

**The Allstate Corporation Annual Meeting  
Report to Shareholders by  
Thomas J. Wilson, Chairman, President and CEO**

May 21, 2013

Allstate is in a very different and much stronger position today than it has been over the last five years. As shareholders, you should expect management to improve the value of your company. This means Allstate must serve customers better than the competition. Secondly, shareholders deserve a good return on their investment. To accomplish both of these, we need a sound strategy, a strong organization and good governance. You should also expect Allstate to be a good citizen. The Allstate team has accomplished all of these while adapting to significant changes in the external environment and aggressive competition in the auto insurance product line. We have the strategy, leadership team, business model and resources to continue adapting to changes in technology, customer needs, competition and economic conditions.

Our strategy is to serve every segment of the market with unique customer value propositions and brands. In our homeowners business, we have restructured our risk profile and re-priced the product in light of a dramatic increase in severe weather beginning in 2008. As a result, underlying profitability has improved dramatically. We are positioning this business to be a competitive advantage as we broaden and deepen relationships with customers. Across all lines of business, we continue to reinvent our product portfolio with a stream of industry-leading innovations. We also proactively manage the investment portfolio to balance risk and return, which is very important in this uncertain economic climate.

Other changes are less visible from a distance, but are equally important. Continued progress has been made in changing the culture to be more customer-focused. Processes, products and compensation systems have been modified to support this change.

The organization is strong. The leadership team is world-class. We are building an organization of 70,000 purpose-driven individuals by utilizing programs such as Energy For Life for employees and agency owners. The Allstate agency network is highly effective, aligned around improving the customer value proposition and growing. Over the last three years, we undertook an effort to build stronger agencies that can grow with sustainable business models. This was hard because at the same time, agencies were coping with the restructuring of the homeowners business. This required a tremendous amount of effort on their part. I am thankful for their partnership and commitment to Allstate.

We are upgrading technology, including eAgent, which is getting rave reviews from the Allstate agency network; DriveWise<sup>®</sup>, the new telematics offering; and customer connectivity through web and mobile access. We have achieved these things despite continuing to deal with the aftermath of the two storms which have wreaked havoc on our world. First, a significant increase in weather severity caused costs to increase dramatically, most noticeably in the homeowners business. Then the financial market meltdown hurt the value of our investments and subsequently caused a worldwide recession. This not only impacted our investment portfolio and future returns, it provided us with fewer opportunities to capture new customers, since buying a new home or car is a key shopping trigger for customers.

Like all dramatic change, not everything we attempted worked. In addition, it is often hard to see the progress in the middle of change. But today, we are through much of the required changes

and in a much stronger position. This is due to the extraordinary work by agency owners, employees, financial specialists and our external partners. This solid base will allow Allstate to grow and prosper going forward.



The combination of a competitively differentiated strategy and a strong organization bodes well for the future. On the screen is the four-square strategic framework. It breaks down the consumer insurance market into four segments based on preferences for type of interaction and beliefs about insurance companies. On the left side of the chart are consumers who prefer to get local advice and assistance as it relates to their insurance needs. On the right-hand side are consumers who feel comfortable handling insurance on their own. On the bottom half are people who value insurance and see a difference between the various brands in the market. On the top half are consumers who see little difference between insurance offerings other than price. They are brand-neutral.

This segmentation is confirmed by competitive market shares. Allstate and State Farm have market shares in the lower left quadrant much higher than our overall market share position. Geico and Progressive Direct both over-index market share on the right-hand side. Allstate agencies serve the largest segment of the market in the lower left.

In late 2011, we acquired Esurance and Answer Financial to compete more effectively in the self-serve segments. This enables the Allstate brand to be focused squarely on the customers in the lower left-hand segment. When combined with our Encompass offering, we are the only company with the ability to serve each segment with a focused value proposition tailored just for those customers.

Over the last year, we have developed different customer value propositions for each segment. For Allstate, that means local presence, a broad relationship and knowing our customers. Allstate agencies provide assistance, advice and advocacy. The customer value proposition keeps us focused. For example, it says, "Allstate always treats me with respect and values my relationship." For Esurance, which serves a segment that values easy and simple processes and information to support decision-making, the value proposition is different. "Esurance delivers in a way that fits my life and helps me make smart choices."

Our strategy is to deliver differentiated products and services to each of these segments. The clarity created by this strategy has improved focus and accountability. It is spurring innovation and improving the customer experience. It allows us to serve each segment better than the other competitors in that segment. It also ensures we realize the scale benefits of having multiple brands in the market without creating internal competition.

Each year, we set corporate priorities to further focus our efforts. In 2012, we achieved all four priorities which are laid out in the annual report. First, maintain auto profitability. Secondly, raise returns in the homeowners and annuity businesses. Growing insurance premiums was our third priority. Our fourth priority was to proactively manage our investments and capital. We had very good results across the board.

As a result of this operational performance, total shareholder return last year was 50 percent. Our stock also outperformed both the S&P 500<sup>®</sup> and the S&P 500 Property/Casualty Index in 2012. We also increased the dividend by 4.8 percent and repurchased \$910 million of common stock. Allstate's earnings, portfolio valuation growth and these repurchases increased book value per diluted share by 17.2 percent to \$42.39 at year-end 2012.

Our corporate priorities for 2013 are similar to last year's, but with increased emphasis on growth. First, we must grow insurance premiums in each consumer segment by delivering top quartile value propositions. While overall market share is important, we need to look at our competitive position by segment since it is consistent with our strategy. Secondly, we must maintain auto profitability to be equal to or better than the top four competitors in each segment. Third, we need to raise returns in the homeowners and annuity businesses to be appropriate for the risks we take. Our fourth priority is to proactively manage investments. Those four priorities are very similar to last year's. We added a fifth priority this year, to reduce our cost structure. In the current tough economic environment, we must focus on delivering what customers are willing to pay for.

We are building on 2012's results and reported good results on these objectives in the first quarter of 2013. Premiums written, which is a measure of growth, were up in each of our brands. The local-advice and branded segment served by Allstate agencies grew in the first quarter, but this growth was driven by average price as policies in force declined. Our market share in this segment has declined as we took the necessary actions to restructure the homeowners business to improve returns. Given our progress in raising returns in homeowners, we can now shift our focus to growth. Customer loyalty has been improving as we do a better job for customers by being highly focused, which should lead to higher retention and growth. In addition, new business increased as we expanded risk targets in auto insurance and re-entered some homeowners markets with the new House and Home<sup>®</sup> product. We also broadened relationships with these customers with growth in Allstate Financial products and our consumer household lines. The local-advice but brand-neutral segment served under the Encompass brand grew policies in force and revenues. Growth in the self-serve branded segment served by Esurance was fabulous at 36 percent over the prior year. The innovative Good Hands<sup>®</sup> Roadside business surpassed 1 million members, only 27 months after it was launched. This shows the power of combining innovation, the Allstate brand, a strong distribution system and aggressively implementing our strategy.

We also made progress against our other 2013 priorities. We maintained auto profitability. The homeowners business performed well. The annuity business, however, did not do as well due to a decline in returns from limited partnership investments. We continue to proactively manage investment risk and return. Investment income did decline due to our decision to position the portfolio for an eventual rise in interest rates. We are also working aggressively to reduce costs. Our strategy and operating priorities are putting us in a position to lead the industry in serving customers and delivering attractive returns for shareholders.

Allstate has also taken a leadership role with its governance practices. The board of directors continued to adapt and improve its oversight and be responsive to shareholders. We continue to interact with shareholders on governance by holding individual meetings with shareholders that own about 30 percent of the company. In addition, we have an active dialogue with the governance rating firms that some shareholders utilize to assess our practices.

Allstate's responsibilities also extend to being an active citizen in the communities where our customers live and work. The Allstate Foundation, company, employees and agency owners support over 7,000 organizations throughout the country with over \$29 million. Employees are given time off to volunteer and over 1,600 agency owners received Allstate Agency Hands in the Community grants. We also use our voices to shape change through our quarterly Heartland Monitor poll and engagement in regulatory and legislative matters that relate to delivering shareholder value. We do all of this with full transparency by providing an annual Corporate and Social Responsibility Report.

Let me close where we began. Allstate is in a strong position to serve customers and deliver attractive shareholder returns through a competitively differentiated strategy, a strong and aligned organization and excellent governance. While we cannot predict what external changes will come our way, we are well positioned to adapt and succeed. Thank you for your continued support.