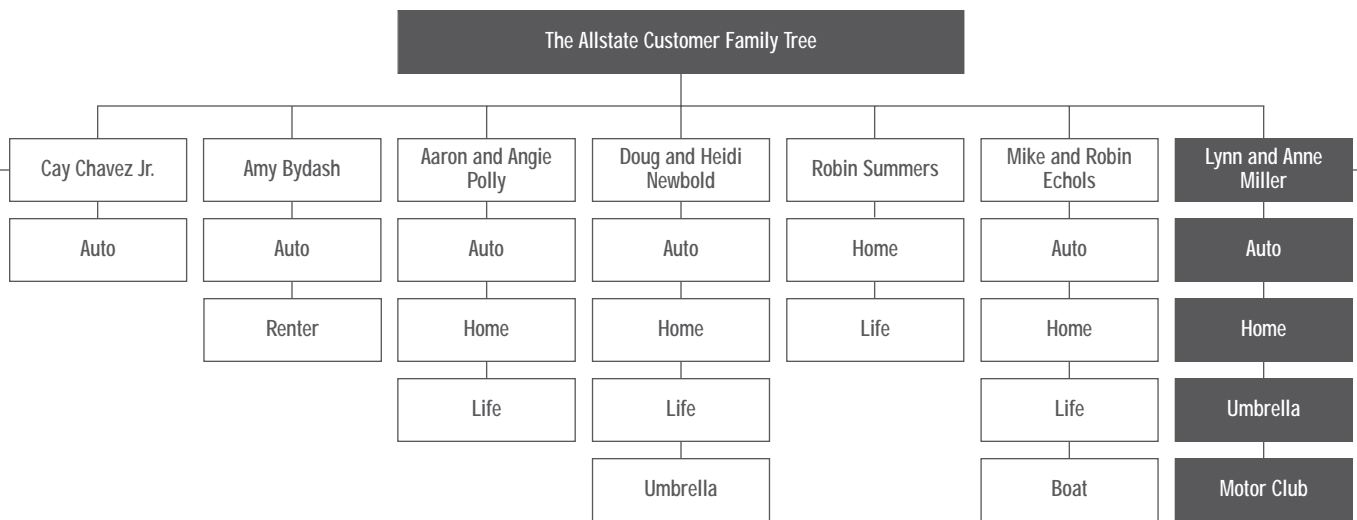
builds cash value to supplement their retirement nest egg, and also saved them money on their auto coverage. "His advice on our insurance needs and savings has been invaluable; he's given us the most for our insurance money."



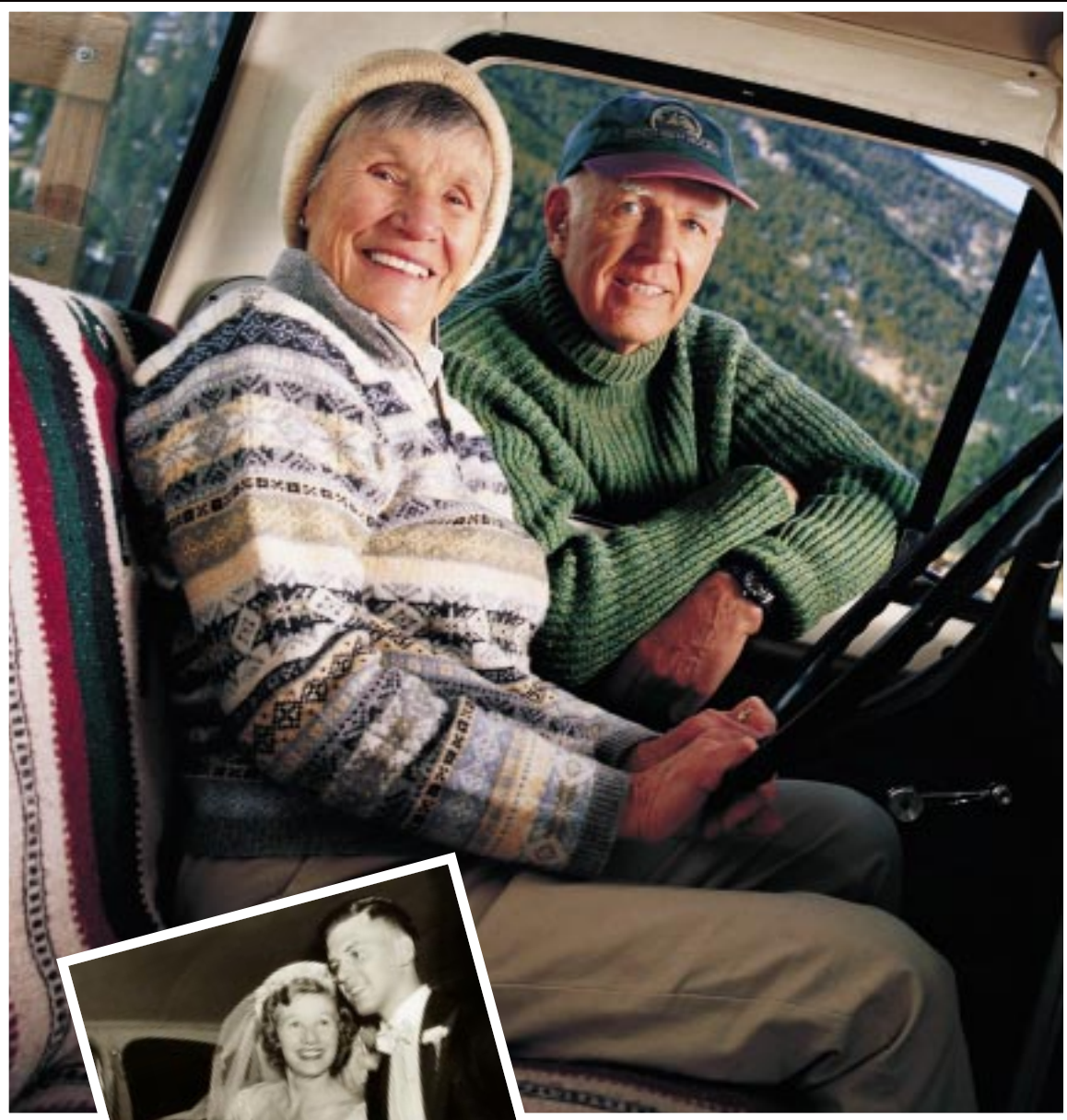


*Empty Nest: From diapers to diplomas, kids cost a lot of money. It's hard to save money during the child rearing years. But when kids grow up and leave home, parents can start to focus on preparing for retirement. Allstate's broad array of products and expert agent counseling can provide both protection and savings—and help feather the nest for the future.*





*Golden Years: Nearly 10 million U.S. families enjoy retirement. Allstate agents and life specialists can help by assisting with life insurance and annuities, as well as estate and financial planning. Working with Allstate to structure a retirement plan that meets family members' needs, and the needs of their heirs, can make the retirement years still more golden.*



Lynn and Anne Miller, retired and living in Colorado, have been Allstate customers for 50 years. "We bought our first auto policy right after we got married and moved to Chicago. Later we moved to Texas and added more coverage. We retired here in 1989 and added home-owners and the

Allstate Motor Club. Allstate's always been very good for us, and we've never had occasion to think of switching. Our agent gives us all the personal attention we've ever needed."





**A**t Allstate, employees and agents are our most important asset. The company places a major emphasis on communicating with and serving the needs of our work family. Internal surveys indicate that more and more employees say the company is meeting their expectations for regular feedback and communication, meaningful work and learning opportunities, respectful interactions, recognition and rewards. And in a 1998 survey of 48 leading U.S. corporations, Allstate employees responded with the highest overall job satisfaction rating of any company. One area of focus is workforce diversity. Special diversity training classes are required of all employees. Given the importance of changing market demographics to our businesses, a diverse workforce is a strategic necessity. Last year we were cited by *Fortune*, *Latina Style*, *en-Able*, *Minority MBA*, *Working Mother*, *Today's American Banker*, *Computerworld*, *Hispanic* and *Black Enterprise* magazines as being one of the top employers for selected minorities. We were also listed by *Forbes* as one of the world's top 50 companies and by *Fortune* as one of America's most admired companies. A talented, dedicated and diverse workforce is one important reason why we rank high in corporate America, as well as in our marketplace.

Allstate employees pictured below are (clockwise, from top left) Jeff Nordstrom, Andrea Zaharias, Nick Haan, Joe Garnett, Idelle Holzhauer, Rhonda Hopps, Jannette Gonzalez, Juan Cortez and Paul Harada.



### Minority and Female Percentages

Numbers shown are percentages of the company's total U.S. workforce

Data Source: EEO-1 report, December 1998

Job Category	Total Number by Category	Total Female Percent	Total African American Percent	Total Hispanic Percent	Total Asian/Pacific Islander Percent	Total Native American Percent	Total Minority Percent
Officials and Managers	6,108	39.7	13.6	5.6	1.6	0.5	21.3
Professionals	16,256	49.1	13.4	5.5	3.8	0.3	23.0
Technicians	505	29.9	12.1	10.1	4.4	0.2	26.7
Sales Workers	10,832	19.0	11.6	5.7	3.1	0.7	21.0
Office Workers	14,651	89.6	25.4	8.0	2.6	0.4	36.4
Total Workforce	48,352	53.2	16.6	6.3	3.0	0.5	26.4

Results do not include exclusive agents who are independent contractors.

Allstate is a company of people who care — about the people and communities we serve as well as the businesses we manage. We have a proud history of promoting auto and highway safety and working to improve the neighborhoods in which we live and work. Allstate has been a strong advocate for such safety initiatives as air bags, better bumpers, driver education and programs to combat drunk driving. More than half of Allstate's employees volunteer at the local level. Employees and agents in 1998 pledged more than \$3 million in the annual giving campaign. And The Allstate Foundation donated \$9 million in 1998 for neighborhood revitalization, auto and highway safety, and personal safety and security. We've committed \$45 million over five years to neighborhood revitalization, insurance education, and youth and safety programs in seven major urban markets. And with Safe Home America, we've launched a model public-private partnership to build stronger, safer communities — one block at a time. In these and many other ways, Allstate employees and agents are giving something back to the communities they serve, and building stronger, safer neighborhoods that help residents to become better insurance risks.



David Duplechian is on the board of Mothers Against Drunk Driving and works with students to encourage safe driving habits.



Gloria Keck assists youngsters in community service projects in the Bedford-Stuyvesant section of New York City.



Gene Matthews helps the children of his community by serving as chairman of the board of his local Boys & Girls Club.



Amy Arteago volunteers for a variety of local programs, including working with young adults in hands-on community service.



Allstate claim representative David Duplechian works with student drivers Daron Stevens and Ashley Pinter in Lake Charles, Louisiana, to encourage safe driving habits as part of MADD'S Tie One On For Safety campaign.

Allstate's commitment to automobile and highway safety dates back to 1949. Since then the company has vigorously promoted such important initiatives as better car bumpers, air bag and seat belt use, child safety seats, theft prevention, young driver programs and efforts to combat drunk driving. Working with federal, state and not-for-profit organizations, our efforts have helped bring about safer cars and highways, stricter law enforcement and improved highway safety for all Americans.

## Neighborhood Revitalization

Allstate agent Gloria Keck directs youngsters in a garden project sponsored by Neighborhood Housing Services in the Bedford-Stuyvesant community in New York.



Allstate began as an urban insurer in 1931 and urban markets still account for a major part of the company's business. To demonstrate the company's commitment to these markets, Allstate supports a number of organizations and programs that promote home ownership, neighborhood revitalization and economic development. They include the National Civic League's All-America City Awards, National Council of LaRaza, Local Initiatives Support Corporation (LISC), and The Neighborworks Network. These and many other organizations we work with help strengthen communities across the country.





Allstate employee Amy Arteago volunteers for a variety of community programs in the Seattle area, including planting trees as part of a wetlands restoration at the Black River in Renton, Washington.

For more than two decades, Allstate's volunteer program has provided an opportunity for employees and agents to serve their communities. More than 200 Allstate Helping Hands committees across the country plan events that focus volunteer efforts on health and human services programs, safety, neighborhood revitalization, at-risk youth programs, education and other social issues. An estimated 54 percent of employees and agents volunteer in their communities every year.

## Youth Programs

Allstate agent Gene Matthews helps 11-year-old Carolyn Bustillo with crafts activities at the Boys & Girls Club in North Port, Florida. As part of his duties as club chairman, Gene devotes 16 hours a week to club business.

Allstate supports youth activities through donations and volunteer efforts. The company has pledged \$25 million in financial and in-kind commitments to America's Promise — The Alliance for Youth. The company helps tens of thousands of at-risk youth through community volunteer activities. One program funded by The Allstate Foundation in partnership with The Boys & Girls Clubs of America is Street SMART, which helps young people deal with life-threatening issues in their daily lives and find positive alternatives.



#### Written Premiums

The total value of insurance coverage sold to policyholders in a calendar year. These premiums will then be “earned” over the life of the policy.

#### Revenues

The sum of property-liability premiums earned during a policy period, life insurance premiums and contract charges and the money earned by holding or selling investments.

#### Underwriting Income

The profit or loss from the underlying business that results when claims, claims expense and operating expenses are subtracted from premiums earned. Underwriting income does not include the income from investments that are held or sold.

#### Combined Ratio

The sum of the loss ratio and the expense ratio. The loss ratio is the percent of premiums that goes to pay claims; the expense ratio is the percent of premiums that goes to pay operating expenses. Together, they measure how much of each premium dollar is spent on operating expenses and claim settlement costs. A combined ratio under 100 percent indicates that an underwriting profit is being earned.

#### Operating Income

Underwriting income plus income from investments, net of related taxes.

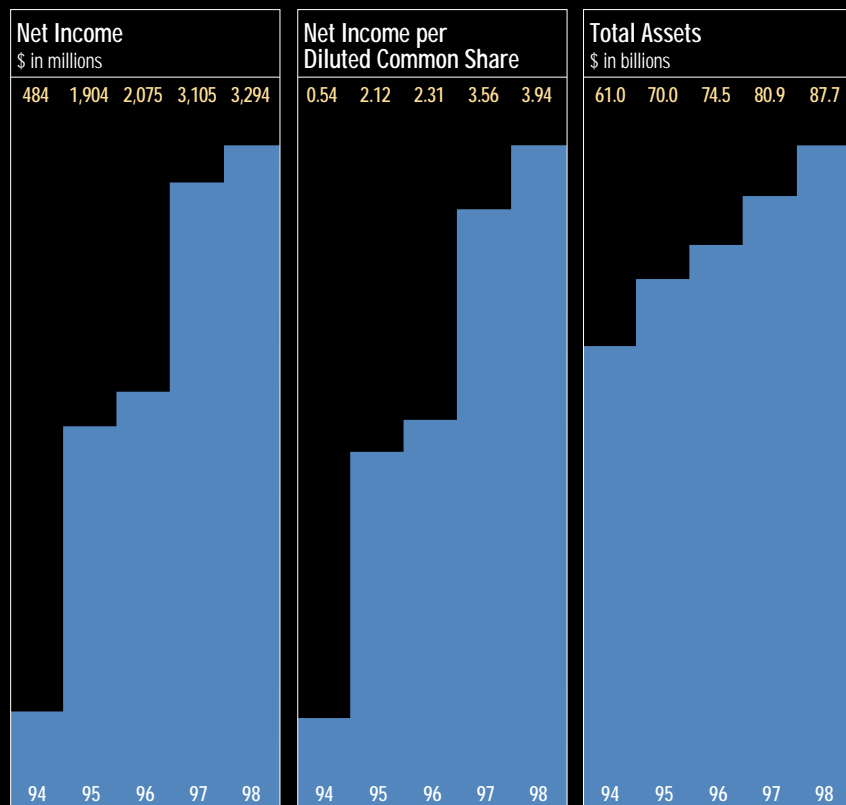
#### Net Income

Operating income plus the gains and losses from the sales of investments and the disposition of businesses.

#### Investments

The assets purchased with the premiums collected from policyholders and shareholders' capital.





*Allstate continues to operate from a position of financial strength and stability with assets increasing to \$88 billion and shareholders' equity of \$17 billion. In 1998, Allstate registered its fourth consecutive year of record results with net income of \$3.3 billion and operating earnings of \$2.6 billion. On a per share basis net income increased 10.7 percent to \$3.94. Revenues increased 3.7 percent to \$25.9 billion, reflecting growth in premiums in each of the company's core lines of business.*

## 5-year Summary of Selected Financial Data

\$ in millions except per share data

<b>Consolidated Operating Results</b>	<b>1998</b>	1997	1996	1995	1994
Revenues	\$25,879	\$24,949	\$24,299	\$22,793	\$21,109
Operating income	2,573	2,429	1,600	1,587	268
Realized capital gains and losses, after-tax	694	638	510	168	130
Net income	3,294	3,105	2,075	1,904	484
Earnings per share—diluted	3.94	3.56	2.31	2.12	0.54
<b>Consolidated Financial Position</b>					
Investments	\$66,525	\$62,548	\$58,329	\$56,505	\$47,227
Total assets	87,691	80,918	74,508	70,029	60,988
Reserves for claims and life-contingent contract benefits and contractholder funds	45,615	44,874	43,789	42,904	39,961
Debt	1,746	1,696	1,386	1,228	869
Mandatorily redeemable preferred securities of subsidiary trusts	750	750	750	—	—
Shareholders' equity	17,240	15,610	13,452	12,680	8,426
<b>Property-Liability Operations</b>					
Premiums written	\$19,515	\$18,789	\$18,586	\$17,965	\$16,739
Premiums earned	19,307	18,604	18,366	17,540	16,513
Net investment income	1,723	1,746	1,758	1,630	1,515
Operating income	2,211	2,079	1,266	1,301	81
Realized capital gains and losses, after-tax	514	511	490	158	145
Net income	2,760	2,670	1,725	1,608	312
Operating ratios					
Claims and claims expense ratio	70.4	71.7	78.9	78.1	88.0
Expense ratio	22.8	22.3	21.6	22.3	23.3
Combined ratio	93.2	94.0	100.5	100.4	111.3
<b>Life and Savings Operations</b>					
Premiums and contract charges	\$1,519	\$ 1,502	\$ 1,336	\$ 1,368	\$ 1,053
Net investment income	2,115	2,085	2,045	1,992	1,827
Operating income	392	377	368	327	226
Realized capital gains and losses, after-tax	158	123	20	10	(15)
Net income	550	497	388	337	211
Statutory premiums and deposits	5,902	4,946	5,157	4,874	4,539
Investments including Separate Accounts	41,863	37,341	33,588	31,065	26,197

For more detailed information see proxy statement.

Condensed Consolidated Income Statements			
\$ in millions except per share data			
		Year ended December 31,	
	1998	1997	1996
<b>Revenues</b>			
Insurance premiums and contract charges	\$20,826	\$20,106	\$19,702
Net investment income	3,890	3,861	3,813
Realized capital gains and losses	1,163	982	784
Total revenues	25,879	24,949	24,299
<b>Costs and Expenses</b>			
Insurance claims and contract benefits	16,016	15,751	16,800
Costs and expenses	5,205	4,826	4,699
Total costs and expenses	21,221	20,577	21,499
Gain (loss) on disposition of operations	87	62	(131)
<b>Income from operations before income tax expense, dividends on preferred securities, and equity in net income of unconsolidated subsidiary</b>	<b>4,745</b>	<b>4,434</b>	<b>2,669</b>
Income tax expense	1,422	1,324	619
<b>Income before dividends on preferred securities and equity in net income of unconsolidated subsidiary</b>	<b>3,323</b>	<b>3,110</b>	<b>2,050</b>
Dividends on preferred securities of subsidiary trusts	(39)	(39)	(4)
Equity in net income of unconsolidated subsidiary	10	34	29
<b>Net income</b>	<b>\$ 3,294</b>	<b>\$ 3,105</b>	<b>\$ 2,075</b>
<b>Earnings per share—diluted</b>	<b>\$ 3.94</b>	<b>\$ 3.56</b>	<b>\$ 2.31</b>

For more detailed information see proxy statement.

*Allstate has produced record net income for four consecutive years. By increasing sales of core insurance products, controlling the cost of claims and taking advantage of investment opportunities, Allstate increased net income to \$3.3 billion in 1998.*

## Condensed Consolidated Balance Sheets

\$ in millions

		December 31,
	1998	1997
<b>Assets</b>		
Investments	\$66,525	\$62,548
Premium installment receivables, net	3,082	2,959
Deferred policy acquisition costs	3,096	2,826
Reinsurance recoverables, net	1,932	2,048
Accrued investment income	751	711
Property and equipment, net	803	741
Cash	258	220
Other assets	1,146	1,283
Separate Accounts	10,098	7,582
Total assets	\$87,691	\$80,918
<b>Liabilities</b>		
Insurance reserves	\$24,482	\$24,485
Contractholder funds	21,133	20,389
Unearned premiums	6,425	6,233
Claim payments outstanding	778	599
Other liabilities and accrued expenses	4,578	3,193
Deferred income taxes	461	381
Debt	1,746	1,696
Separate Accounts	10,098	7,582
Total liabilities	69,701	64,558
Mandatorily redeemable preferred securities of subsidiary trusts	750	750
Total shareholders' equity	17,240	15,610
Total liabilities and shareholders' equity	\$87,691	\$80,918

For more detailed information see proxy statement.



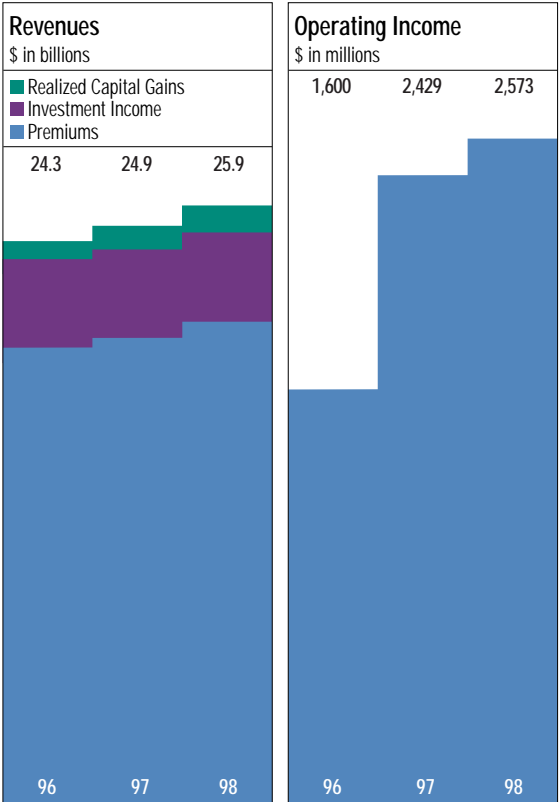
Condensed Consolidated Statements of Cash Flows			
\$ in millions			
		Year ended December 31,	
	1998	1997	1996
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 3,294	\$ 3,105	\$ 2,075
Adjustments to reconcile net income to net cash provided by operating activities	(403)	237	961
Net cash provided by operating activities	2,891	3,342	3,036
<b>Cash Flows from Investing Activities</b>			
Proceeds from sales	19,356	16,725	14,837
Investment collections	7,140	7,197	4,927
Investment purchases	(26,744)	(25,752)	(22,647)
Change in short-term investments, net	(610)	427	(764)
Change in other investments, net	(95)	(105)	12
Acquisition of subsidiary	(275)	—	—
Proceeds from disposition of operations	49	138	378
Purchases of property and equipment, net	(188)	(150)	(126)
Net cash used in investing activities	(1,367)	(1,520)	(3,383)
<b>Cash Flows from Financing Activities</b>			
Net cash provided by (used in) financing activities	(1,486)	(1,718)	373
<b>Net Increase in Cash</b>	<b>38</b>	<b>104</b>	<b>26</b>
<b>Cash at Beginning of Year</b>	<b>220</b>	<b>116</b>	<b>90</b>
<b>Cash at End of Year</b>	<b>\$ 258</b>	<b>\$ 220</b>	<b>\$ 116</b>

For more detailed information see proxy statement.

*Allstate is in the strongest financial position in its history. With assets increasing to \$88 billion, shareholders' equity of \$17 billion and positive cash flows from operations, Allstate is well positioned to execute its strategies and grow the business.*

*Allstate is engaged in the property-liability insurance and life and savings businesses, principally in the United States, Canada and Germany. Allstate's largest business is the sale of private passenger auto and homeowners insurance through its exclusive agency force. The company's other major business is the sale of life insurance and savings products, including annuity and group pension products.*

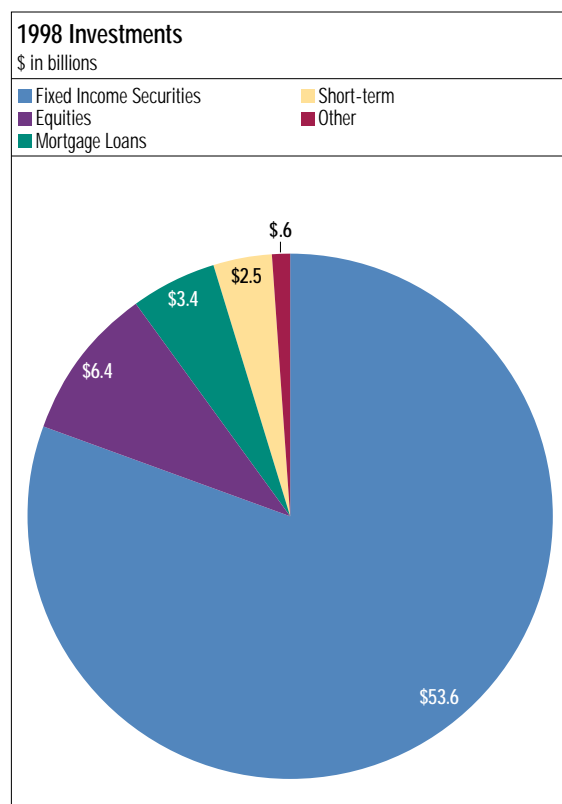
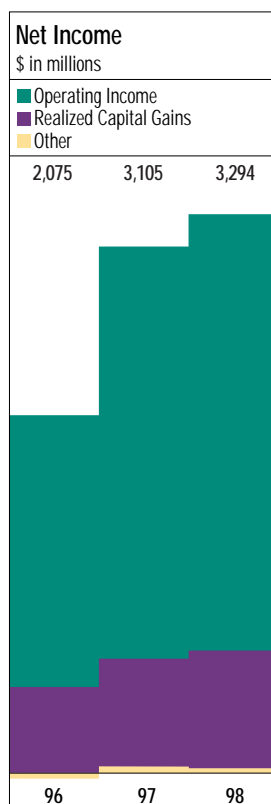
**Revenues increased to \$25.9 billion** Consolidated revenues increased 3.7 percent or \$930 million in 1998 compared to 1997. Property-liability earned premiums grew 3.8 percent or \$703 million, accounting for most of the revenue growth during the year. The improvement in revenues also included an increase of \$29 million in investment income and a \$181 million increase in realized capital gains.



**Operating income rose 5.9 percent** Consolidated operating income rose to \$2.6 billion for 1998, a 5.9 percent increase over 1997 and the fourth consecutive year the company has posted record operating earnings. 1998's performance was driven by strong property-liability results despite the effects of increased catastrophes during the year. Catastrophe losses for the year were \$507 million after-tax versus an unusually low \$237 million after-tax in 1997.

**Net income increased to \$3.3 billion** Consolidated net income increased 6.1 percent to \$3.3 billion or \$3.94 per share on a diluted basis. The record income reflected strong operating results in the property-liability business, which benefited from growth in sales and favorable auto loss trends. The increase in net income also reflected higher realized capital gains during the year.

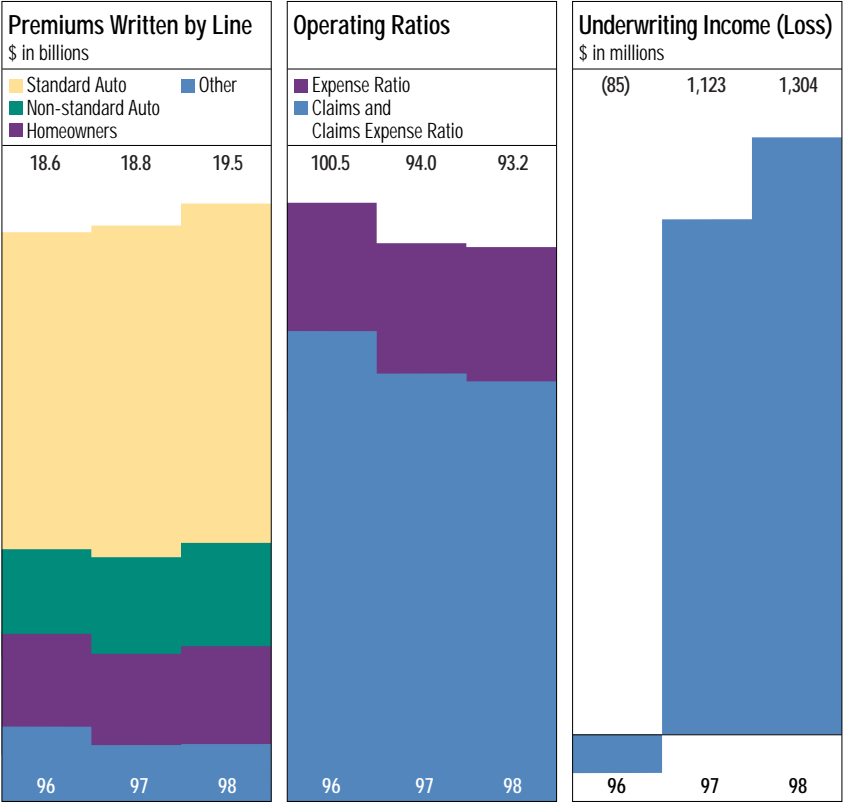
**Investments grew to \$66.5 billion** Consolidated investments for the company increased 6.4 percent or \$4.0 billion during 1998, reflecting overall growth in the company. Investment income for the year was up only slightly as increases in income due to the growth of the portfolio were offset by a decline in the overall portfolio yield and the impact of our ongoing share repurchase program. A decline in the average portfolio yield occurs as new and reinvested funds are invested at rates that are lower than the overall portfolio yield. Realized capital gains after-tax increased 8.8 percent over 1997, benefiting from the sale of the company's real estate portfolio during the year.



*Allstate's property-liability business is principally engaged in the sale of private passenger auto and homeowners insurance sold primarily through the company's exclusive agency force. Allstate is the second largest personal property and casualty insurer in the United States.*

**Premiums written grew 3.9 percent** Property-liability premiums written were \$19.5 billion in 1998, an increase of \$726 million from 1997. Premiums written in our core lines of standard auto, non-standard auto and homeowners increased 2.6 percent, 6.0 percent and 7.8 percent respectively. The growth in the standard and non-standard auto lines was attributable to increased renewals on existing policies and higher average premiums. The increase in the homeowners business benefited from growth in new business as well as higher average premiums.

**Underwriting income increased 16.1 percent** Property-liability underwriting income was \$1.3 billion in 1998, an increase of \$181 million from 1997. The improvement in the underlying results of the company was due to an increase in premiums

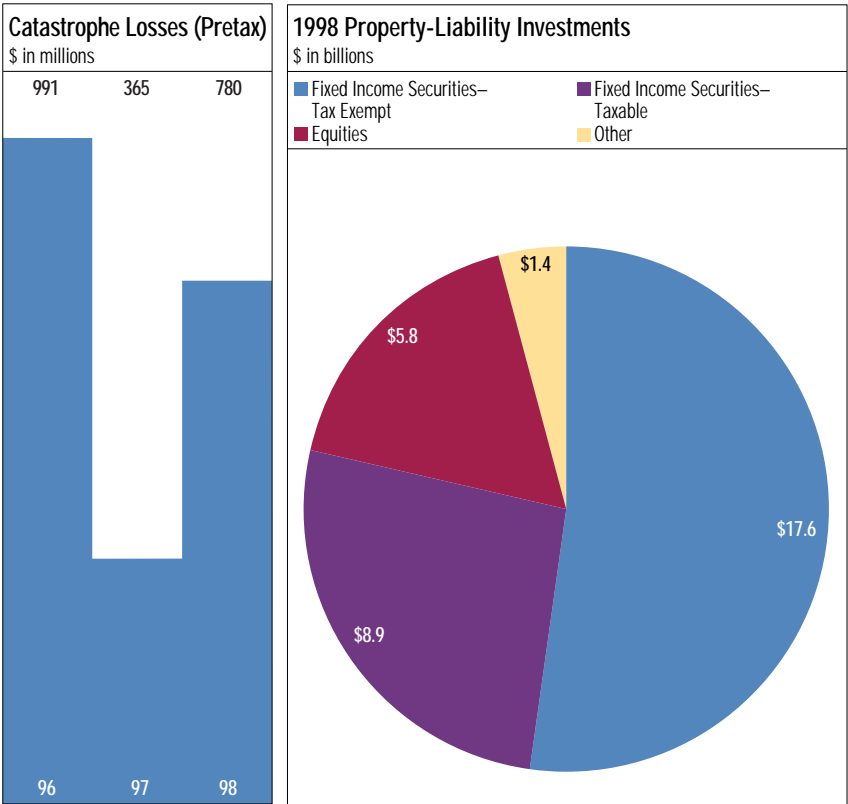




earned and favorable auto loss trends. The combined ratio improved to 93.2 from 94.0 in the prior year despite a significant increase in catastrophes during the year.

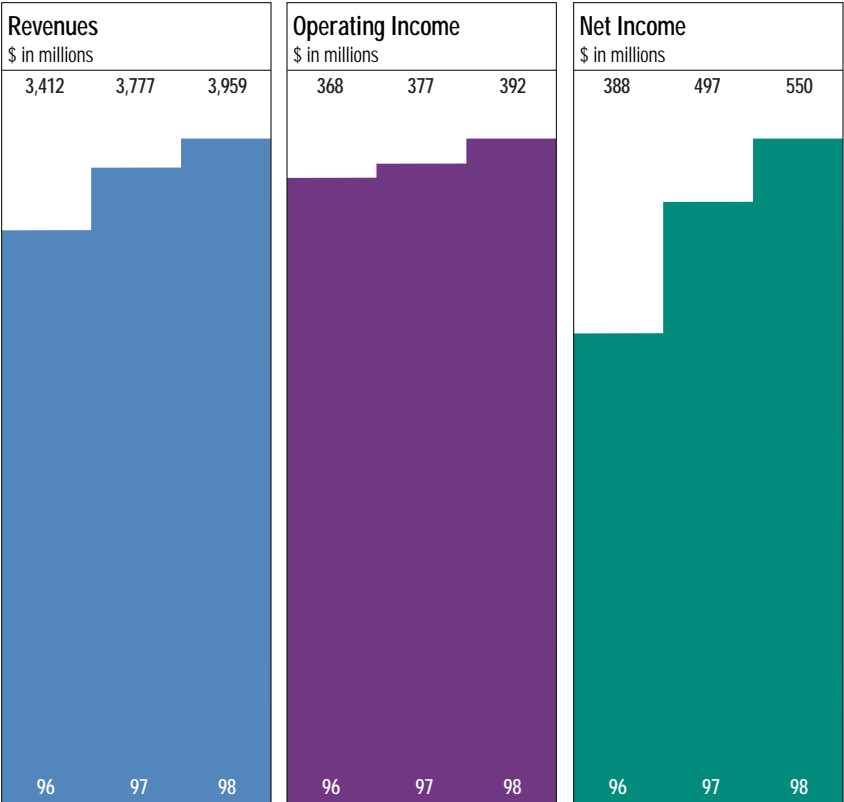
**Investments were \$33.7 billion** Property-liability investments increased \$1.5 billion or 4.5 percent in 1998. Investment income decreased slightly during the year as income earned due to the increase in investments was offset by lower investment yields and the effects of dividends paid to The Allstate Corporation. This decrease was also heavily influenced by interest rates, which were at a 30-year low. Almost 80 percent of the portfolio is invested in fixed income securities, of which 93 percent are rated investment grade. Realized capital gains after-tax increased slightly during the year benefiting from the impact of the sale of real estate. The volatility in the stock market during 1998 resulted in lower capital gains realized on common stock compared to 1997.

**Outlook** The property-liability industry operates in a fiercely competitive environment. Recent trends toward safer cars, declining medical cost inflation and lower interest rates have resulted in decreasing premium levels in recent history. The personal lines industry is growing at a 3 to 4 percent rate and our goal is to continue to outperform the industry and our competitors. To grow our top line we must increase sales of our core auto and homeowners lines through our exclusive agency force and also through new channels such as independent agents. We must also retain our current customers by providing them with the best customer experience in the industry. To do this the company has realigned processes and expanded services, such as expanded agency hours, targeted marketing programs and increased contact with key customers. Although future medical and other claim costs may experience inflationary pressure, our claim settlement processes have been redesigned to give Allstate a competitive advantage in controlling these costs.



*Allstate Life markets a broad line of life insurance and savings products through a diverse distribution network. Life insurance and savings products are distributed through Allstate agents, banks, brokers, independent life insurance agents and direct response marketing.*

**Statutory premiums increased 19.3 percent** Life and Savings statutory premiums and deposits were \$5.9 billion, an increase of \$956 million from 1997. The improvement in statutory premiums, which include all premiums and deposits on life and annuity products, was attributable to increased sales of group pension products and variable annuities. Sales of variable annuity products increased 15.6 percent over 1997 as variable products tend to be more attractive to consumers than fixed rate products in low interest rate environments. Life and Savings GAAP revenues were \$4.0 billion in 1998, an increase of \$182 million over 1997.

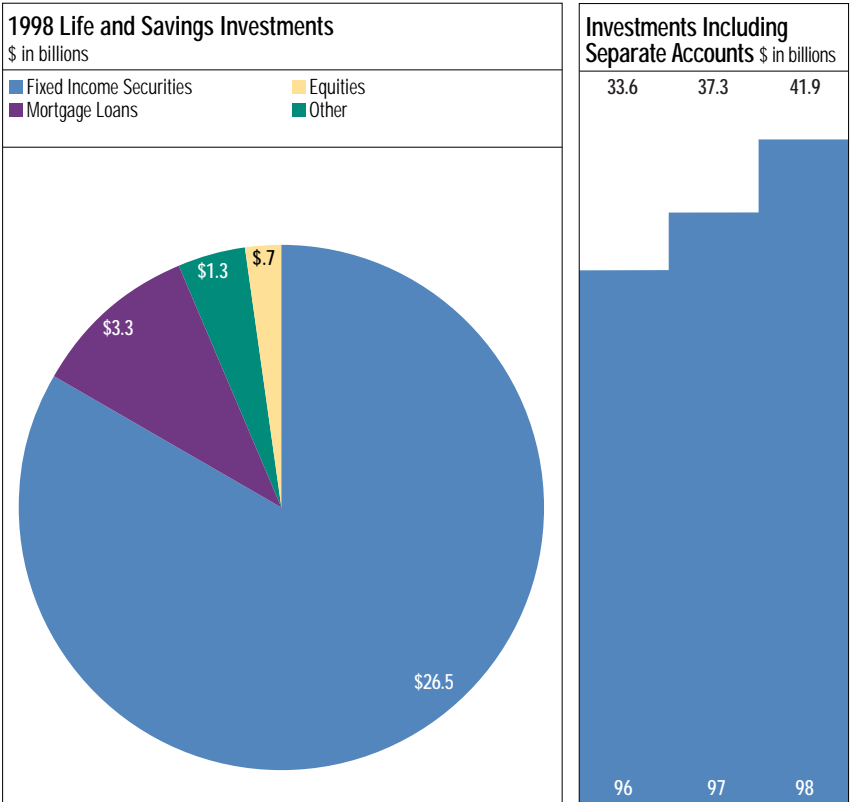


**Operating income grew to \$392 million** Life and Savings operating income was \$392 million, a 4 percent increase over 1997. The increase in operating income was due to increased fees earned on variable annuity products and improved investment margins. Increases in operating income continue to be affected by a shift from fixed to variable rate products in this lower interest rate environment. Operating income is affected by this shift because at equal levels of sales, fixed products have traditionally generated more operating income than variable products.

**Net income up 10.7 percent** Life and Savings net income increased \$53 million to \$550 million. The improvement in net income was due to increased operating earnings and after-tax realized capital gains.

**Investments increased to \$41.9 billion** Life and Savings investments, including investments of the Separate Accounts, increased 12.1 percent or \$4.5 billion. The growth in investments was driven by a 33.2 percent increase in Separate Account assets due to increased variable annuity sales, new sales of fixed annuity and life products and market appreciation on fixed income securities.

**Outlook** The life and savings industry is experiencing increased competition due to continued consolidation in the financial services sector. Life and Savings is well positioned to compete in this industry with its diverse distribution network and a wide variety of products that are designed for various interest rate environments. To increase sales of life and variable annuity products, Life and Savings will continue to expand through the bank and broker distribution channels and by leveraging the Allstate agent distribution network and the Allstate brand name.

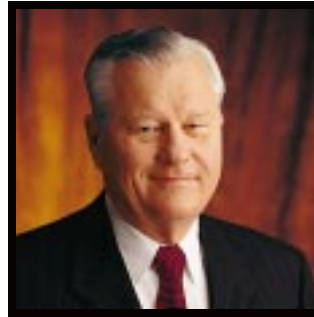




James G. Andress  
Chief Executive Officer  
Warner Chilcott PLC



Warren L. Batts  
Retired Chairman and  
Chief Executive Officer  
Tupperware Corporation



Edward A. Brennan  
Retired Chairman, President  
and Chief Executive Officer  
Sears, Roebuck and Co.



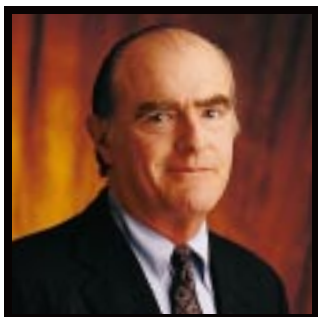
James M. Denny  
Managing Director  
William Blair Capital Partners, L.L.C.



Ronald T. LeMay  
President and  
Chief Operating Officer  
Sprint Corporation



Edward M. Liddy  
Chairman, President and  
Chief Executive Officer  
Allstate Insurance Company



Michael A. Miles  
Special Limited Partner  
Forstmann Little & Co.



H. John Riley Jr.  
Chairman, President and  
Chief Executive Officer  
Cooper Industries Inc.



Joshua I. Smith  
Chairman and  
Chief Executive Officer  
The MAXIMA Corporation





Seated, left to right:  
Edward M. Liddy  
Chairman, President and  
Chief Executive Officer

Ronald D. McNeil  
Senior Vice President  
Product Operations

Richard I. Cohen  
Senior Vice President  
Property-Casualty Claim Service  
Organization

Thomas J. Wilson  
President  
Allstate Life Insurance Company

Standing, left to right:  
Rita P. Wilson  
President  
Allstate Indemnity Company and  
Deerbrook Insurance Company

Louis G. Lower, II  
Chairman  
Allstate Life Insurance Company

Frank W. Pollard  
Senior Vice President and Chief  
Information Officer

Casey J. Sylla  
Senior Vice President and Chief  
Investment Officer

Edward J. Dixon  
Senior Vice President  
Field Operations

Steven L. Groot  
President  
Allstate International

Michael J. McCabe  
Senior Vice President  
Marketing and Brand  
Development

Joan M. Crockett  
Senior Vice President  
Human Resources

Robert W. Gary  
President  
Property and Casualty

Robert W. Pike  
Executive Vice President,  
Secretary and  
General Counsel

### Corporate Headquarters/Home Office

The Allstate Corporation  
2775 Sanders Road  
Northbrook, IL 60062-6127  
(847) 402-5000  
<http://www.allstate.com>

### Annual Meeting

All shareholders are cordially invited to attend the annual meeting of The Allstate Corporation:  
Tuesday ■ May 18, 1999 ■ 1:30 p.m.  
Chicago Botanic Garden  
1000 Lake Cook Road  
Glencoe, IL  
Holders of common stock of record at the close of business on March 19, 1999, are entitled to vote at the meeting. A notice of meeting, proxy statement and proxy were mailed to shareholders with this annual report.

### Transfer Agent/Shareholder Records

For information or assistance regarding individual stock records, dividend reinvestment plan and voluntary cash payments, dividend checks, 1099DIV and 1099B tax forms, direct deposit of dividend payments, or stock certificates, please call (800) 355-5191 within the United States or (201) 324-0313 outside the United States, or write:

First Chicago Trust Company,  
a division of EquiServe  
P.O. Box 2500  
Jersey City, NJ 07303-2500  
Internet: <http://www.equiserve.com>  
E-mail: [fctc\\_Allstate@em.fcnbd.com](mailto:fctc_Allstate@em.fcnbd.com)

Please use the following address for items sent by courier or overnight mail:

First Chicago Trust Company,  
a division of EquiServe  
Attention Stock Transfer Unit  
525 Washington Boulevard  
Jersey City, NJ 07310

### The DirectSERVICE Investment Program

Shareholders can reinvest their Allstate cash dividends as well as make optional cash deposits to purchase additional shares of Allstate common stock. Please write or call First Chicago Trust Company as indicated above.

## Common Stock and Dividend Information\*

	High	Low	Close	Dividends declared
1998				
First quarter	49 <sup>3</sup> / <sub>16</sub>	40 <sup>15</sup> / <sub>16</sub>	45 <sup>31</sup> / <sub>32</sub>	.135
Second quarter	50 <sup>7</sup> / <sub>8</sub>	44 <sup>7</sup> / <sub>8</sub>	45 <sup>25</sup> / <sub>32</sub>	.135
Third quarter	52 <sup>3</sup> / <sub>8</sub>	36 <sup>1</sup> / <sub>16</sub>	41 <sup>1</sup> / <sub>2</sub>	.135
Fourth quarter	48 <sup>7</sup> / <sub>8</sub>	37	38 <sup>1</sup> / <sub>2</sub>	.135
1997				
First quarter	34 <sup>7</sup> / <sub>8</sub>	28 <sup>7</sup> / <sub>8</sub>	29 <sup>11</sup> / <sub>16</sub>	.12
Second quarter	38 <sup>1</sup> / <sub>2</sub>	29 <sup>7</sup> / <sub>16</sub>	36 <sup>1</sup> / <sub>2</sub>	.12
Third quarter	40 <sup>7</sup> / <sub>16</sub>	35 <sup>15</sup> / <sub>32</sub>	40 <sup>7</sup> / <sub>16</sub>	.12
Fourth quarter	47 <sup>7</sup> / <sub>16</sub>	38 <sup>15</sup> / <sub>32</sub>	45 <sup>1</sup> / <sub>4</sub>	.12

Stock price ranges are from the New York Stock Exchange Composite Listing. At February 18, 1999, there were 184,332 shareholders of record.

\*Restated for the effects of the 2-for-1 stock split paid on July 1, 1998.

### Investor Inquiries

#### Investor Relations

The Allstate Corporation  
3075 Sanders Road  
Northbrook, IL 60062-7127  
(800) 416-8803

### Media Inquiries

Allstate Media Relations  
2775 Sanders Road  
Northbrook, IL 60062-6127  
(847) 402-5600

### Form 10-K, Other Reports

Shareholders may receive, without charge, a copy of The Allstate Corporation's Form 10-K annual report (filed with the Securities and Exchange Commission) and other public financial information, for the year ended Dec. 31, 1998, by contacting:

#### Investor Relations

The Allstate Corporation  
3075 Sanders Road  
Northbrook, IL 60062-7127  
(800) 416-8803

### Annual Report Recordings

Audio cassette tapes of the Allstate annual report are available to the visually impaired, without charge, by calling (800) 416-8803.

### Stock Exchange Listing

The Allstate Corporation's common stock is listed on the New York Stock Exchange under the trading symbol ALL. Common stock is also listed on the Chicago Stock Exchange.

### Independent Auditors

Deloitte & Touche LLP  
Two Prudential Plaza  
180 North Stetson Avenue  
Chicago, IL 60601-6779

The Allstate Corporation  
2775 Sanders Road  
Northbrook, Illinois 60062-6127