

## Rising to the Challenge

*Dear Fellow Shareholders:  
In 2005 Allstate experienced the worst hurricane season on record—and the costliest in your company’s 75-year history. We sent 4,100 catastrophe specialists to ravaged areas to do what we do best: help customers recover. We also refined our risk management models and continued to execute our strategy to produce profitable growth. By focusing on our strengths, we fulfilled our commitments to policyholders, invested in growth and rewarded our shareholders.*



Edward M. Liddy  
Chairman and  
Chief Executive Officer

### Record Revenues, Lower Earnings

Although Allstate generated record revenues in 2005, we incurred an unprecedented \$5.7 billion in catastrophe-related costs as we helped customers rebuild their lives. That’s a big number—more than five times our annual average over the last decade. Return on equity fell 6.6 points for 2005, compared to an increase of 0.8 points in 2004. Operating income per diluted share\* declined from \$4.41 in 2004 to \$2.37 in 2005.

Though these losses slowed our short-term momentum, the progress we made implementing our “better, bigger, broader” strategy improved our ability to create long-term value.

### Focus on Profitable Growth

Property-Liability continued to benefit from our focus on profitable growth. Premiums written increased by 3.2 percent from \$26.5 billion in 2004 to \$27.4 billion in 2005. Our Allstate brand standard auto business produced 2.9 percent unit growth, while Allstate homeowners achieved 3.4 percent unit growth.

Total Property-Liability revenues, including investment income, increased by 3.5 percent to a record \$29.3 billion. And, excluding catastrophes, that top-line growth was generated while continuing to improve our underwriting margins. Our Property-Liability combined ratio, excluding catastrophes\*, improved 2.1 points in 2005 compared with 2004.

In 2005, Allstate

Financial premiums and deposits\* were \$14.4 billion, and its operating income increased by 5.4 percent to \$581 million.

Overall, we’re making progress in Allstate Financial and remain focused on improving returns that will deliver profitable growth. To that end, in March 2006 we announced the decision to sell the Allstate Financial variable annuity business and enter into an exclusive distribution arrangement, subject to regulatory approvals. This arrangement will allow our distribution channels to continue to offer a full range of products, including variable annuities, while we dedicate our resources to a more focused product portfolio where we have scale and a significant market presence today.

### Increasing Total Shareholder Returns

Amid a historic year in catastrophes, our businesses once again rewarded Allstate shareholders. We repurchased \$2.5 billion of our stock and paid an all-time high annual dividend of \$1.28 per share, up 14 percent from 2004—a testament to our disciplined capital management. Our stock price closed 2005 at \$54.07, a 4.5 percent increase from the \$51.72 at the end of 2004. We also delivered a total shareholder return of 7 percent. And, we maintained our solid credit ratings from major rating agencies.

Under the circumstances, we’re very proud of these results. They show that our strategy is working, and that the market remains confident we can deliver the attractive, steady long-term returns shareholders expect.

\*See page 17.

# Managing an Unpredictable Market

## Re-examining Risk

Shareholders expect us to ask tough questions about the exposures we face and manage them aggressively to deliver consistent earnings. In the aftermath of Hurricanes Katrina, Rita and Wilma, two questions warranted close attention.

First, why were Allstate's losses so significant in Louisiana and Mississippi? Katrina's wide path and unusual severity meant high payouts on the hundreds of thousands of homes we insure there.

Reinsurance could have softened the blow, as it did in Texas, for Hurricane Rita. When we considered our exposures on an enterprise-

wide basis, before the 2005 hurricane season, we chose to invest our reinsurance dollars in high-density coastal areas where our financial exposure is much higher—and where the probability of payback is greatest.

Second, what will we do in the future to mitigate this risk so we can continue to generate reliable earnings growth and increase our returns on capital? Each major storm teaches us new lessons—and makes us better able to manage risks. We factor new data into our risk management strategy, including recent findings that point to a period of more frequent and severe hurricanes. We purchased country-wide reinsurance that will reimburse Allstate for \$2 billion of losses in excess of \$2 billion

for named storms, earthquakes and fires following earthquakes in all states except Florida. We also purchased as additional protection from hurricanes in Florida \$900 million of reinsurance in excess of amounts recoverable from the Florida Hurricane Catastrophe Fund. In some other states, we're purchasing more reinsurance to reduce our exposures.

In other markets, we're increasing rates and deductibles on our homeowners policies and limiting new business writing. In markets where we cannot adequately cover our risks, we may be able to help customers find alternative coverage while we focus instead on auto and financial services products.

Though we can't control the weather, we can and will mitigate the weather's impact on our business. As a result, we expect our long-term exposure will decline. Moreover, we're calling for public policy change and a more rational approach to how Americans prepare for and protect themselves against the devastating and highly unpredictable effects of catastrophes.

In 2006 these efforts will expand and accelerate. By re-examining our catastrophe risk on an ongoing basis, we can protect our business and generate more consistent shareholder returns.

## Finding New Opportunities

By staying close to our customers and markets, we're growing our customer base in a highly competitive market. We compete aggressively for high lifetime value insurance customers in multi-line households. But it takes more than price to win. To attract and retain profitable customers, we also continue to develop our product mix to meet their needs and back these products with fast response, financial strength and integrity. In addition, we anticipate and respond to demographic, regulatory and market trends to find

new ways to connect with consumers. For example, over the last five years we've doubled our investment in multi-cultural advertising. We're also aggressively tapping such channels as NASCAR, Olympic and college football sponsorships and placing greater emphasis on cable TV, the Internet and customer-experience activities.

Allstate responded to the severe catastrophes of 2005 with speed, efficiency and compassion. We also worked to decrease our exposures and applied leadership and innovative thinking to create a better business climate.



# The Future: Building on our Strengths

## Innovation at Work

Innovation anchors success for any company that wants to survive and thrive over the long-term. Allstate is no exception. Our success reflects our commitment to product and process innovation and efficient business practices, and we have many industry firsts to our credit.

In recent years we've taken our investment in innovation to a new level. For example, we developed Allstate® Your Choice Auto insurance to give customers greater flexibility and choice of packages. These package features are helping us win profitable market share, especially as we combine them with increasingly sophisticated underwriting tools to deliver competitive pricing. Innovation is also making our product support structure more efficient and profitable.

Specifically, we started to apply even more sophisticated tiered pricing not only to auto, but across our homeowners portfolio to more finely segment risks and help attract customers with higher lifetime value. And, our Next Generation Claim Systems will combine new technologies with fast, simple, customer-focused processes. This investment will help us lower our loss adjustment expenses, better manage loss costs and boost customer retention and satisfaction.

Even as we look ahead, we keep a keen eye on the market variables that affect our performance and adjust our strategy accordingly. For example, we use technology and local knowledge to guide expansion of our agency base into high-growth areas.

## Value Driven

Value means different things to different people. For Allstate, it means doing everything we can to optimize financial returns for shareholders. The 2005 hurricane season reinforced the importance of managing our business with even greater precision and sophistication. Our performance also makes us even more committed to build on the key strengths that drive shareholder returns by enhancing our business performance and corporate reputation.

Our scale provides built-in economies that generate value for agents, customers and shareholders. For example, it enables us to roll out new products on a regional

basis so we can refine processes and communications based on feedback from agents and customers. Strategies like this save money and support top-line growth.

Our strong balance sheet gives us the flexibility to invest responsibly in growth.

With one of the country's most recognizable brands as a foundation, we are building profitable relationships based on competitively priced products and services, innovation and a better customer experience.

As a company, we value strong communities and show this commitment through ongoing investment in municipal bonds, employee volunteerism and continued support of The Allstate Foundation.

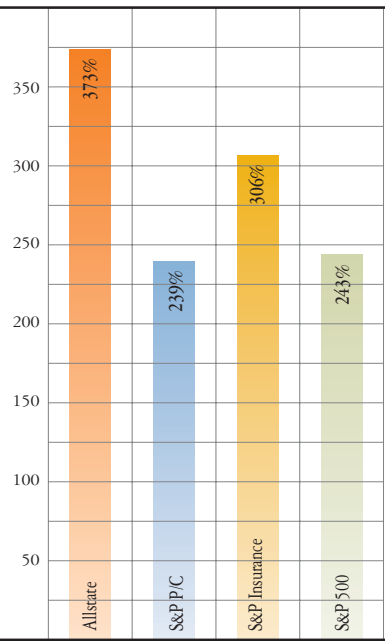
## Investing in People

Allstate maintains its reputation for a high-performance culture by attracting and retaining the best talent in our industry. We provide our force of nearly 70,000 employees, agents and agency staff with many opportunities to expand their knowledge, acquire new skills and position themselves for new career and business opportunities. For example, we launched a new field leadership structure designed to provide agency owners with specialized support to help them operate more efficiently and profitably.

Each year we invest heavily in helping our employees achieve new professional designations and academic degrees. And because diversity is a cornerstone of Allstate's success, we also invest in and value our diverse workforce, who serve our diverse customer base and stockholders in a highly competitive marketplace. In return, our people demonstrate exceptional commitment to our customers and work hard to help Allstate win in the marketplace.

# 75 Years and Growing

## Total Shareholder Returns Since IPO on 6/3/1993

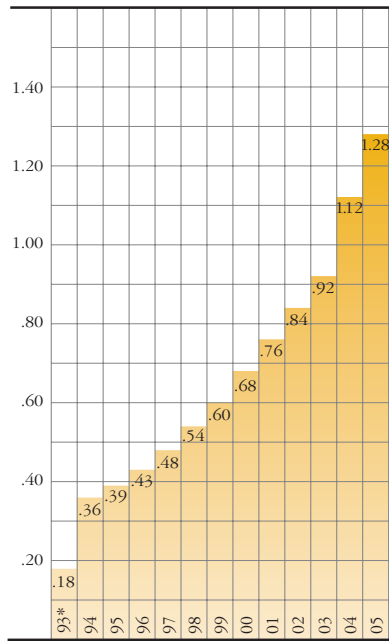


## Total Shareholder Returns

	Allstate	S&P P/C	S&P Insurance	S&P 500
1 Year, 12/31/2004–12/31/2005	7%	15%	14%	5%
2 Years, 12/31/2003–12/31/2005	31%	27%	22%	16%
3 Years, 12/31/2002–12/31/2005	56%	60%	48%	49%
4 Years, 12/31/2001–12/31/2005	75%	43%	17%	16%
5 Years, 12/31/2000–12/31/2005	39%	31%	3%	3%
10 Years, 12/31/1995–12/31/2005	218%	150%	193%	136%
Since IPO, 6/3/1993–12/31/2005	373%	239%	306%	243%

## Dividends per Share

(in dollars, adjusted for stock split in 1998)



\*IPO as of 6/3/1993

## 75 Years and Strong

Allstate is proud to celebrate 75 years of providing protection and security for generations of Americans. We are excited to embark on our next 75 years, and we do so from a strong foundation. The company is growing profitably despite record catastrophe losses. Our financial position is solid. We're improving our competitive position by taking many initiatives to reduce costs. Consumers are responding to the consistent brand experience we deliver, our competitive but disciplined pricing and our innovative new products. Employees

and agents are delivering our Good Hands® Promise with commitment and zeal.

I am grateful for the support of an experienced leadership team that is guiding Allstate toward a dynamic future. Several leaders of your company, including our long-time senior management team member Robert W. Pike, retired in 2005 after decades of outstanding service. I thank them for their many contributions to Allstate's success. They have left their very capable successors with high standards to meet.

In 2005 Allstate drew on its many strengths to overcome adversity and generate solid shareholder returns. I've addressed our strategy for managing catastrophic events. In the pages that follow,

we outline the many steps we took to keep our enterprise growing, meet our customer commitments and deliver value and results.

In 2006 we will focus on several business priorities that are critical to our future. The progress we make to reduce our catastrophe exposure, accelerate profitable growth, protect our brand, manage expenses and improve the customer experience will make us an even stronger and better company.

*Edward M. Liddy*

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