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Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2003

This discussion and analysis focuses on the operations and changes in financial position of Allstate Life Insurance Company ("ALIC") and its affiliated life insurers for the year ending December 31, 2003. It should be read in conjunction with the annual statement.

ALIC is a wholly owned subsidiary of Allstate Insurance Company ("AIC"), which is a wholly owned subsidiary of the Allstate Corporation ("Corporation"). ALIC's affiliated life insurers included in its combined statement are: Allstate Life Insurance Company of New York ("ALNY"), Glenbrook Life and Annuity Company ("GLAC"), Lincoln Benefit Life Company ("LBL"), Surety Life Insurance Company ("Surety"), Charter National Life Insurance Company ("CNLIC"), Intramerica Life Insurance Company ("ILIC") and Allstate Assurance Company ("AAC"), collectively known as the "Company".

Effective January 1, 2003, Northbrook Life Insurance Company ("NLIC"), an affiliated life insurer, merged with ALIC. The NLIC merger transaction qualified as a statutory merger per Statement of Statutory Accounting Principles ("SSAP") No. 68, Business Combinations and Goodwill. NLIC's assets and liabilities were transferred to ALIC's balance sheet at statutory carrying values as of the effective date of the merger.

The Company is licensed to conduct business in all states of the United States, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. A diversified portfolio of retail and structured financial products is marketed to meet customers' needs in the areas of financial protection, investment and retirement solutions.

Products sold to retail customers include retirement solutions such as variable annuities and fixed annuities, and financial protection products such as interest-sensitive life and traditional life insurance. Retail products are sold through a variety of distribution channels including Allstate exclusive agencies, independent agents (including master brokerage agencies), financial services firms (financial institutions and broker dealers) and direct marketing.

For structured financial products customers, a variety of primarily spread-based products are offered to institutional investors, special purpose entities ("SPEs") and others. Spread-based products are designed to generate income based on the difference ("spread") between investment returns on the supporting assets and the returns credited to customers. These products include guaranteed investment contracts ("GICs") sold to tax-qualified retirement plan sponsors or investment managers who represent plan sponsors, and funding agreements ("FAs") sold to SPEs that issue medium-term notes to institutional investors.

The Company's strategies include developing and delivering market-informed products and services, leveraging and building the Allstate brand in financial services, building profitable long-term relationships, and driving operational efficiency and effectiveness. The Company continues to extend the Allstate brand by using it in conjunction with more products and distribution channels and create greater awareness of available services through advertising, public relations, and by focusing on a consistent experience for customers and distribution partners. The Company intends to grow its business through a combination of organic growth, selective acquisitions, alliances and partnerships.

FINANCIAL POSITION

Cash and Invested Assets

The investment strategy of the Company is based upon a strategic asset allocation framework that considers the need to manage the portfolio on a risk-adjusted spread basis for the underwriting contract liabilities and to maximize return on retained capital. Generally, a combination of recognized market, analytical and proprietary modeling is used to achieve a desired asset mix in the management of the portfolio. The strategic asset allocation model portfolio is the primary basis for setting annual targets with respect to interest sensitive, illiquid and credit asset allocations, as well as limitations with respect to overall below-investment-grade exposure and diversification requirements. On a tactical basis, decisions are made on an option adjusted relative value basis within the constraints of the strategic asset allocation framework. The Company believes asset spread is maximized by selecting assets that perform on a long-term basis and by using trading to minimize the effect of downgrades and defaults. Total return measurement is used on a selective basis where the asset risks are significant (e.g. high yield fixed income securities, convertible bonds). It is expected that this strategy will minimize interest rate market impacts on investment income and will provide sustainable investment income over time.

The composition of the investment portfolio at December 31, 2003 is presented in the table below.

(in millions)	2003	2002
Bonds	$ 41,171	$ 35,444
Preferred stocks	468	369
Common stocks	57	45
Mortgage loans on real estate	5,485	5,048
Real estate	34	42
Cash	59	110
Short-term investments	725	870
Contract loans	685	688
Other invested assets	206	229
Total	$ 48,890	$ 42,845

Total invested assets increased $6.05 billion, or 14%, to $48.89 billion at December 31, 2003 from $42.85 billion at December 31, 2002. The increase in investments was primarily due to amounts invested from positive cash flows generated from operating and financing activities and increased funds associated with dollar-roll programs.

Bonds

The fixed income securities portfolio consists of publicly traded corporate bonds, privately placed securities, mortgage-backed securities, asset-backed securities, U.S. government bonds, taxable municipal bonds and foreign government bonds. The Company generally holds its fixed income securities to maturity, but has classified all bonds as available for sale to allow maximum flexibility in portfolio management.

Bonds are carried at amortized cost. Fair value of bonds was $44.24 billion and $38.57 billion at December 31, 2003 and 2002, respectively. At December 31, 2003, unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value were $3.07 billion, compared to $3.13 billion as of December 31, 2002.

The Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC") evaluates the credit quality of the fixed income securities investments of insurers in accordance with six numeric rating designations indicating the quality of the security, otherwise referred to as NAIC

designations. The NAIC designations parallel the credit ratings of the Nationally Recognized Statistical Rating Organizations for marketable securities. NAIC designations 1 and 2 include securities considered investment grade (rated "Baa3" or higher by Moody's, or rated "BBB-" or higher by S&P) by such rating organizations. NAIC designations 3 through 6 include securities considered below investment grade (rated "Ba1" or lower by Moody's, or rated "BB+" or lower by S&P).

The ratings of securities in the Company's portfolio are influenced by many factors, including the impact of the economic environment on individual securities. A fluctuation in these ratings could materially impact the results of operations, liquidity or financial position. The Company closely monitors its bond portfolio for rating changes or other declines in value that are other than temporary. Fixed income securities are placed on non-accrual status when they are in default or when the timing or receipt of principal or interest payments are in doubt. Write-downs of bonds are recorded when the decline in value is considered to be other than temporary.

At December 31, 2003, approximately 92% of the fixed income securities portfolio, including bonds and short-term investments, were rated investment grade.

Fixed income securities issued by the U.S. government and agencies of the U.S. government totaled $4.32 billion at December 31, 2003 compared to $2.84 billion at December 31, 2002. All of these securities were rated investment grade at December 31, 2003.

Municipal bonds, including tax-exempt and taxable securities, totaled $1.64 billion and were all rated investment grade at December 31, 2003. There was $1.22 billion of municipal bonds at December 31, 2002. The municipal bond portfolio at December 31, 2003 consisted of approximately 134 issues from nearly 108 issuers.

The bond portfolio contained $10.49 billion and $9.25 billion of privately placed corporate obligations at December 31, 2003 and 2002, respectively. The benefits of privately placed securities as compared to public securities are generally higher yields, improved cash flow predictability through pro-rata sinking funds on many bonds, and a combination of covenant and call protection features designed to better protect the holder against losses resulting from credit deterioration, reinvestment risk and fluctuations in interest rates. A potential disadvantage of privately placed securities as compared to public securities is reduced liquidity. Approximately 89% of the privately placed securities were rated investment grade by either the NAIC or the Company's internal ratings. The Company determines the fair value of privately placed bonds based on discounted cash flows using current interest rates for similar securities.

Foreign government securities totaled $461 million and $371 million at December 31, 2003 and 2002, respectively. Approximately 73% of these securities were rated investment grade at December 31, 2003.

At December 31, 2003 and 2002, $7.28 billion and $7.95 billion, respectively, of the fixed income securities portfolio were invested in mortgage-backed securities ("MBS"). The MBS portfolio consists primarily of securities which were issued by or have underlying collateral that is guaranteed by U.S. government agencies or sponsored entities, thus minimizing credit risk. The MBS portfolio, however, is subject to interest rate risk since price volatility and ultimate realized yield are affected by the rate of repayment of the underlying mortgages. The Company attempts to limit interest rate risk on these securities by investing a portion of the portfolio in securities that provide prepayment protection. At December 31, 2003, approximately 100% of the MBS portfolio were rated investment grade.

The fixed income securities portfolio also contained $2.97 billion and $2.21 billion of asset-backed securities ("ABS") at December 31, 2003 and 2002, respectively. The ABS portfolio is subject to credit and interest rate risks. Credit risk is mitigated by monitoring the performance of the collateral. Approximately 95% of the ABS securities were rated investment grade by either the NAIC or the

Company's internal ratings. Interest rate risk is similar to the risk posed by MBS, but to a lesser degree due to the nature of the underlying assets. The portfolio is primarily backed by securitized home equity, manufactured housing and auto loans.

Common Stocks

The equity securities portfolio was $57 million, primarily comprised of investments in industrial stocks and non-insurance subsidiaries, at December 31, 2003 compared to $45 million, in 2002. The increase was mainly attributed to improved equity market conditions and a $3 million capital contribution to Allstate Settlement Corporation, an affiliate.

Mortgage Loans on Real Estate

The $5.49 billion investment in mortgage loans at December 31, 2003 was comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage mortgage loan risk.

The Company closely monitors its commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risk, are reviewed at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status. The underlying collateral values are based upon discounted property cash flow projections, which are updated as conditions change or at least annually.

Short-term Investments

The short-term investment portfolio was $725 million and $870 million at December 31, 2003 and 2002, respectively. The Company invests all available cash balances in taxable and tax-exempt short-term securities having a final maturity date or redemption date of one year or less.

The Company also participates in securities lending, as an investment yield enhancement, with third parties, primarily large brokerage firms. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of domestic and foreign securities, respectively, and monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. In return for these securities, the Company receives cash that is subsequently invested and included in short-term investments and an offsetting liability is recorded in other liabilities. At December 31, 2003, fixed income securities with a carrying value of $912 million have been pledged as collateral under these agreements.

Separate Accounts

The Company issues deferred variable annuities, variable life contracts and certain guaranteed investment contracts, the assets and liabilities of which are legally segregated and recorded as assets and liabilities of the Separate Accounts. Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death or annuitization, variable annuity and variable life contract holders bear the investment risk that the Separate Accounts funds may not meet their stated investment objectives.

The assets of the Separate Accounts are carried at fair value. Separate Accounts liabilities represent the contract holders' claim to the related assets and are carried at the fair value of the assets. In the event that the asset value of certain contract holder accounts are projected to be below the value guaranteed by the Company, a liability is established through a charge to earnings. Investment income and realized capital gains and losses of the Separate Accounts accrue directly to the contract holders, and therefore, are not included in the consolidated Statements of Operations. Revenues from the

Separate Accounts consist of contract maintenance and administration fees, and mortality, surrender and expense risk charges.

Separate Accounts balances increased by $3.25 billion, or 18%, to $21.22 billion at December 31, 2003 due primarily to improved equity market performance during the year.

Capital and Surplus

Capital and surplus as of December 31, 2003 and 2002 was $3.56 billion and $3.24 billion, respectively. Capital and surplus including the Asset Valuation Reserve ("AVR") was $3.78 billion and $3.41 billion at December 31, 2003 and 2002, respectively. Capital and surplus, including AVR, as a percent of general account liabilities, was 8% at both December 31, 2003 and 2002.

RESULTS OF OPERATIONS

(in millions)	2003	2002
Premiums and annuity considerations	$ 9,059	$ 8,756
Net investment income including IMR amortization	2,750	2,626
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	219	213
Other income	277	271
Total	12,305	11,866
Provision for benefits	8,526	7,913
Commissions and general insurance expenses	1,282	1,196
Insurance taxes, licenses and fees excluding federal income taxes	71	59
Net transfers to Separate Accounts	652	1,620
Maturities and other scheduled payments	931	579
Reserves transferred	(15)	(9)
Total	11,447	11,358
Net gain from operations before dividends to policyholders and federal income taxes	858	508
Federal and foreign income taxes incurred	214	130
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	644	378
Net realized capital gains or (losses), net of IMR and federal income taxes	(35)	(263)
Net income	$ 609	$ 115

Net Income

The increase of $494 million was primarily due to significant growth in investment income, including IMR amortization and decreases in policy benefits. A favorable change in investment income of $124 million was driven by a higher invested asset base, averaging $45.87 billion in 2003 compared to $40.55 billion in 2002. An increase in provision for benefits of $613 million included a $400 million decrease in reserves on the Guaranteed Minimum Death Benefit ("GMDB"), a rider for variable policies. The decrease was the result of improved market conditions in 2003 and clarifying accounting guidance.

Premium and Annuity Considerations

Premiums and annuity considerations increased $303 million, or 3%, in 2003, as compared to 2002, due to growth in sales of fixed annuities and indexed annuities, offset by a decrease in market value adjusted annuities ("MVAA"). The increase in sales of fixed annuities was mainly attributable to the Saver Choice Product Suite, Allstate Performance, Advantage Plus and Select 2000 products, driven by attractive crediting rates. The growth in indexed annuities sales was due to attractive commission and participation rates offered by the Company on some of its products. An industry-wide decline in MVAA sales resulted from the low and uncertain interest rate environment and possible market value adjustment penalties for early withdrawal.

Net Investment Income

Net investment income, including Interest Maintenance Reserve (IMR) amortization, increased $124 million, or 5%. Increases, not including IMR amortization were due to higher investment portfolio balances, offset by slightly lower portfolio yields which were 6.3% in 2003 compared to 6.9% in 2002. Investments, excluding Separate Account assets, grew 14% in 2003 due to positive cash from operations.

Provision for Benefits

The $613 million, or 8%, increase in provision for benefits over the prior year was substantially due to increases of $269 million in surrender benefits, $244 million in reserves and $113 million in annuity benefits.

Surrender benefits increased $269 million, or 9%, primarily due to higher surrenders of MVAA, fixed annuities and indexed annuities, offset by lower surrenders of interest sensitive life and variable annuities.

Reserves increased $244 million, or 8%, were mainly caused by an increase in sales of fixed annuities and indexed annuities, offset partially by the decrease in reserves for variable annuities as a result of improving market conditions over the prior year.

The annuity benefits increased $113 million, or 9%, and was attributable to fixed annuities, MVAA and structured settlements. The $39 million increase in fixed annuities benefits was attributed to strong sales, which have resulted in a reserve increase of approximately $2.87 billion over prior year. The annuity benefits paid increased as the size of the block of business grew. The $28 million increase in MVAA benefits was due to an increase in account value. The $25 million increase in structured settlements benefits was due to a larger reserve base. The benefits payments as a percentage of average reserves has remained constant.

Commissions and General Insurance Expenses

Commissions and general expenses increased $86 million, or 7%. Commissions increased $64 million, or 10%, consistent with the increase in premiums and annuity considerations. General expenses increased $8 million, or 1%. Loading increased $14 million due to higher renewal premiums on term life, which allows for a net premium to be greater than gross premium, resulting in a negative loading.

Net Transfers to Separate Accounts

The transfers decreased $968 million, or 60%, in 2003 due to lower premiums and lower benefits. Customers' reluctance to invest in variable annuities and market value adjusted annuities resulted in $800 million lower premiums in 2003 compared to 2002. Lower variable account values resulted in

$121 million lower CARVM and $68 million lower transfers to fixed funds. The offset was mainly accounted by $136 million of increase in MVAA income.

Maturities and Other Scheduled Payments

Maturities and other Scheduled Payments increased $352 million, or 61%, due to increased guaranteed investment contract payouts. These contractual payments vary from year to year due to contract requirements.

Federal and Foreign Income Taxes Incurred

Federal and foreign income taxes incurred increased $84 million, or 65%, in 2003 as compared to 2002 primarily due to higher taxable income.

Net Realized Capital Losses

Realized capital losses, net of income taxes and after the transfer of gains to IMR, were $35 million in 2003 compared to losses of $263 million in 2002. Realized capital losses, net of income taxes but prior to the transfer of certain gains to the IMR, were $67 million in 2003 compared to gains of $320 million in 2002. The following table describes the factors impacting the realized capital gains and losses results:

(in millions)	2003	2002
Sales	$ 19	$ (209)
Investment write-downs	(119)	(242)
Other	(39)	60
Net realized gains (losses)	(139)	(391)
Capital gains taxes (benefits)	(72)	(71)
Net realized gains (losses) after taxes	$ (67)	$ (320)

Period to period fluctuations in realized gains and losses are largely the result of the timing of sales decisions reflecting management's view of individual securities and overall market conditions.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	2003	2002
Net cash from operations	$ 3,912	$ 3,482
Net cash from investments	(6,284)	(4,424)
Net cash from financing and miscellaneous sources	2,176	1,291
Net change in cash and short-term investments	$ (196)	$ 349

The Company generated positive cash from operations of $3,912 million and $3,482 million in 2003 and 2002, respectively. The principal sources of funds from operations are premiums and investment income. The principal uses are the payment of claims and related expenses, and commissions and operating expenses. The positive cash flow from financing and miscellaneous sources of $2,176 million was mainly comprised of $1,531 million of net deposits on deposit-type contracts. The cash inflow from deposit-type contracts was mainly comprised of $1,833 million net deposits in EMTN, $89 million in

structured settlements and $40 million in payout annuities, offset by $346 million net withdrawal in indexed fixed annuities and $100 million in GISA.

The maturity structure of the Company's bonds, which represent 86% of the Company's total investments, is managed to meet the anticipated cash flow requirements of the underlying liabilities. A portion of the diversified product portfolio, primarily fixed deferred annuities and universal life insurance policies, is subject to discretionary surrender and withdrawal by customers. Management believes its assets are sufficiently liquid to meet future obligations to its life and annuity policyholders, under various interest rate scenarios.

Liquidity for life insurance companies is measured by the ability to pay contractual benefits and operating expenses, and fund investment commitments. Annuity reserves at December 31, 2003, excluding Separate Accounts, comprise 83% of total reserves in-force. Of the total annuity reserves, $26 billion, or 75%, are not subject to discretionary withdrawal. The Company maintains a strong liquidity position and is well positioned to meet its policyholders' obligations.

Dividends

The ability of ALIC to pay dividends is dependent on business conditions, income, cash requirements, receipt of dividends and other relevant factors. The payment of shareholder dividends by ALIC 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 ALIC can distribute during 2004 without prior approval of the IL DOI is $551 million. Dividends are not cumulative.

In 2003, ALIC paid $200 million of dividends, which is below the maximum payment amount that can be distributed without prior approval by the Illinois Insurance Department. Dividends paid were comprised of $198 million to AIC on common stock and $2 million to Northbrook Holdings, LLC on Series A preferred stock.

Financial Ratings and Strength

At December 31, 2003, the Company's insurance claims-paying ratings from A.M. Best, Moody's Investors Services, Inc., and Standard & Poor's Ratings Services Company were A+ (Superior), Aa2 (Excellent), and AA (Very Strong), respectively.

Risk Based Capital

The NAIC has a standard to assess the solvency of insurance companies, which is referred to as risk based capital ("RBC"). The standard is based on a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. RBC is calculated by applying factors to various asset, premium and liability items. At December 31, 2003, RBC for the Company was significantly above levels that would require regulatory action.

IRIS Ratios

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an

insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue.

At December 31, 2003, each of ALIC's affiliates had at least one ratio that was out of the expected range. Management believes that they can explain these exceptions to state insurance departments upon inquiry.

OTHER

Reinsurance

The Company's reinsurance ceded on life insurance policies increased 13% to $177.28 billion at December 31, 2003 from $156.51 billion at December 31, 2002. The increase is consistent with the growth in life insurance policies in-force at the end of the year. The Company purchases reinsurance to limit aggregate and single losses on large risks, while continuing to have primary liability as a direct insurer for risks reinsured.

The Company cedes 90%, 80% or 60% of the mortality risk on life insurance policies, depending upon the issue year and product. The Company also cedes 100% of the mortality and certain other risks related to product features on certain in-force variable annuity contracts. Since 1998, the mortality risk on new life contracts that exceed $2 million per individual coverage has been ceded. For business sold prior to 1998, mortality risk in excess of specific amounts greater than $1 million per life for individual coverage was ceded.

ALIC's domestic insurance subsidiaries are domiciled in Illinois, New York, Arizona and Nebraska. Except for those domiciled in New York, ALIC has 100% intercompany reinsurance agreements in place with its domestic insurance subsidiaries, although one subsidiary retains a small block of business for tax purposes. Only assets supporting capital and Separate Accounts remain in these subsidiaries.

The credit worthiness of reinsurers is continuously monitored. As of December 31, 2003, approximately 94% of ceded premiums under uncollateralized non-affiliate reinsurance treaties were ceded to companies that had a financial strength rating above investment grade level, as measured by at least one of the major rating agencies. In certain cases, these ratings refer to the financial strength of the affiliated group or parent company of the reinsurer.