ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions, except par value and share data)	2003	2002
ADMITTED ASSETS		
Bonds (NAIC fair value: $44,197 and $38,414)	$ 41,171	$ 35,444
Preferred stocks (NAIC fair value: $520 and $401)	468	369
Common stocks:		
Unaffiliated companies (Cost: $36 and $33)	41	32
Uncombined subsidiaries and affiliates (Cost: $5 and $2)	16	13
Total common stocks	57	45
Mortgage loans on real estate	5,485	5,048
Real estate	34	43
Cash, cash equivalents and short-term investments	784	980
Contract loans	685	688
Other invested assets	79	95
Receivable for securities	8	27
Derivative contracts	119	106
Subtotals, cash and invested assets	48,890	42,845
Investment income due and accrued	495	464
Premiums and considerations	202	191
Reinsurance recoverables	22	90
Net deferred tax asset	200	233
Transfers to Separate Accounts due or accrued (net)	630	496
Other assets	20	22
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	21,216	17,962
Total	$ 71,675	$ 62,303

	2003	2002
LIABILITIES		
Aggregate reserve for life contracts	$ 33,245	$ 30,000
Aggregate reserve for accident and health contracts	107	95
Liability for deposit-type contracts	10,803	9,006
Contract claims and liabilities	131	180
Commissions to agents due or accrued	47	39
General expenses due or accrued	14	27
Current federal and foreign income taxes	15	32
Remittances and items not allocated	117	85
Borrowed money	636	-
Dividends to stockholders declared and unpaid	75	-
Asset valuation reserve	219	162
Payable to parent, uncombined subsidiaries and affiliates	145	122
Payable for securities	26	53
Securities lending collateral	949	1,042
Derivatives collateral	333	194
Other liabilities	78	97
From Separate Accounts Statement	21,175	17,924
Total liabilities	68,115	59,058
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
CAPITAL AND SURPLUS		
Common capital stock ($227 par value; 23,800 shares authorized, issued and outstanding)	5	5
Preferred capital stock ($100 par value; 1,500,000 shares authorized, 815,460 and 930,650 shares issued and outstanding)	82	93
Gross paid in and contributed surplus	1,023	1,023
Unassigned funds (surplus)	2,450	2,124
Total capital and surplus	3,560	3,245
Total liabilities, capital and surplus	$ 71,675	$ 62,303

See notes to combined statutory-basis financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions)	2003	2002
Premiums and annuity considerations for life and accident and health contracts	$ 9,059	$ 8,756
Net investment income	2,805	2,599
Amortization of interest maintenance reserve	(55)	27
Other income	496	483
Total revenues	12,305	11,865
Death benefits	478	448
Annuity benefits	1,308	1,195
Surrender benefits and withdrawals for life contracts	3,207	2,938
Increase in aggregate reserves for life and accident and health contracts	3,254	3,010
Other contract benefits	279	321
Commissions and general insurance expenses, including insurance taxes, licenses and fees	1,338	1,246
Net transfers to or (from) Separate Accounts net of reinsurance	652	1,620
Maturities and other scheduled payments	932	579
Total benefits and expenses	11,448	11,357
Net gain from operations after dividends to policyholders and before federal income taxes and realized capital gains or (losses)	857	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)	643	378
Net realized capital gains or (losses)	(35)	(262)
Net income	$ 608	$ 116

See notes to combined statutory-basis financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED, LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions)	2003	2002
Capital and surplus, December 31, prior year	$ 3,245	$ 2,735
Net income	608	116
Change in net unrealized capital gains (losses)	(22)	(20)
Change in net deferred income tax	(105)	78
Change in nonadmitted assets and related items	88	(91)
Change in asset valuation reserve	(57)	130
Change in surplus of Separate Accounts Statement	18	(10)
Cumulative effect of changes in acounting principles	–	11
Capital and surplus paid in	(11)	339
Dividends to stockholders	(200)	(49)
Other	(4)	6
Capital and surplus, December 31, current year	$ 3,560	$ 3,245

See notes to combined statutory-basis financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions)	2003	2002
Cash from operations:		
Premiums collected net of reinsurance	$ 9,043	$ 8,762
Net investment income	2,618	2,360
Miscellaneous income	427	414
Total	12,088	11,536
Benefits and loss related payments	(5,065)	(4,555)
Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	(686)	(1,531)
Commissions, expenses paid and aggregate write-ins for deductions	(2,266)	(1,854)
Federal and foreign income taxes (paid) recovered	(159)	(114)
Total	(8,176)	(8,054)
Net cash from operations	3,912	3,482
Cash from investments:		
Proceeds from investments sold, matured or repaid	16,905	13,623
Cost of investments acquired (long-term only)	(23,195)	(18,027)
Net (increase) or decrease in contract loans and premium notes	6	(20)
Net cash from investments	(6,284)	(4,424)
Cash from financing and miscellaneous sources:		
Capital and paid in surplus, less treasury stock	(12)	340
Borrowed funds received	636	(485)
Net deposits on deposit-type contracts and other insurance liabilities	1,531	1,294
Dividends to stockholders	(125)	(49)
Other cash provided (applied)	146	190
Net cash from financing and miscellaneous sources	2,176	1,290
Reconciliation of cash and short-term investments:		
Net change in cash and short-term investments	(196)	348
Cash and short-term investments, beginning of year	980	632
Cash and short-term investments, end of period	$ 784	$ 980

See notes to combined statutory-basis financial statements.

1. General

Nature of operations

The accompanying combined financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and the following United States domiciled life, accident and health insurance subsidiaries: Lincoln Benefit Life Company ("LBL"), Surety Life Insurance Company ("SLIC"), Glenbrook Life and Annuity Company ("GLAC"), Charter National Life Insurance Company ("CNLIC"), Intramerica Life Insurance Company ("ILIC"), Allstate Assurance Company ("AAC"), and Allstate Life Insurance Company of New York ("ALNY) (collectively referred to as the "Company"). ALIC, CNLIC and AAC are domiciled in Illinois; LBL and SLIC are domiciled in Nebraska; ILIC and ALNY are domiciled in New York; and GLAC is domiciled in Arizona. Effective January 1, 2003, Northbrook Life Insurance Company ("NLIC"), formerly a wholly owned subsidiary of ALIC, merged into ALIC. ALIC is the surviving legal entity and NLIC has ceased to exist as an independent entity. The merger had no impact on the combined financial statements of the Company as of and for the years ended December 31, 2003 and 2002. ALIC is wholly owned by Allstate Insurance Company ("AIC"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation"). All significant intercompany accounts and transactions have been eliminated.

The Company offers a diversified portfolio of retail and institutional products to meet consumers' needs in the areas of financial protection, savings and retirement through a variety of distribution channels. Retail life insurance products include: term life, whole life, credit life, interest-sensitive life, variable life, variable universal life and single premium life. Other insurance products include long-term care, accidental death, hospital indemnity and credit disability. Savings products include fixed deferred annuities (including market value adjusted annuities, equity-indexed annuities and treasury-linked annuities), immediate annuities (including structured settlement annuities) and variable annuities. These products are sold through a variety of distribution channels including Allstate agencies, financial institutions, broker/dealers, independent agents (primarily master brokerage agencies), direct marketing and specialized brokers. The institutional product line consists primarily of funding agreements sold to variable interest entities that issue medium-term notes to institutional investors.

The Company is authorized to sell its products in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands. For 2003, the top geographic locations for premiums and annuity considerations for the Company were Delaware, California, New York, Florida and Pennsylvania. No other jurisdiction accounted for more than 5% of premiums and annuity considerations.

The Company monitors economic and regulatory developments that have the potential to impact its business. Federal legislation has allowed banks and other financial organizations to have greater participation in the securities and insurance businesses. This legislation may result in an increased level of competition for sales of the Company's products. Furthermore, state and federal laws and regulations affect the taxation of insurance companies and life insurance and annuity products. Congress and various state legislatures have considered proposals that, if enacted, could impose a greater tax burden on the Company or could have an adverse impact on the tax treatment of some insurance products offered by the Company, including favorable policyholder tax treatment currently applicable to life insurance and annuities. Recent legislation that reduced the federal income tax rates applicable to certain dividends and capital gains realized by individuals, or other proposals, if adopted, that reduce the taxation, or permit the establishment, of certain products or investments that may compete with life insurance or annuities could have an adverse effect on the Company's financial position or ability to sell such products. In addition, recent changes in the federal estate tax laws have negatively affected the demand for the types of life insurance used in estate planning.

2. Summary of Significant Accounting Policies

Basis of presentation

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

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

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

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

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

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

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

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

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

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

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

i. Costs that vary with and are primarily related to acquiring life insurance and investment business, principally agents' and brokers' remuneration, certain underwriting costs and direct mail solicitation expenses, are expensed as incurred, while under GAAP, they are deferred and amortized to income either over the premium paying period of the related policies in proportion to the estimated revenue on such business or in relation to the present value of estimated gross profits on such business over the estimated lives of the contracts.

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

k. Statutory policy reserves are based on mortality and interest assumptions prescribed or permitted by state statutes, without consideration of withdrawals. Statutory policy reserves generally differ from policy reserves under GAAP, which are based on the Company's estimates of mortality, interest and withdrawals. The effect, if any, on reserves due to a change in valuation basis is recorded directly to unassigned surplus rather than included in the determination of net gain from operations.

l. The asset valuation reserve and interest maintenance reserve are established under Codification, but not GAAP.

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

n. The assets and reserves relating to market value adjusted annuity contracts are reflected as assets and liabilities related to Separate Accounts and are carried at fair value. Premium receipts and benefits on these contracts are recorded as revenue and expense and are transferred to the Separate Accounts. Under GAAP, these assets are reported as bonds and mortgage loans. Bonds designated as available for sale are carried at fair value and mortgage loans are carried at outstanding principal balance, net of unamortized premium or discount and valuation allowances. Liabilities are reported as contractholder funds. Revenues are comprised of contract charges and fees for contract administration and surrenders.

o. Premium receipts and benefits on universal life-type contracts are recorded as revenue and expense for statutory purposes. Under GAAP, revenues on universal life-type contracts are comprised of contract charges and fees which are recognized when assessed against the policyholder account balance. Additionally, premium receipts on universal life-type contracts are considered deposits and are recorded as interest-bearing liabilities, while benefits are recognized as expenses in excess of the policyholder account balance.

p. Certain assets, principally prepaid commissions, are designated as nonadmitted assets and are charged directly to unassigned surplus, while under GAAP, nonadmitted assets are reinstated to the balance sheet, net of any valuation allowance.

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

Use of estimates

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

Reclassifications

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

Investments

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

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

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

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

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

Contract loans are carried at the unpaid principal and capitalized interest balance. Interest is capitalized into the loan balance at each policy anniversary. Loans deemed uncollectible are written off. Loans in excess of cash value are nonadmitted.

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

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

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

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

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

All due and accrued investment income, excluding mortgage loans, over 90 days past due is nonadmitted. Mortgage loans in default for which interest is 180 days past due are nonadmitted. All due and accrued investment income deemed uncollectible is written off in the period it is determined to be uncollectible. The total amount of due and accrued investment income nonadmitted was $442 thousand and $3 million at December 31, 2003 and 2002, respectively.

Derivative financial instruments

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

Premium and annuity considerations

Annual premiums for most traditional life insurance contracts are recognized as revenue on the policy anniversary date. Premiums, based on modal payment, for individual accident and health insurance, fixed periodic annuities, group life and accident and health insurance, and a minor portion of traditional life insurance are recognized as revenue when due. Premiums for all single and flexible premium life and annuity products are recognized as revenue when collected. Considerations received for supplementary contracts with life contingencies are recognized as revenue when due. Consideration received on deposit-type funds, which do not contain any life contingencies, is recorded directly to the related reserve liability.

Premiums written and not yet collected and agents' balances are shown as a receivable, with balances older than 90 days nonadmitted. The Company regularly evaluates this receivable, and establishes a valuation allowance, as appropriate, for items less than 90 days.

Reserves for policy benefits

Policy benefit reserves for traditional and flexible premium insurance are computed actuarially according to the Commissioners' Reserve Valuation Method with interest and mortality applied in compliance with statutory regulations. Benefit reserves for annuity products are calculated according to the Commissioners' Annuity Reserve Valuation Method ("CARVM") with appropriate statutory interest and mortality assumptions. Benefit reserves for modified guarantee annuity products are calculated according to a method based on New York Regulation 127 with appropriate interest and mortality assumptions. Reserve interest rates ranged from 2.00% to 11.25% for life products at both December 31, 2003 and 2002 and from 2.50% to 13.25% for annuity products at December 31, 2003 compared to 2.50% to 11.25% at December 31, 2002.

Reserves for deposit-type funds are equal to deposits received and interest credited to the benefit of contractholders, less surrenders and withdrawals that represent a return to the contractholder. Interest rates credited ranged from 1.30% to 10.15% for immediate annuities in 2003 compared to 2.15% to 10.15% in 2002 and from 2.95% to 8.45% for guaranteed investment contracts in both 2003 and 2002. Tabular interest on deposit-type funds is calculated as the prescribed valuation interest rate times the mean amount of funds subject to such rate held at the beginning and end of the year of valuation.

Policy benefit reserves for accident and health and group life insurance include claim reserves and unearned premiums, if applicable. Claim reserves, including incurred but not reported claims, represent management's estimate of the ultimate liability associated with unpaid policy claims, based primarily upon analysis of past experience. To the extent the ultimate liability differs from the amounts recorded, such differences are reflected in operations when additional information becomes known.

For individual accident and health policies, the Company does not include anticipated investment income in the calculation of deficiency reserves.

The Company waives deduction of deferred fractional premiums upon the death of the insured and returns any portion of the final premium beyond the date of death. Surrender values are not contracted in excess of the reserve as legally computed. The cost of additional mortality for each policy is assumed to equal the additional premium charged for that policy period and is reserved accordingly. Additional charges are made for policies issued on substandard lives. Reserves are held in a manner consistent with standard policies.

As of December 31, 2003 and 2002, the Company had $11.16 billion and $15.00 billion, respectively, of insurance in force for which the gross premiums were less than the net premiums according to standards of valuation set by the applicable states of domicile. Reserves to cover the above insurance totaled $151 million and $141 million at December 31, 2003 and 2002, respectively.

Tabular interest, tabular less actual reserves released and tabular cost are determined by formula as described in the NAIC instructions. Tabular interest for contracts not including life contingencies represents the net amount credited taking into account increments of premiums and annuity considerations and decrements of benefits, withdrawals, loads and policy charges. Other reserve changes are comprised of credited interest and insurance charges different than valuation rates, changes in general account reserves for guarantees on Separate Account business and changes in CARVM expense allowances.

Asset valuation (“AVR”) and interest maintenance (“IMR”) reserves

The Company establishes certain reserves as promulgated by the NAIC. The AVR is determined by formula and is based on the Company’s holdings of mortgages, investments in real estate, bonds, stocks and other invested assets. This valuation reserve requires an appropriation of surplus to provide for possible losses on these investments. Realized and unrealized capital gains and losses, net of tax, other than those resulting from interest rate changes, are added or charged to the AVR.

The IMR is used to defer realized capital gains and losses, net of tax, on sales and calls of bonds and certain investments which result from interest rate changes. These gains and losses are then amortized into investment income over the originally planned remaining years to maturity of the underlying investment. Make whole fees and prepayment penalties are recorded as investment income and not included in IMR.

Reinsurance

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance from other insurers or reinsurers. Admitted assets includes amounts billed to reinsurers for losses paid, as well as estimates of amounts expected to be recovered from reinsurers on incurred losses that have not yet been paid. A provision for reinsurance is established by the Company based on an evaluation of the admissibility, collectibility and collateralization of reinsurers’ balances in accordance with NAIC guidelines and reported as a liability. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contract. Reserves are reported net of reinsurance recoverables. Reinsurance does not extinguish the Company’s primary liability under the policies written.

The Company also has reinsurance agreements that transfer the investment risk for a portion of the guaranteed minimum death benefits (“GMDBs”) and guaranteed minimum income benefits (“GMIBs”) offered in certain variable contracts.

Income taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the statutory financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences were tax deferred policy acquisition costs and insurance reserves. The net change in deferred tax assets and liabilities is applied directly to unassigned surplus. The nonadmitted portion of a net deferred tax asset is determined by applying the rules prescribed by Statement of Statutory Accounting Principles (“SSAP”) No. 10, Income Taxes.

Off-balance sheet financial instruments

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

Separate Accounts

The Company issues variable annuities, variable life contracts and market value adjusted annuities ("MVAA"), and previously issued guaranteed investment contracts. The assets and liabilities are recorded as assets and liabilities of the Separate Accounts and, except for those of the MVAA, are legally segregated. Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death or annuitization, variable annuity and variable life contractholders 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. The assets related to Separate Accounts represent funds of variable annuity and variable life contracts, guaranteed indexed separate account ("GISA"), and MVAA contracts, or collectively, the "Separate Accounts". Separate Accounts assets also include $41 million and $38 million of seed money, at December 31, 2003 and 2002, respectively, which represented the fair value of ALIC's contribution to Allstate Financial Advisors Separate Account I. The seed money was invested in LSA Variable Insurance Trust funds and $9 million of unrealized gains and $13 million of unrealized losses were recorded at December 31, 2003 and 2002, respectively. Separate Accounts liabilities represent the contractholders' claims to the related assets and are carried at the fair value of the assets. In the event that the asset values of certain contractholder accounts are projected to be below the value guaranteed by the Company, a liability is established through a charge to earnings.

Separate Accounts premium deposits, benefit expenses and contract charges for investment management and policy administration are recorded by the Company and reflected in the Statements of Operations. Separate Accounts which contain the variable annuity and variable life business are unit investment trusts and are registered with the Securities and Exchange Commission ("SEC"). Investment income and realized and unrealized capital gains and losses of variable annuity and variable life contracts, assets other than the portion related to the Company's ownership in the Separate Accounts, accrue directly to the contractholders and, therefore, are not included in the Statements of Operations.

MVAA are non-unitized investment products, most of which are registered with the SEC. Investment income, including realized and unrealized capital gains and losses, related to the assets which support MVAA accrues to the Company. Premium deposits and benefit expenses are recorded by the Company and reflected in the Statements of Operations in "Net transfers to or (from) Separate Accounts net of reinsurance". Reserve liabilities for such contracts are valued using a market interest rate.

The GISA contracts are non-unitized investment products. Investment income, including realized and unrealized capital gains and losses, related to the assets which support the GISA contracts accrues to the Company. Reserve liabilities for such contracts are valued using a market interest rate. The Company guarantees the principal and a rate of return based on an established index. The Company maintains assets in the Separate Accounts that are sufficient to fund the guaranteed benefits of the contracts.

Security repurchase and resale and securities loaned

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

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

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

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

Adopted accounting standard

Effective January 1, 2003, the Company adopted SSAP No. 86, Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions ("SSAP No. 86"). This statement supersedes SSAP No. 31, Derivative Instruments, and adopts certain definitional aspects and hedge effectiveness requirements of GAAP. This statement addresses the recognition and measurement of derivatives used in a) hedging transactions; b) income generation transactions; and c) replication transactions. Hedging transactions are defined as derivative transactions entered into and maintained in order to reduce: a) the risk of a change in the fair value or cash flow of assets and liabilities which the Company has acquired, incurred, or has a firm commitment to acquire or incur, or b) the currency exchange risk or the degree of foreign currency exposure in assets and liabilities which the Company has acquired or incurred or has a firm commitment to acquire or incur. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge must be valued and reported consistently with the hedged asset or liability. Income generation transactions are derivatives written or sold to generate additional income or return to the Company. Replication transactions are derivative transactions entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. If a derivative hedge is ineffective or becomes ineffective, then it must be accounted for using fair value. Derivative contracts used for income generation or replication are accounted for at amortized cost or fair value, depending on whether the asset covered, or, in the case of replication, the asset replicated and the cash instrument, are also accounted for at amortized cost or fair value. Changes in the fair value for open derivative contracts that meet the criteria for carrying at fair value, except for those carried at fair value under hedge accounting, are recorded as unrealized capital gain and loss adjustments in unassigned funds (surplus). The adoption of SSAP No. 86 resulted in no cumulative impact to unassigned funds (surplus). However, the adoption of SSAP No. 86 has caused a $35 million increase in net investment income and realized capital gains for 2003 from certain existing open derivative contracts which were previously marked to fair value through net investment income or net realized capital gains and losses under SSAP No. 31, and certain new derivative contracts entered January 1, 2003 and subsequent to be marked to fair value in unassigned funds (surplus).

Pending accounting standard

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

3. Accounting Changes

Accounting changes adopted to conform to the provisions of Codification were reported as changes in accounting principles. The cumulative effect of changes in accounting principles was reported as an adjustment to unassigned surplus in the period of the change in accounting principles. The cumulative effect was the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. Two of the life insurers, ALNY and ILIC, are domiciled in the state of New York. The adoption of SSAP No. 10, Income Taxes, for financial statements filed on or after December 31, 2002 by the state of New York resulted in the Company recognizing a net deferred tax asset and corresponding increase to surplus of $11 million at December 31, 2002 for the New York domiciled subsidiaries.

4. Business Combinations and Goodwill

On February 2, 2001, ALIC purchased all the outstanding common stock of AAC, formerly known as Provident National Assurance Company ("PNAC"), for $15 million from UnumProvident Corporation. The Company acquired AAC as part of its plan to grow its variable insurance product sales. The transaction was accounted for using the statutory purchase method. At the purchase date, goodwill of $5 million was recorded and is being amortized on a straight-line basis over 10 years. In 2003 and 2002, the Company recognized goodwill amortization related to this acquisition of $547 thousand and $560 thousand, respectively.

On July 1, 1999, ALIC purchased all the outstanding common stock of CNLIC for $25 million from Leucadia National Corporation ("Leucadia"). The transaction was accounted for using the statutory purchase method. At the purchase date, goodwill of $2 million was recorded and is being amortized on a straight-line basis over 10 years. In 2003 and 2002, the Company recognized goodwill amortization of $170 thousand each year related to this acquisition.

On July 1, 1999, ALIC also purchased 98% of the outstanding common stock of ILIC for $19 million from Leucadia. The transaction was accounted for using the statutory purchase method. At the purchase date, goodwill of $3 million was recorded and is being amortized on a straight-line basis over 10 years. In 2003 and 2002, the Company recognized goodwill amortization related to this acquisition of $257 thousand each year. CNLIC owned the remaining 2% of ILIC which was dividended to ALIC on September 1, 1999.

On April 1, 1992, ALIC purchased all the outstanding common stock of GLAC for $122 million from Legal and General Life Insurance Company of America, Inc. The transaction was accounted for using the statutory purchase method. At the purchase date, goodwill of $2 million was recorded and is being amortized on a straight-line basis over 10 years. In 2002, the Company recognized goodwill amortization of $41 thousand related to this acquisition.

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

5. Investments

NAIC fair values

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

(in millions)	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
At December 31, 2003				
U.S. governments	$ 1,956	$ 405	$ 3	$ 2,358
All other governments	616	74	-	690
States, territories and possessions	-	-	-	-
Political subdivisions	38	5	-	43
Special revenue	4,418	628	24	5,022
Public utilities	2,032	276	4	2,304
Industrial and miscellaneous	32,111	1,915	246	33,780
Total bonds	$ 41,171	$ 3,303	$ 277	$ 44,197

(in millions)	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
At December 31, 2002				
U.S. governments	$ 1,877	$ 437	$ -	$ 2,314
All other governments	544	67	1	610
States, territories and possessions	3	-	-	3
Political subdivisions	45	7	-	52
Special revenue	6,050	791	4	6,837
Public utilities	2,276	237	47	2,466
Industrial and miscellaneous	24,649	1,800	317	26,132
Total bonds	$ 35,444	$ 3,339	$ 369	$ 38,414

Of the $277 million gross unrealized losses at December 31, 2003, approximately 24% have been in an unrealized loss position for greater than 12 months. These are primarily concentrated in the airline industry.

Scheduled maturities

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

(in millions)	Statement Value	NAIC Fair Value
Due in one year or less	$ 1,284	$ 1,326
Due after one year through five years	6,774	7,243
Due after five years through ten years	11,721	12,578
Due after ten years	9,872	11,359
Subtotal	29,651	32,506
Mortgage-backed and asset-backed securities	11,520	11,691
Total	$ 41,171	$ 44,197

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

Net realized capital gains and losses

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

(in millions)	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Year Ended December 31, 2003			
Bonds	$ 171	$ 272	$ (101)
Unaffiliated preferred stocks	5	3	2
Unaffiliated common stocks	1	2	(1)
Mortgage loans on real estate	-	4	(4)
Real estate	-	-	-
Derivative instruments	113	149	(36)
Other invested assets	1	-	1
	$ 291	$ 430	(139)
Capital loss tax (expense) benefit			72
Transferred to IMR			32
Net realized capital gains (losses)			$ (35)

(in millions)	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Year Ended December 31, 2002			
Bonds	$ 142	$ 555	$ (413)
Unaffiliated preferred stocks	4	8	(4)
Unaffiliated common stocks	6	2	4
Mortgage loans on real estate	1	1	-
Real estate	1	-	1
Derivative instruments	94	71	23
Other invested assets	1	4	(3)
	$ 249	$ 641	(392)
Capital loss tax (expense) benefit			72
Transferred to IMR			58
Net realized capital gains (losses)			$ (262)

Proceeds from sales of bonds, exclusive of calls and maturities, were $10.03 billion and $7.92 billion in 2003 and 2002, respectively. Gross gains of $171 million and $142 million, and gross losses of $152 million and $308 million, were realized on sales of bonds during 2003 and 2002, respectively.

Mortgage loans on real estate

The minimum and maximum lending rates for new mortgage loans in 2003 and 2002 were 2.04% and 6.90%, and 3.30% and 8.50%, respectively. All new mortgage loans in 2003 and 2002 were commercial. The Company did not have any taxes, assessments or amounts advanced in mortgage loans at December 31, 2003 or 2002.

In 2003, the Company reduced the interest rate on one commercial mortgage loan by 2.02%. At December 31, 2003, the recorded investment in this mortgage loan was $2 million. The Company also refinanced 14 commercial mortgage loans with a carrying value of $98 million in 2003 that resulted in a reduction in interest rates. The decline in interest rates on these loans ranged from .53% to 4.55%. In addition, the Company invested in 24 floating rate commercial mortgage loans, which had a carrying value of $206 million whose interest rates decreased during 2003. The decline in interest rates on these loans ranged from .02% to 3.11%.

The Company did not reduce the interest rate on any outstanding mortgage loan in 2002. However, the Company refinanced 16 commercial mortgage loans with a carrying value of $83 million in 2002 that resulted in a reduction in interest rates. The decline in interest rates on these loans ranged from .25% to 4.55%. In addition, the Company invested in 26 floating rate commercial mortgage loans, which had a carrying value of $270 million whose interest rates decreased during 2002. The decline in interest rates on these loans ranged from .08% to 2.50%.

The maximum percentage of any one loan to the value of security at the time of the loan was 78.56% and 84.60% in 2003 and 2002, respectively. At December 31, 2003 and 2002, the Company did not hold any mortgage loans with interest more than 180 days past due.

Mortgage loans are impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company did not have any investments in impaired loans for which there was a related allowance for credit losses at December 31, 2003 and 2002. The Company had $3 million and $11 million of impaired mortgage loans at December 31, 2003 and 2002, respectively, for which there were no related allowances for credit losses. The average recorded net carrying value of impaired loans was $19 million and $16 million for 2003 and 2002, respectively. In 2003 and 2002, the Company recognized interest income on impaired loans of $301 thousand and $825 thousand, respectively. Interest income on impaired loans of $44 thousand and $825 thousand were received in cash in 2003 and 2002, respectively. Interest income is recognized on a cash basis for impaired loans carried at the fair value of the collateral, beginning at the time of the impairment. For other impaired loans, interest continues to be accrued at its contractual interest rate.

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The states with the largest portion of the commercial mortgage loan portfolio are listed below. No other state's holdings exceeded 5.0% of the portfolio at December 31.

(% of commercial mortgages carrying value)	**2003**	**2002**
California	13.3 %	14.0 %
Illinois	9.4	7.9
Texas	8.4	7.5
New Jersey	6.4	6.8
Florida	5.9	7.0
New York	5.7	6.4
Pennsylvania	5.6	5.9
Georgia	5.2	4.2

The types of properties collateralizing the commercial mortgage loans at December 31 were as follows:

(% of commercial mortgages carrying value)	**2003**	**2002**
Office buildings	31.4 %	31.6 %
Warehouse and industrial	25.6	24.2
Retail	22.4	20.6
Apartment complexes	17.8	19.0
Other	2.8	4.6
Total	100.0 %	100.0 %

The contractual maturities of the commercial mortgage loan portfolio as of December 31, 2003 were as follows:

($ in millions)	Number of Loans	Statement Value	Percent
2004	19	$ 207	3.8 %
2005	62	414	7.5
2006	84	619	11.3
2007	84	660	12.0
2008	93	642	11.7
Thereafter	463	2,943	53.7
Total	805	$ 5,485	100.0 %

In 2003, $236 million of commercial mortgage loans were contractually due. Of these, 94.3% were paid as due, 3.1% were refinanced at prevailing market terms, 1.5% were foreclosed or are in the process of foreclosure, and 1.1% were in the process of refinancing or restructuring discussions.

In 2002, $271 million of commercial mortgage loans were contractually due. Of these, 58.1% were paid as due, 24.2% were refinanced at prevailing market terms, 1.0% were foreclosed or are in the process of foreclosure, and 16.7% were in the process of refinancing or restructuring discussions.

State and municipal bonds

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

(% of total state and municipal bond statement value)	2003	2002
California	23.1 %	25.9 %
Illinois	11.6	3.5
Texas	10.7	13.7
Pennsylvania	6.2	7.6
New York	5.0	9.0

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

Debt restructuring

The total recorded investment in restructured mortgage loans and bonds was $34 million and $29 million at December 31, 2003 and 2002, respectively. The Company recognized realized capital losses of $4 million in both 2003 and 2002 related to troubled mortgage loans and bond restructuring.

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

Loan-backed securities

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

Real estate impairments

In 2003, the Company recognized an impairment loss of $400 thousand on a warehouse/office building in Florida that had been acquired through the default of a mortgage loan. The write-down was recorded as a result of accruing a loss from the expected sale of the property. Impairment losses are included in net realized capital gains and losses.

In 2002, the Company recognized impairment losses of $416 thousand on two warehouse/office buildings in Florida and Alabama that had been acquired through the default of mortgage loans. The write-downs were due to recent external appraisals and revisions to the estimated selling costs of the property.

6. Financial Instruments

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

Financial assets

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

(in millions)	2003		2002	
	Statement Value	Fair Value	Statement Value	Fair Value
Bonds	$ 41,171	$ 44,197	$ 35,444	$ 38,414
Unaffiliated preferred stocks	468	520	369	401
Unaffiliated common stocks	41	41	32	32
Mortgage loans on real estate	5,485	5,865	5,048	5,545
Short-term investments	725	725	870	870
Contract loans	685	685	688	688
Separate Accounts	21,216	21,216	17,962	17,962

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

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

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

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

The statement value of contract loans is deemed to approximate fair value.

Separate Accounts assets are carried in the Statements of Financial Position at fair value based on quoted market prices.

Financial liabilities

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

(in millions)	2003		2002	
	Statement Value	Fair Value	Statement Value	Fair Value
Reserves for investment contracts	$ 10,803	$ 10,936	$ 9,006	$ 9,772
Separate Accounts	21,175	21,175	17,924	17,924

The fair value of benefit reserves for non-life contingent annuity products ("reserves for investment contracts") is based on the terms of the underlying contracts. The fair value of immediate annuities and annuities without life contingencies with fixed terms is estimated using discounted cash flow calculations based on interest rates currently offered for contracts with similar terms and durations.

Separate Accounts liabilities are carried at the fair value of the underlying assets.

Derivative financial instruments

Derivative financial instruments utilized by the Company include interest rate, credit default and foreign currency swaps, interest rate caps and floors, futures and options contracts. The Company's primary use of derivative financial instruments is to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk), in conjunction with asset/liability management. The Company does not hold or issue these instruments for trading purposes.

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

(in millions)	2003			
	Notional Amount	Credit Exposure	Statement Value Assets (Liabilities)	Fair Value
Interest rate contracts				
Interest rate swap agreements	$ 10,409	$ (90)	$ 36	$ (220)
Interest rate cap and floor agreements	4,585	50	79	79
Futures contracts	678	-	-	-
Total interest rate contracts	15,672	(40)	115	(141)
Equity and index contracts				
Options and index futures contracts	642	1	(3)	(2)
Foreign currency contracts				
Foreign currency swap agreements	1,670	438	-	456
Foreign index and currency futures contracts	5	-	-	-
Total foreign currency contracts	1,675	438	-	456
Total derivative financial instruments	$ 17,989	$ 399	$ 112	$ 313

(in millions)	2002			
	Notional Amount	Credit Exposure	Statement Value Assets (Liabilities)	Fair Value
Interest rate contracts				
Interest rate swap agreements	$ 9,083	$ (42)	$ 52	$ (307)
Interest rate cap and floor agreements	1,581	9	44	44
Futures contracts	379	-	-	-
Total interest rate contracts	11,043	(33)	96	(263)
Equity and index contracts				
Options and index futures contracts	909	8	3	3
Foreign currency contracts				
Foreign currency swap agreements	1,742	259	-	285
Foreign index and currency futures contracts	11	-	-	-
Total foreign currency contracts	1,753	259	-	285
Total derivative financial instruments	$ 13,705	$ 234	$ 99	$ 25

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

Credit exposure represents the Company's potential loss if all counterparties fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of contracts with a positive fair value at the reporting date reduced by the effect, if any, of master netting agreements. Since the credit exposure for over-the-counter instruments (swaps, caps and floors) is measured on a cumulative basis by counterparty, it is possible for specific instrument types, such as interest rate swaps, to have negative values. In total, the credit exposure for over-the-counter instruments is positive.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. The Company utilizes master netting agreements for all over-the-counter derivative transactions. These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. To date, the Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Futures and certain option contracts have limited credit exposure, as they are executed on organized exchanges which require margin deposits and guarantee the execution of trades, as well as the daily cash settlement of margins.

Fair value is the estimated amount the Company will receive or pay to terminate or assign the derivative contracts at the reporting date. For exchange-traded derivative contracts, the fair value is based on dealer or exchange quotes. The fair value of non-exchange traded derivative contracts is based on either independent third party pricing sources or widely accepted pricing and valuation models which utilize third party data.

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

Interest rate swap agreements involve the exchange, at specified intervals, of contractual interest payments calculated based on a notional amount. Credit default swaps are used for either buying credit protection or selling credit protection on a specified entity. Buying credit protection requires a payment of a premium to a counterparty in exchange for a future cash settlement or a promise to deliver a bond or loan, if a specified credit event occurs. Selling protection provides for the receipt of a premium from a counterparty in exchange for a future cash settlement, or a promise to purchase a bond or a loan, if a specified credit event occurs. Foreign currency swaps involve the future exchange or delivery of foreign currency on terms negotiated at the inception of the contract. Interest rate cap and floor agreements give the holder the right to receive at a future date, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The Company utilizes foreign and domestic index, interest rate, foreign currency, and Eurodollar futures. Interest rate futures are defined as commitments to buy or sell designated financial instruments based on specified prices or yields. Domestic index futures provide returns based on a specified index applied to the contract position held. Currency futures are tied to specific foreign currencies. Eurodollar futures are positions taken in contracts which are tied to three-month LIBOR. Index option contracts provide returns based on a specified equity index applied to the option's notional amount. The Company writes and purchases call options on the S&P 500 Index.

The Company generally enters into interest rate swap agreements to change the interest rate characteristics of existing assets to more closely match the interest rate characteristics of the corresponding liabilities. Interest rate swaps are utilized to hedge either the variability of the expected future cash flows, or changes in the fair value of an asset or a liability. The Company enters into credit default swaps to reduce the credit risk in a particular bond or loan while leaving the security intact. The Company enters into foreign currency swap agreements primarily to hedge the currency risk associated with investing in securities and issuing obligations that are denominated in foreign currencies. The Company purchases interest rate cap and floor agreements to reduce its exposure to rising or falling interest rates relative to certain existing assets and liabilities in conjunction with asset/liability management. These agreements are hedging the variability of the expected future cash flows of assets or liabilities. As part of its asset/liability management, the Company generally utilizes futures contracts to manage its market risk related to bonds, anticipatory purchases and sales, as well as to reduce the market risk associated with certain annuity contracts. Futures contracts used for anticipatory purchases and sales are utilized to hedge either the variability of the expected future cash flows, or changes in the fair value of an asset. Other futures are utilized to hedge the changes in the fair value of certain liabilities. The Company purchases and writes option contracts primarily to reduce market risk associated with certain annuity contracts. These contracts are utilized to hedge the changes in fair value of insurance liabilities.

The Company also enters into credit default swaps as replication transactions, enabling greater diversification of credit risk by selling protection on specified entities that may not be frequent issuers in the traditional corporate bond market.

Interest rate swaps receive either fair value or cash flow hedge accounting, or non-hedge accounting, depending on the strategy. Currency swaps are generally accounted for as foreign currency hedges. Non-hedge accounting is applied to credit default swaps used to buy protection. For all swaps noted above, accrued periodic settlements are reported in net investment income or interest expense. The change in the fair value of certain swaps that receive non-hedge accounting and are open at the end of the reporting period are recorded as unrealized gains and losses in unassigned surplus. For credit default swaps entered into as replication transactions, the derivatives are valued at amortized cost, which is zero. For certain swaps which receive hedge accounting, the hedging relationship ceases if the swap terminates, if the swap becomes ineffective, if the hedged asset becomes impaired, or if the asset is sold. Generally, if a swap is terminated prior to the expiration date, any gain or loss is recognized as a capital gain or loss if the underlying hedged item has been disposed. If the hedged item still exists and the swap terminates, or the swap becomes ineffective, any gain or loss is attached to the hedged item and amortizes into income over the shorter of the remaining life of the underlying hedged item or the life of the swap contract. If the hedged item is an impaired asset, the gain or loss associated with the swap is included in the written-down value of the impaired asset. If the hedged item is sold, the swap will receive non-hedge accounting going forward unless the asset is replaced.

The premiums paid on interest rate cap and floor agreements are recorded as an increase to book value. Any periodic settlements received are recorded as investment income. The changes in fair values of the caps and floors that are open at the end of the reporting period are recognized as unrealized gains and losses in unassigned surplus. If an interest rate cap or floor is terminated prior to the expiration date, any gain or loss is recognized in realized capital gain or loss. For certain caps that are payable in installments, the initial cap asset should be equal to the initial premium liability representing the obligation to pay premium installments over the term of the cap. For reporting purposes, the carrying amount of the cap asset is netted against the carrying amount of the premium liability at the counterparty level.

Futures receive either fair value or cash flow hedge accounting, or non-hedge accounting, depending on the strategy. Daily cash settlement of margin gains or losses for futures used to hedge certain annuity contracts and receiving hedge accounting are reported in net investment income. The daily cash settlements of margin gains and losses for other futures that have matured are reported in realized gains and losses. Other futures contracts that are open at the end of the reporting period and are receiving non-hedge accounting are reported as unrealized gains and losses in unassigned surplus.

The premiums paid on index option contracts purchased are recorded as an increase in assets. The premiums received are recorded as an increase in liabilities. For purchased and written options, the change in the market value of index option contracts is recorded as investment income, with the offset to an asset or liability.

The cash requirements of the derivatives vary by instrument. Cash settlements for swap agreements usually occur at dates specified in individual agreements. The amount of cash exchanged is equal to the difference between the rate in the contract at which the Company receives cash compared to the rate at which the Company is to pay cash. Interest rate caps and floors typically require a premium paid to the counterparty at the outset of a contract. Cash is received based on the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to the notional amount. Daily cash settlement of variation margins, which are based on the change in daily prices, are required for futures. Interest rate futures may be settled in cash or through delivery of an underlying instrument (e.g. specified bond). Indexed futures may be settled only in cash. When the Company purchases options at specific prices, it is required to pay a premium to the counterparties. The amount of premium paid is based on the number of contracts purchased, the agreed to price and the maturity date of the contract. For written options, a premium is received based on the same criteria. If the option is exercised, index futures contracts or cash may be used to settle, based upon the underlying security of the written or purchased option exercised. If the option expires, there is no exchange of cash or futures.

The Company did not have any net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness. The Company had a net gain recognized in unrealized gains during the reporting period resulting from derivatives that no longer qualify for hedge accounting, in the amount of $2 million. The Company did not have any derivatives accounted for as cash flow hedges of a forecasted transaction.

In general, the collateral that is pledged by the Company is in the custody of a counterparty or an exchange. However, the Company has access to this collateral at any time, subject to replacement. The Company is required to post collateral for all exchange-traded futures and option contracts that are entered into. The amount of collateral required is determined by the type and fair value of the open futures or option contract position. In order to satisfy the collateral requirement, the Company pledged U.S. Treasury bonds.

Collateral is required for all over-the-counter contracts, including swap agreements, interest rate cap and floor agreements, and foreign currency forward agreements. In order to satisfy the collateral requirements for over-the-counter contracts, the Company pledges mortgage-backed securities. Collateral that is pledged to the Company by counterparties included cash and bonds.

Off-balance sheet financial instruments

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

(in millions)	2003		2002	
	Contractual Amount	Fair Value	Contractual Amount	Fair Value
Commitments to invest	$ 118	$ -	$ 51	$ -
Credit guarantees	87	-	29	(1)
Commitments to extend mortgage loans	48	1	51	1
Private placement commitments	43	-	69	-

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

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

Credit guarantees represent conditional commitments included in certain bonds owned by the Company. These commitments provided for obligations to exchange credit risk or to forfeit principal due, depending on the nature of credit events for the referenced credits. The Company enters into these transactions in order to achieve higher yields than direct investment in referenced entities. The fees for assuming the conditional commitments are reflected in the interest receipts reported in net investment income over the lives of the contracts. The fair value of credit guarantees is estimates of the conditional commitments only and is calculated using quoted market prices or valuation models, which incorporate external market data.

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

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

The Company's maximum amount at risk in the event of bankruptcy or other default of the referenced entities, assuming the value of the referenced credits becomes worthless, is the fair value of the subject bonds, which totaled $87 million and $29 million at December 31, 2003 and 2002, respectively. The market value of these bonds was $88 million and $31 million at December 31, 2003 and 2002, respectively. The Company includes the impact of credit guarantees in its analysis of credit risk, and the referenced credits were current to their contractual terms at December 31, 2003 and 2002.

Synthetic GICs are fee-based insurance products purchased by pension trusts to obtain book value treatment for their defined contribution plans. The coverage provides for a benefit payment in the event the plan experiences heavy withdrawal activity due to allowable participant initiated events. The product had been offered since 1996 without experiencing a call on the guarantee. Coverage was provided to approximately 110 companies with contracts ranging in size from $1 million to $707 million. The Company's underwriting activities closely monitored each arrangement. At December 31, 2002, the market value of the plan assets was $5.67 billion, valued on average at 103% of the book value of the guarantee. This ratio typically ranges from 99% to 101%. A decision was made in 2003 to no longer offer this product line and most contracts were terminated over the course of the second half of the year. At December 31, 2003, the book value of the only remaining contract was $671 thousand.

7. Income Taxes

At December 31, 2003, the Company had $90 thousand of foreign tax credit carryforwards originating in 2001 through 2002 which expire, if unused, in 2006 through 2007. In addition, at December 31, 2003, the Company had $2 thousand of capital loss carryforwards which expire, if unused, in 2006. The Company did not have any net operating loss carryforwards at December 31, 2003.

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

(in millions)		
2003	$	231
2002		123
2001		158

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

(in millions)		**2003**		**2002**
Federal income tax - excluding net capital gains (losses)	$	214	$	130
Federal income tax on net capital gains (losses)		(72)		(71)
Federal and foreign income taxes incurred (excluding tax on capital gains)	$	142	$	59

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

(in millions)		2003	Effective Tax Rate	
Provision computed at statutory rate	$	252	35.0	%
Change in net deferred income taxes		(101)	(14.1)	
Adjustment for prior year tax liabilities		(12)	(1.6)	
Dividend received deduction		(12)	(1.6)	
Prior year true-up		(5)	(0.7)	
Foreign tax credit		(2)	(0.2)	
Tax exempt Employee Stock Option Plan interest		(1)	(0.2)	
IMR amortization		19	2.7	
Nondeductible Employee Stock Option Plan expense		3	0.4	
Other		1	0.1	
Total statutory income taxes	$	142	19.8	%

		2002	Effective Tax Rate	
Provision computed at statutory rate	$	41	35.0	%
Change in net deferred income taxes		102	87.8	
Adjustment for prior year tax liabilities		(42)	(35.8)	
Dividend received deduction		(12)	(10.6)	
Prior year true-up		(23)	(20.0)	
Foreign tax credit		(2)	(1.4)	
Tax exempt Employee Stock Option Plan interest		(1)	(1.0)	
IMR amortization		(9)	(8.0)	
Nondeductible Employee Stock Option Plan expense		4	3.8	
Other		1	0.6	
Total statutory income taxes	$	59	50.4	%

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

(in millions)		2003		2002
Total of gross deferred tax assets	$	580	$	634
Total of gross deferred tax liabilities		(58)		(19)
Net deferred tax asset		522		615
Deferred tax asset nonadmitted		322		382
Net admitted deferred tax asset	$	200	$	233
(Increase) decrease in nonadmitted asset	$	60		

Prior to January 1, 1984, the Company was entitled to exclude certain amounts from taxable income and accumulate such amounts in a “policyholder surplus” account. If distributed, the balance in this account at both December 31, 2003 and 2002 of $94 million would result in federal income taxes payable of $33 million. The Company has no plan to distribute amounts from this account. No further additions to the account have been permitted since 1983.

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

(in millions)	2003	2002
Deferred tax assets:		
Proxy DAC	$ 336	$ 313
Reserves	144	183
Unrealized net losses	49	36
Nonadmitted assets	26	24
Tax goodwill	16	18
Employee benefits	3	4
Investments	-	11
Guaranty fund assessments	-	5
Capital loss carryforward	-	34
Other	6	6
Total deferred tax assets	580	634
Nonadmitted deferred tax assets	322	382
Admitted deferred tax assets	258	252
Deferred tax liabilities:		
Prepaid commissions	18	13
Investments	18	3
Fixed assets	-	2
Other	22	1
Total deferred tax liabilities	58	19
Net admitted deferred tax asset	$ 200	$ 233

The change in net deferred income tax was comprised of the following at December 31 (this analysis is exclusive of nonadmitted assets, as the change in nonadmitted assets is reported separately from the change in net deferred income tax in the Statements of Changes in Capital and Surplus):

(in millions)	2003	2002	Change
Total deferred tax assets	$ 580	$ 634	$ (54)
Total deferred tax liabilities	58	19	(39)
Net deferred tax asset (liability)	$ 522	$ 615	(93)
Tax effect of unrealized gains (losses)			(12)
Tax effect of changes in accounting principles			-
Change in net deferred income tax			(105)
Adjustment of prior year tax liabilities			5
Tax effect of nonadmitted assets			(1)
Change in net deferred income tax relating to provision			$ (101)

(in millions)	2002	2001	Change
Total deferred tax assets	$ 634	$ 506	$ 128
Total deferred tax liabilities	19	22	(3)
Net deferred tax asset (liability)	$ 615	$ 484	131
Tax effect of unrealized gains (losses)			(16)
Tax effect of changes in accounting principles			(37)
Change in net deferred income tax			78
Adjustment of prior year tax liabilities			25
Tax effect of changes in accounting principles			5
Tax effect of nonadmitted assets			(6)
Change in net deferred income tax relating to provision			$ 102

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

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

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

8. Information Concerning Parent, Subsidiaries and Affiliates

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

Related party transactions

The Company's Board of Directors approved a total of $198 million dividends to AIC in 2003. Of this amount, dividends paid included $25 million in cash on September 30, and $69 million and $29 million of bonds at fair value on June 19 and November 26, respectively. In addition, a cash dividend of $75 million was declared on December 10 and paid on January 20, 2004.

The Company also paid cash dividends of $2 million on preferred stock, Series A to Northbrook Holdings, LLC ("NHLLC"), an affiliate, in 2003: $577 thousand on March 31, $502 thousand on May 16, $457 thousand on September 30 and $408 thousand on December 1.

In 2002, the Company paid dividends totaling $49 million to AIC and NHLLC. The Company paid cash dividends on common stock to AIC of $44 million on March 28. The Company also paid cash dividends on preferred stock, Series A to NHLLC of $700 thousand each on March 26, May 31, September 3 and December 2, respectively. In addition, on December 30, 2002 the Company contributed its 100% ownership interest in Allstate Financial Services, LLC ("AFS") with a cost of $2 million to AIC.

The Company paid $7.9 million and $3.6 million, respectively, in cash for the redemption of 78,820 shares and 36,370 shares, respectively, of preferred stock, Series A to NHLLC on May 31 and August 15, 2003.

On January 24, 2003, the Company paid $16 million in cash for the redemption of 157,140 shares of preferred stock, Series A to NHLLC effective December 31, 2002. This transaction was accrued for at December 31, 2002.

The Company received capital contributions from AIC totaling $350 million in 2002: $150 million on June 28 and $100 million each on September 30 and December 23.

The Company reported the following amounts as receivable from parent, subsidiaries and affiliates at December 31:

(in millions)	**2003**	**2002**
Allstate Assignment Company	$ 5	$ 5
Allstate Reinsurance Ltd.	1	-
Total	$ 6	$ 5

The Company reported the following amounts as payable to parent, subsidiaries and affiliates at December 31:

(in millions)	**2003**	**2002**
Allstate Insurance Company	$ 129	$ 113
Allstate Investment, LLC	6	4
Allstate Settlement Corporation	5	-
Allstate Distributors, LLC	3	-
LSA Asset Management, LLC	1	1
AFDW, Inc.	-	3
Other	1	1
Total	$ 145	$ 122

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

Related party commitments

Effective October 2, 1995, ALIC entered into an agreement to guarantee the performance of GLAC and Allstate Life Financial Services, Inc. under a Master Marketing Agreement with SunTrust Banks.

ALIC has also agreed to guarantee the payment of certain structured settlement arrangements and third party payment obligations intended to be "qualified assignments" established by Allstate Assignment Company ("AC"), a subsidiary of ALIC, through structured settlement agreements funded by annuities purchased from ALIC in the event AC is unable to make such payments. Reserves recorded for obligations covered by this guaranty were $851 million and $444 million at December 31, 2003 and 2002, respectively.

In addition, ALIC has entered into an agreement with NABCO Assignments Ltd. ("NABCO") to guarantee the payment of certain structured settlement arrangements and third party payment obligations intended to be "nonqualified assignments" established by NABCO. This guaranty applies only to those agreements and obligations funded by annuities purchased from ALIC in the event NABCO fails to make such payments. Reserves recorded for obligations covered by this guaranty were $142 million and $33 million at December 31, 2003 and 2002, respectively.

The Company issued $119 million and $133 million of structured settlement annuities, a type of immediate annuity, in 2003 and 2002, respectively, at prices determined based upon interest rates in effect at the time of issuance, to fund structured settlements in matters involving AIC. Of these amounts, $21 million and $27 million related to structured settlement annuities with life contingencies and are included in premium income for 2003 and 2002, respectively. In most cases, these annuities were issued under a “qualified assignment”, which means the Company assumed AIC’s obligation to make future payments.

AIC issued surety bonds to guarantee the payment of structured settlement benefits assumed (from both AIC and non-related parties) and funded by certain annuity contracts issued by the Company (to both AIC and non-related parties). In previous periods, the Company had entered into a general indemnity agreement pursuant to which it indemnified AIC for any liabilities associated with the surety bonds, and gave AIC certain collateral security rights with respect to the annuities and certain other rights in the event of any defaults covered by the surety bonds. For contracts written on or after July 1, 2001, AIC no longer issues surety bonds to guarantee the payment of structured settlement benefits. Alternatively, ALIC guarantees the payment of structured settlement benefits. Reserves recorded by the Company for annuities that are guaranteed by the surety bonds were $5.04 billion and $5.34 billion at December 31, 2003 and 2002, respectively.

Related party service agreements

On December 19, 2003, the Company terminated the Amended and Restated Marketing Alliance Agreement with Sears, Roebuck and Company (the “Alliance”) effective December 31, 2003, and authorized the subsequent sale to Triton Insurance Company and American Health and Life Insurance Company of the direct response life insurance business written pursuant to the Alliance.

The Company utilizes services performed by its affiliates, AIC and Allstate Investments, LLC (“AILLC”), and business facilities owned or leased and operated by AIC in conducting its business activities. In addition, the Company shares the services of employees with AIC. The Company reimburses its affiliates for the operating expenses incurred on behalf of the Company. The Company is charged for the cost of these operating expenses based on the level of services provided.

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

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

Substantially all general insurance expenses are a result of these agreements.

Broker/dealer agreement

The Company receives underwriting and distribution services from AFS, an affiliated broker/dealer company, for certain variable annuity and variable life insurance contracts sold by Allstate exclusive agencies. The Company incurred $38 million and $35 million of commission and other distribution expenses for the years ended December 31, 2003 and 2002, respectively.

ALIC received underwriting and distribution services from Allstate Distributors, LLC (“ADLLC”), a broker/dealer company, for certain variable annuity contracts. Effective September 30, 2002, ALIC and Putnam terminated a joint venture agreement and ADLLC became a wholly owned subsidiary of ALIC as a result of ALIC’s purchase of Putnam’s 50% ownership therein. ALIC incurred $32 million of commission and other distribution expenses from ADLLC for the year ended December 31, 2002. Other distribution expenses included administrative, legal, financial management and sales support which ALIC provided to ADLLC, for which ALIC earned administration fees of $1 million for the year ended December 31, 2002. Other distribution expenses also included marketing expenses for subsidizing bonus interest crediting rates associated with ALIC’s variable annuity dollar cost averaging program for which ADLLC reimbursed ALIC $1 million for the year ended December 31, 2002.

Reinsurance

The Company has a coinsurance agreement with Columbia Universal Life Insurance Company ("Columbia"), an affiliate of the Company, to assume 100% of fixed annuity business in force as of June 30, 2000 and new business as written. In addition, the Company has a modified coinsurance agreement with Columbia to assume 100% of traditional life and accident and health business in force on the effective date of July 1, 2000 and new business as written. Both agreements are continuous but may be terminated by either party with 30 days notice, material breach by either party, or by Columbia in the event of the Company's non-payment of reinsurance amounts due. As of May 31, 2001, Columbia ceased issuing new contracts. During 2003 and 2002, the Company assumed $35 million and $34 million, respectively, in premiums and $78 million and $92 million, respectively, in benefits from Columbia.

The Company has a modified coinsurance agreement with Allstate Reinsurance, Ltd. ("Allstate Re"), an affiliate of the Company, to cede 50% of certain fixed annuity business issued under a distribution agreement with PNC Bank NA. Under the terms of the contract, a trust has been established to provide protection for ceded liabilities. This agreement is continuous but may be terminated by either party with 60 days notice. During 2003 and 2002, the Company ceded $89 million and $85 million, respectively, in premiums to Allstate Re.

The Company has an agreement to assume 100% of all credit insurance written by AIC. This agreement is continuous but may be terminated by either party with 60 days notice. The Company assumed premiums from AIC in the amount of $2 million and $18 million in 2003 and 2002, respectively.

ALIC enters into certain intercompany reinsurance agreements with its wholly owned subsidiaries in order to maintain underwriting control and spread the risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in the accompanying Combined Financial Statements.

Other

The Company entered into an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1 billion. From time to time the Company borrows money from the Corporation to meet its short-term cash needs. At December 31, 2003 and 2002, the Company had no intercompany loans outstanding. Total interest paid on intercompany debt during 2003 and 2002 was $212 thousand and $20 thousand, respectively. Since this debt is payable to the Corporation, it is combined with other amounts due to and receivable from the Corporation and classified as either receivable from or payable to parent, subsidiaries and affiliates on the Statements of Financial Position.

9. Debt

The Company had reverse dollar repurchase agreements outstanding as of December 31, 2003 with total book value and market value of $493 million and $490 million, respectively. The weighted average coupon for these transactions was 4.99%. These agreements generally utilize mortgage-backed securities. All of these transactions end by January 20, 2004. The Company had no reverse dollar repurchase agreements outstanding at December 31, 2002. Interest on reverse dollar repurchase agreements paid during the years ending December 31, 2003 and 2002 was $16 million and $31 million, respectively.

The Company had reverse repurchase agreements outstanding as of December 31, 2003 with total book value of $101 million and market value of $143 million, respectively. The weighted average yield for these transactions was 7.84%. These agreements utilize U.S. Treasuries and will close on January 2, 2004. The $143 million of market value outstanding as of December 31, 2003 was included in Borrowed Money in the Company's Statements of Financial Position. The Company had no reverse repurchase agreement outstanding at December 31, 2002. Interest on reverse repurchase agreements paid during the years ending December 31, 2003 and 2002 was $38 thousand and $54 thousand, respectively.

To manage short-term liquidity, the Company may draw on its credit facilities as well as utilize security repurchase and resale agreements. The Company, together with the Corporation, currently maintains three credit facilities as a potential source of funds. These include a $575 million five-year revolving line of credit expiring in 2006, a $575 million 364-day revolving line of credit expiring in 2004, and a $50 million one-year revolving line of credit expiring in

2004. The right to borrow from the five-year and 364-day lines of credit is subject to requirements customary for facilities of this size, type and purpose. For example, the Company's debt to consolidated net capital (as defined in the agreement) must not exceed a designated level. No amounts were outstanding under any of these lines of credit during 2003 or 2002.

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

The Company utilizes the services of AIC employees. AIC provides various benefits, including defined benefit pension plans, certain health care and life insurance benefits for certain retired employees and participation in The Savings and Profit Sharing Fund of Allstate Employees. The Company was allocated an appropriate share of the costs associated with these benefits in accordance with the Service and Expense Agreement with AIC. The Company's allocated share of these benefits was $22 million in both 2003 and 2002.

11. Capital and Surplus and Dividend Restrictions

Preferred stock

At December 31, 2003, the Company had 815,460 shares of Preferred Stock, Series A outstanding with a par value of $100 per share. Cash dividends declared by the Company's Board of Directors are paid from time to time, but not more than quarterly. Dividends are based on the three-month LIBOR rate. Liquidation value is $100 per share plus accrued and unpaid dividends. The shares are redeemable at the option of the Company at any time five years after the issue date at a price of $100 plus accrued and unpaid dividends.

On August 15, 2003, the Company paid $3.6 million in cash for the redemption of 36,370 shares of Preferred Stock, Series A effective August 31, 2003. On May 15, 2003, the Company paid $7.9 million in cash for the redemption of 78,820 shares of Preferred Stock, series A effective May 31, 2003.

On January 24, 2003, the Company paid $16 million of cash for the redemption of 157,140 shares of Preferred Stock, Series A effective December 31, 2002. On January 14, 2002, the Company received $14 million of cash, which was consideration for 138,730 shares of Preferred Stock, Series A issued in December 2001.

Dividend restrictions

The ability of the Company to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends and other relevant factors. The payment of shareholder dividends by the Company without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus as specified under Illinois insurance law. The maximum amount of dividends the Company can distribute during 2004 without prior IL DOI approval is $551 million. Dividends are not cumulative.

Unassigned surplus

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

(in millions)	2003	2002
Unrealized gains and losses	$ 323	$ (63)
Nonadmitted asset and related items	(508)	(596)
Asset valuation reserve	(219)	(162)
Separate Accounts business	49	40

12. Commitments and Contingencies

Contingent commitments

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

Credit default swaps and credit guarantees

The Company owns certain bonds that obligate the Company to exchange credit risk or to forfeit principal due depending on the nature or occurrence of specified credit events for the referenced entities. Additionally, the Company has written credit default swaps that obligate the Company to make a payment upon the occurrence of specified credit events. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these bonds and written credit default swaps, as measured by the par value and notional value, was $132 million at December 31, 2003. The obligations associated with these bonds and written credit default swaps expire at various times during the next seven years.

Commercial paper guarantee

LBL has issued universal life insurance contracts to third parties who finance the premium payments on those contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance that is fully collateralized by the cash surrender value of the universal life insurance contracts. At December 31, 2003, the amount due under the commercial paper program was $300 million and the cash surrender value of the policies was $306 million. The repayment guarantee expires April 30, 2006. These contracts are ceded to ALIC under the terms of the reinsurance agreements.

Guaranty fund assessments

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. The Company's policy is to accrue guaranty fund assessments based on notification of new and ongoing insolvencies received from individual state guaranty associations. At December 31, 2003 and 2002, the Company had accrued $23 million and $24 million, respectively, for future guaranty fund assessments, and $4 million and $5 million, respectively, for the related premium tax offset. The period over which assessments are expected to be paid varies. Premium tax offsets are realized on a straight-line basis over the period allowed by each individual state once the guaranty fund assessment has been paid.

Regulation and legal proceedings

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

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

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

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

Legal proceedings involving Allstate agencies and AIC may impact the Company, even when the Company is not directly involved, because the Company sells its products through a variety of distribution channels including Allstate agencies. Consequently, information about the more significant of these proceedings is provided below.

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

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

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

Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts. This litigation is based on a variety of issues including insurance and claim settlement practices. The outcome of these disputes is currently unpredictable. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

Marketing and compliance issues

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

13. Leases

The Company leases certain office facilities and office equipment under various noncancelable operating agreements that expire through 2008. Total rental expense for all leases was $517 thousand and $2 million in 2003 and 2002, respectively.

The Company subleased an office facility under a non-cancelable sublease which expired on December 31, 2002. The Company received $1 million in 2002 from this sublease.

At December 31, 2003, the minimum aggregate rental commitments were as follows:

(in thousands)	
2004	$ 410
2005	114
2006	70
2007	56
2008	4
Total	$ 654

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

Transfer and servicing of financial assets

The Company entered into securities lending agreements using U.S. Treasury bonds, corporate bonds and domestic and foreign equities in 2003 and 2002. Securities lent were either specifically identified by the lending bank or segregated into a separate custody account. The amounts on loan were $949 million and $1.04 billion at December 31, 2003 and 2002, respectively. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of the loaned securities for domestic and foreign securities, respectively. All collateral was maintained in a separate custody account. The Company monitors the market value of securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities loaned are with large brokerage firms.

During 2003 and 2002, the only transfers of financial assets, as defined by SSAP No. 18, Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, the Company entered into were securities lending agreements. The Company was able to estimate the fair value of assets obtained and liabilities incurred in these agreements.

Wash sales

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

	2003			
($ in millions)	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Gain/ (Loss)
Bonds				
NAIC 3	5	$ 11	$ 11	$ -
NAIC 4	12	13	17	(4)

	2002			
($ in millions)	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Gain/ (Loss)
Bonds				
NAIC 3	12	$ 39	$ 74	$ (35)
NAIC 4	20	26	65	(39)

15. Gain or Loss to the Reporting Entity from Uninsured Accident and Health Plans

Uninsured ASO plans

The following information pertains to administrative services agreements for uninsured accident and health plans for which the Company provided only administrative services for the years ended December 31:

(in millions)	2003	2002
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$ 2	$ 9
Total net other income or expenses (including interest paid to or received from plans)	-	-
Total claim payment volume	-	-

The net gain (loss) from operations could not be accurately determined as internal expenses incurred with respect to the administration of these plans had not been specifically allocated to these plans.

16. Reinsurance

The Company reinsures certain of its risks to other insurers under yearly renewable term, coinsurance, and modified coinsurance agreements. These agreements result in the passing of the agreed-upon percentage of risk to the reinsurer in exchange for negotiated reinsurance premium payments. Modified coinsurance is similar to coinsurance except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company and settlements are made on a net basis between the companies. The Company continues to have primary liability as a direct insurer for risks reinsured. Estimating amounts of reinsurance recoverable is impacted by the uncertainties involved in the establishment of loss reserves. Failure of reinsurers to honor their obligations could result in losses to the Company. The estimated amount of the aggregate reduction in surplus, for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits, of terminations of all reinsurance agreements, by either party, was $185 million and $199 million as of December 31, 2003 and 2002, respectively.

For discussion of reinsurance agreements with related parties, see Note 8.

During 2002, the Company executed new agreements or amended existing agreements to include policies or contracts which were in force or which had existing reserves established by the Company as of the effective date of the agreement. The amount of reinsurance credits taken for such new agreements or amendments was $19 million at December 31, 2002.

The Company ceded 90%, 80% or 60% of the mortality risk on certain term life policies, depending upon the issue year and product, to a pool of fourteen unaffiliated reinsurers. In November 1998, the Company began ceding mortality risk on new business in excess of $2 million per life for individual coverage. For business sold prior to November 1998, the Company ceded mortality risk in excess of $1 million per life for individual coverage. As of December 31, 2003 and 2002, $176.91 billion and $156.51 billion of life insurance in force was ceded to other companies, respectively.

The Company had a contract to assume 100% of all insurance written by Sears Life Insurance Company (“Sears”). This agreement was terminated effective December 31, 2003. The Company assumed $85 million and $76 million in premiums from Sears for the years ended December 31, 2003 and 2002, respectively.

On January 2, 2001, the Company acquired blocks of business from American Maturity Life Insurance Company (“American Maturity”) via coinsurance contracts. Pursuant to the terms of the coinsurance contracts, the Company assumed variable annuities, market value adjusted annuities, equity-indexed annuities, fixed annuities, and immediate annuities. The Company received assets consisting primarily of cash, investments and accrued investment income with a fair value in an amount equal to the corresponding assumed reserves.

In addition, the Company has a modified coinsurance contract with Alpine Indemnity Limited (“Alpine”) to cede 50% of certain variable annuity business issued on or after May 1, 1999 under a distribution agreement with PNC Bank NA. This agreement is continuous but may be terminated by either party with 120 days notice.

The Company has entered into reinsurance agreements in conjunction with the disposition of certain blocks of business.

The effects of reinsurance on premiums and annuity considerations, and benefits for the years ended December 31 were as follows:

(in millions)		**2003**		**2002**
Premiums and annuity considerations				
Direct	$	9,460	$	9,124
Assumed		126		130
Ceded		(527)		(498)
Premiums and annuity considerations, net of reinsurance	$	9,059	$	8,756

(in millions)		**2003**		**2002**
Benefits				
Direct	$	5,365	$	5,065
Assumed		1,855		2,367
Ceded		(1,948)		(2,530)
Benefits, net of reinsurance	$	5,272	$	4,902

Reserve credits taken for all reinsurance agreements were $384 million and $446 million at December 31, 2003 and 2002, respectively.

Reinsurance receivables in the Company's Combined Statements of Financial Position were $22 million and $90 million at December 31, 2003 and 2002, respectively. The reinsurance recoverable and reinsurance payable balances pertaining to related party reinsurance agreements were not material at December 31, 2003 and 2002. No single reinsurer has a material obligation to the Company, nor is the Company's business substantially dependent upon any reinsurance contract.

17. Variable Annuities with Guaranteed Living Benefits

The Company had variable annuities with guaranteed minimum income benefits ("GMIB") at December 31 as follows:

(in millions)		**2003**				
Benefit and Type of Risk		**Subjected to Account Value**		**Amount of Reserve Held**		**Reinsurance Reserve Credit**
GMIB - return of premium, 10 year waiting period	$	67	$	1	$	-
GMIB - greater of maximum anniversary value or premium accumulation at 6%, 10 year waiting period		40		1		-
GMIB - greater of maximum anniversary value or premium accumulation at 5%, 10 year waiting period		3,360		35		-
GMIB - greater of maximum anniversary value or premium accumulation at 5%, includes a minimum death benefit, 10 year waiting period		-		-		-
GMIB - maximum anniversary value, 10 year waiting period		519		6		2
GMIB - premium accumulation at 5%, 10 year waiting period		270		2		-

(in millions)	2002		
Benefit and Type of Risk	Subjected to Account Value	Amount of Reserve Held	Reinsurance Reserve Credit
GMIB - return of premium, 10 year waiting period	$ 59	$ 1	$ -
GMIB - greater of maximum anniversary value or premium accumulation at 6%, 10 year waiting period	314	7	-
GMIB - greater of maximum anniversary value or premium accumulation at 5%, 10 year waiting period	1,495	25	4
GMIB - greater of maximum anniversary value or premium accumulation at 5%, includes a minimum death benefit, 10 year waiting period	477	9	6
GMIB - maximum anniversary value, 10 year waiting period	866	10	8
GMIB - maximum anniversary value, includes a minimum death benefit, 10 year waiting period	353	5	4

All related reserves are included in the Company's Statements of Financial Position.

18. Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Withdrawal characteristics of annuity reserves and deposit-type contracts and other liabilities without life or disability contingencies were as follows at December 31:

(in millions)	2003		2002	
	Amount	% of Total	Amount	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 7,542	13.3 %	$ 6,662	13.5 %
At book value less current surrender charge of 5% or more	5,775	10.2	4,112	8.3
At fair value	12,366	21.7	10,181	20.6
Total with adjustment or at fair value	25,683	45.2	20,955	42.4
At book value without adjustment (minimal or no charge or adjustment)	11,722	20.6	10,049	20.4
Not subject to discretionary withdrawal	19,462	34.2	18,330	37.2
Total (gross)	56,867	100.0 %	49,334	100.0 %
Reinsurance ceded	188		194	
Total (net)	$ 56,679		$ 49,140	

The following information was obtained from the applicable exhibits in the Company's December 31, 2003 and 2002 Annual Statements and related Separate Accounts Annual Statements, all of which were filed with the applicable states of domicile, and was provided to reconcile annuity actuarial reserves and deposit liabilities by withdrawal characteristics:

(in millions)	2003	2002
Life & Accident & Health Annual Statements		
Exhibit 5, Annuities Section, Totals (net)	$ 26,000	$ 23,068
Exhibit 5, Supplementary Contracts with Life Contingencies Section, Totals (net)	1	4
Exhibit 7, Deposit Type Contracts, Line 14	10,803	9,006
Subtotal	36,804	32,078
Separate Accounts Annual Statements		
Exhibit 3, Annuities Section, Totals	19,872	16,757
Exhibit 4, Deposit Type Contracts, Line 9	3	305
Subtotal	19,875	17,062
Total	$ 56,679	$ 49,140

19. Premiums and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations at December 31 were as follows:

(in millions)	2003		2002	
Type	**Gross**	**Net of Loading**	**Gross**	**Net of Loading**
Ordinary new business	$ 23	$ 10	$ 22	$ 8
Ordinary renewal	180	166	170	157
Group life	16	16	16	16
Group annuity	(1)	(1)	(1)	(1)
Total	$ 218	$ 191	$ 207	$ 180

20. Separate Accounts

General nature and characteristics of separate accounts business

Separate Accounts held by the Company are for market value adjusted annuities, variable annuities, variable life products and indexed Separate Accounts. The Separate Account for market value adjusted annuities provides the opportunity for the policyholder to invest in one or any combination of ten interest rate guarantee periods. The assets for this account are carried at fair value and are held in a non-unitized Separate Account. Amounts withdrawn from the contract in excess of the free withdrawal amount are subject to market value adjustment. The market value adjusted annuity business has been included in the "Nonindexed Guarantee Less than/equal to 4%" or the “Nonindexed Guarantee More than 4%” columns of the following table.

The variable annuities and variable life products allow the policyholder to accumulate funds at rates which depend upon the return achieved from the types of investments chosen. The net investment experience of the Separate Accounts is credited directly to the policyholder and can be positive or negative. The funds have a variety of portfolios and the investments in these portfolios are carried at fair value in unitized Separate Accounts. Certain guarantees provided by the Company are reserved for in the Company’s general account. The assets of each portfolio are held separately from the other portfolios and each has distinct investment objectives and policies. The variable annuity and variable life business has been included in the “Nonguaranteed Separate Accounts” column of the following table.

The Indexed Separate Account relates to funding agreements sold to short-term money managers. The funding agreements guarantee a rate of return equal to LIBOR plus a spread. Credited interest is reset quarterly to remain tied to LIBOR. Assets are invested primarily in instruments that also reset to LIBOR. Both the policyholder and the Company are able to terminate the contract with 3 to 15 months notice. The assets are carried at fair value and the general account will make a contribution to the Separate Account if the fair value of the assets fall below the fair value of the liabilities. The general account holds an asset maintenance reserve for the Separate Account in accordance with the NAIC model regulation. In accordance with SSAP No. 52, Deposit-Type Contracts, these contracts are accounted for as deposit-type products. The indexed separate account business has been included in the “Indexed” column of the following table.

(in millions)	Indexed	Nonindexed Guarantee Less than/ equal to 4%	Nonindexed Guarantee More than 4%	Non-guaranteed Separate Accounts	Total
Premium, considerations or deposits for the year ended December 31, 2003	$ -	$ 137	$ 857	$ 1,440	$ 2,434
At December 31, 2003:					
Reserves by valuation basis					
Fair value	$ 203	$ 1,047	$ 6,495	$ 12,795	$ 20,540
Reserves by withdrawal characteristics					
Subject to discretionary withdrawal:					
With market value adjustment	$ -	$ 1,047	$ 6,495	$ -	$ 7,542
At fair value	203	-	-	12,769	12,972
Subtotal	203	1,047	6,495	12,769	20,514
Not subject to discretionary withdrawal	-	-	-	26	26
Total	$ 203	$ 1,047	$ 6,495	$ 12,795	$ 20,540
Transfer as reported in the Summary of Operations of the Separate Accounts Annual Statements	$ -	$ 65	$ 412	$ 186	$ 663

Reconciliation of net transfers to or (from) Separate Accounts for the year ended December 31, 2003 were as follows:

(in millions)	2003
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to Separate Accounts	$ 2,434
Transfers from Separate Accounts	(1,771)
Net transfers to (from) Separate Accounts	663
Reconciling Adjustments:	
Net transfers assumed from Lincoln National Insurance Company pursuant to coinsurance agreement	(3)
Net transfers assumed from American Maturity Life Insurance Company pursuant to modified coinsurance agreement	(3)
Net transfers ceded to Alpine Reinsurance Company pursuant to modified coinsurance agreement	(5)
Transfers as reported in the Statements of Operations	$ 652

(in millions)	Indexed	Nonindexed Guarantee Less than/ equal to 4%	Nonindexed Guarantee More than 4%	Non-guaranteed Separate Accounts	Total
Premium, considerations or deposits for the year ended December 31, 2002	$ -	$ 153	$ 1,892	$ 1,252	$ 3,297
At December 31, 2002:					
Reserves by valuation basis					
Fair value	$ -	$ 498	$ 6,163	$ 10,437	$ 17,098
Reserves by withdrawal characteristics					
Subject to discretionary withdrawal:					
With market value adjustment	$ -	$ 498	$ 6,163	$ -	$ 6,661
At fair value	302	-	-	10,416	10,718
Subtotal	302	498	6,163	10,416	17,379
Not subject to discretionary withdrawal	-	-	-	21	21
Total	$ 302	$ 498	$ 6,163	$ 10,437	$ 17,400
Transfers as reported in the Summary of Operations of the Separate Accounts Annual Statements	$ -	$ 121	$ 1,481	$ 35	$ 1,637

Reconciliation of net transfers to or (from) Separate Accounts for the year ended December 31, 2002 were as follows:

(in millions)	2002
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to Separate Accounts	$ 3,297
Transfers from Separate Accounts	(1,660)
Net transfers to (from) Separate Accounts	1,637
Reconciling Adjustments:	
Net transfers assumed from Lincoln National Insurance Company pursuant to coinsurance agreement	(8)
Net transfers assumed from American Maturity Life Insurance Company pursuant to modified coinsurance agreement	(7)
Net transfers ceded to Alpine Reinsurance Company pursuant to modified coinsurance agreement	(2)
Transfers as reported in the Statements of Operations	$ 1,620

21. Other Items

Balances reasonably possible to be uncollectible

Agents' balances receivable are recorded net of the allowance for uncollectible amounts less than 90 days old. The allowance is determined based on the age of the receivable and prior collection experience. The Company routinely assesses the collectibility of its agents' balances receivable. Agents' balances receivable older than 90 days are nonadmitted. The allowance balance for admitted agents' balances receivable, after reinsurance, was $5 million at both December 31, 2003 and 2002.

September 11, 2001 events

Mortality losses in 2001 included $14 million of pretax loss incurred as a result of the September 11, 2001 attack on the World Trade Center in New York City, the Pentagon in Washington, D.C., and the plane crash in Pennsylvania. Losses, net of primary reinsurance recoveries, were $12 million pretax. No additional losses were recognized in 2003 or 2002. The Company collected $2 million and $3 million from its catastrophe reinsurers in 2003 and 2002, respectively. Management does not expect any future contingencies or unpaid claims or losses related to these events to have a material impact on the Company's financial statements.

Noncash transactions

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

(in millions)	2003	2002
Proceeds from bonds sold, matured or repaid	$ 362	$ 206
Proceeds from equities sold, matured or repaid	5	26
Cost of bonds acquired	207	171
Cost of equities acquired	103	60

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

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

OF The (Name) Allstate Life Insurance Company and Combined Life, Accident and Health Insurance Subsidiaries….
Address (City, State and Zip Code) 3075 Sanders Road, Suite H1A, Northbrook, IL 60062-7127……….……………….
NAIC Group Code 0008……..NAIC Company Code 60186………..Employer's ID Number 36-2554642……………….

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

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

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement… $49,829,217,428.

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

	Investment Category	Amount	Percentage of Total Admitted Assets
2.01	Long Term Bond (LBUBS Commercial Mortgage Trust)	$ 415,702,995	0.8%
2.02	Long Term Bond (JPMCC)	$ 382,738,756	0.8%
2.03	Long Term Bond (MSDWC)	$ 266,142,579	0.5%
2.04	Long Term Bond (Morgan Stanley Capital Inc)	$ 216,262,138	0.4%
2.05	Mortgage Loans – Commercial (Inland SE REIT)	$ 176,180,267	0.4%
2.06	Long Term Bond (FHR Residential Mortgage)	$ 171,946,358	0.3%
2.07	Long Term Bond (GECMC)	$ 170,061,637	0.3%
2.08	Long Term Bond (GMACC)	$ 167,575,199	0.3%
2.09	Mortgage Loans – Commercial (Distribution Funding, Inc.)	$ 165,000,000	0.3%
2.10	Long Term Bond (BSCMS)	$ 159,873,882	0.3%

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

	Bonds		1	2		Preferred stocks		3	4
3.01	NAIC-1	$	26,432,213,125	53.1%	3.07	P/ RP-1	$	307,990,358	0.6%
3.02	NAIC-2	$	12,233,694,542	24.6%	3.08	P/RP-2	$	134,643,594	0.3%
3.03	NAIC-3	$	1,925,339,561	3.9%	3.09	P/RP-3	$	25,000,000	0.1%
3.04	NAIC-4	$	1,032,547,686	2.1%	3.10	P/RP-4	$	-	-%
3.05	NAIC-5	$	214,109,566	0.4%	3.11	P/RP-5	$	-	-%
3.06	NAIC-6	$	58,470,980	0.1%	3.12	P/RP-6	$	-	-%

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 – Derivative Instruments and SSAP No. 86 – Derivative Instruments), including (4.01) foreign-currency-denominated investments of $ 000; 0.00% (4.02) supporting insurance liabilities denominated in that same foreign currency of $ 000; 0.00% and excluding (4.03) Canadian investments and currency exposure of $1,089,120,100; 2.2%

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

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

			1	2
5.01	Countries rated NAIC – 1	$	4,887,085,537	9.8%
5.02	Countries rated NAIC – 2	$	365,501,578	0.7%
5.03	Countries rated NAIC – 3 or below	$	180,460,092	0.4%

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

			1	2
	Countries rated NAIC – 1			
6.01	Country: United Kingdom	$	1,468,009,555	2.9%
6.02	Country: Australia	$	559,873,660	1.1%
	Countries rated NAIC – 2			
6.03	Country: Mexico	$	199,574,893	0.4%
6.04	Country: Malaysia	$	82,914,519	0.2%
	Countries rated NAIC – 3 or below			
6.05	Country: Philippines	$	58,717,195	0.1%
6.06	Country: Brazil	$	44,118,707	0.1%

7. Aggregate unhedged foreign currency exposure

	1	2
$	-	-%

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

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

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

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

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

	1 NAIC Rating		2	3
10.01	1 Corp Andina De Fomento	$	55,364,146	0.1%
10.02	1 British Telecom PLC	$	53,370,677	0.1%
10.03	1PE Westdeutsche Landesbank Girozentrale	$	49,210,996	0.1%
10.04	1Z Electicity Supply Board Ser	$	47,000,000	0.1%
10.05	1 Vodafone Airtouch	$	45,971,995	0.1%
10.06	1 Royal Bk of Scotland	$	45,336,518	0.1%
10.07	2 Deutsche Telekom	$	45,171,490	0.1%
10.08	2 France Telecom	$	44,970,383	0.1%
10.09	1 Union Bank of Norway	$	44,934,365	0.1%
10.10	2 UPM-Kymmene Corp	$	42,997,224	0.1%

11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of (11.01) $1,089,120,100; 2.2% supporting Canadian-denominated insurance liabilities of (11.02) $0.00; 0.00%

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

12. Aggregate Canadian Investment exposure.

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

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

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

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

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

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

	1 Investment Category	2	3
14.01		$	
14.02		$	
14.03		$	
14.04		$	
14.05		$	
14.06		$	
14.07		$	
14.08		$	
14.09		$	
14.10		$	

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

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

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

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

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

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

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

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

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

1 Type (Residential, Commercial, Agricultural)		2	3
Commercial – Inland SE REIT	$	176,180,267	0.4%
Commercial – Distribution Funding, Inc.	$	165,000,000	0.3%
Commercial – Inland MW REIT	$	153,327,132	0.3%
Commercial – Benj. E. Sherman & Sons	$	110,101,579	0.2%
Commercial – Berwind Property Group	$	77,869,107	0.2%
Commercial – San Francisco Employees	$	77,464,662	0.2%
Commercial – The Irvine Co.	$	70,089,962	0.1%
Commercial – ProLogis-Macquarie Fund	$	70,000,000	0.1%
Commercial – Corporate Office Partners, L.P.	$	50,770,675	0.1%
Commercial – Distribution Funding II, Inc.	$	50,167,238	0.1%

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

			Residential				Commercial				Agricultural		
	Loan-to-Value		1	2			3	4			5	6	
18.01	above 95%	$	-	-	%	$	36,461,516	0.1	%	$	-	-	%
18.02	91% to 95%	$	-	-	%	$	17,129,126	-	%	$	-	-	%
18.03	81% to 90%	$	-	-	%	$	149,781,640	0.3	%	$	-	-	%
18.04	71% to 80%	$	-	-	%	$	1,052,618,877	2.1	%	$	-	-	%
18.05	below 70%	$	-	-	%	$	4,229,180,440	8.5	%	$	-	-	%

			1	2
18.06	Construction loans	$	-	-%
18.07	Mortgage loans over 90 days past due	$	-	-%
18.08	Mortgage loans in the process of foreclosure	$	3,498,858	-%
18.09	Mortgage loans foreclosed	$	-	-%
18.10	Restructured mortgage loans	$	2,297,020	-%

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

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

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

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

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

	At Year-end		At End of Each Quarter		
			1st Quarter	2nd Quarter	3rd Quarter
	1	2	3	4	5
20.01 Securities lending (do not include assets held as collateral for such transactions)	$ 949,120,444	1.9%	$ 1,887,194,758	$ 2,247,327,696	$ 2,062,500,879
20.02 Repurchase agreements	$ -	-	$ -	$ -	$ -
20.03 Reverse repurchase agreements	$ 143,050,000	0.3%	$ -	$ -	$ -
20.04 Dollar repurchase agreements	$ -	-	$ -	$ -	$ -
20.05 Dollar reverse repurchase agreements	$ 492,529,245	1.0%	$ -	$ 499,018,032	$ 484,007,982

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

		Owned		Written	
		1	2	3	4
21.01	Hedging	$ 79,526,540	0.2 %	$ 2,921,250	- %
21.02	Income generation	$ -	- %	$ -	- %
21.03	Other	$ -	- %	$ -	- %

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

		At Year-end		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
22.01	Hedging	$ 120,748,913	0.2%	$ 109,405,646	$ 108,554,540	123,228,345
22.02	Income generation	$ -	-%	$ -	$ -	$ -
22.03	Replications	$ 217,743	-%	$ -	$ -	$ 111,558
22.04	Other	$ -	-%	$ -	$ -	$ -

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

		At Year-end		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
23.01	Hedging	$ 24,066,088	-%	$ 11,217,293	$ 23,933,888	$ 16,011,263
23.02	Income generation	$ -	-%	$ -	$ -	$ -
23.03	Replications	$ -	-%	$ -	$ -	$ -
23.04	Other	$ -	-%	$ -	$ -	$ -

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

	1		2	3	
24.01	Derivative Contracts	$	118,653,664	0.2	%
24.02	Equity Options	$	174,004	-	%
24.03		$	-	-	%
24.04		$	-	-	%
24.05		$	-	-	%
24.06		$	-	-	%
24.07		$	-	-	%
24.08		$	-	-	%
24.09		$	-	-	%
24.10		$	-	-	%

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions) Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Bonds:		
U.S. Treasury securities	$ 1,190	$ 1,190
U.S. government agency and corporate obligations (excluding mortgage-backed securities):		
Issued by U.S. government agencies	-	-
Issued by U.S. government sponsored agencies	2,987	2,987
Foreign government (including Canada, excluding mortgage-backed securities)	461	461
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:		
States, territories and possessions general obligations	152	152
Political subdivisions of states, territories and possessions and political subdivisions general obligations	374	374
Revenue and assessment obligations	1,073	1,073
Industrial development and similar obligations	28	28
Mortgage-backed securities (includes residential and commercial MBS):		
Pass-through securities:		
Guaranteed by GNMA	107	107
Issued by FNMA and FHLMC	1,095	1,095
Privately issued	-	-
CMOs and REMICs:		
Issued by FNMA and FHLMC	1,667	1,667
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC	-	-
All other privately issued	23	23
Other debt and other fixed income securities (excluding short-term):		
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	26,238	26,238
Unaffiliated foreign securities	5,776	5,776
Affiliated securities	-	-
Equity interests:		
Investments in mutual funds	-	-
Preferred stocks:		
Affiliated	-	-
Unaffiliated	468	468
Publicly traded equity securities (excluding preferred stocks):		
Affiliated	-	-
Unaffiliated	41	41
Other equity securities:		
Affiliated	16	16
Unaffiliated	-	-
Other equity interests including tangible personal property under lease:		
Affiliated	-	-
Unaffiliated	-	-

***** Gross investment holdings as valued in compliance with NAIC *Accounting Practices and Procedures Manual***.**

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions) Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Mortgage loans:		
Construction and land development	$ -	$ -
Agricultural	-	-
Single family residential properties	-	-
Multifamily residential properties	-	-
Commercial loans	5,485	5,485
Mezzanine real estate loans	-	-
Real estate investments:		
Property occupied by the company	-	-
Property held for the production of income (includes $0 of property acquired in satisfaction of debt)	23	23
Property held for sale (includes $0 of property acquired in satisfaction of debt)	11	11
Collateral loans	-	-
Contract loans	685	685
Receivables for securities	8	8
Cash, cash equivalents and short-term investments	784	784
Other invested assets	198	198
Total invested assets	$ 48,890	$ 48,890

***** Gross investment holdings as valued in compliance with NAIC *Accounting Practices and Procedures Manual***.**

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

COMBINED SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

(in millions)

Investment Income Earned:		
U.S. Government bonds	$	139
Other bonds (unaffiliated)		2,339
Bonds of affiliates		-
Preferred stocks (unaffiliated)		31
Preferred stocks of affiliates		-
Common stocks (unaffiliated)		3
Common stocks of affiliates		-
Mortgage loans		372
Real estate		5
Premium notes, contract loans and liens		47
Cash on hand and on deposit		1
Short-term investments		18
Other invested assets		(1)
Derivative instruments		(78)
Aggregate write-ins for investment income		(6)
Gross investment income	$	2,870
Real Estate Owned - Book Value Less Encumbrances	$	34
Mortgage Loans - Book Value:		
Farm mortgages	$	-
Residential mortgages		-
Commercial mortgages		5,485
Total mortgage loans	$	5,485
Mortgage Loans By Standing - Book Value:		
Good standing	$	5,480
Good standing with restructured terms	$	2
Interest overdue more than 90 days, not in foreclosure	$	-
Foreclosure in process	$	3
Other Long Term Assets - Statement Value	$	79
Collateral Loans	$	-
Bonds and Stocks of Parents, Subsidiaries and Affiliates - Book Value:		
Bonds	$	-
Preferred stocks	$	-
Common stocks	$	16

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

COMBINED SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

(in millions)

Bonds and Short-Term Investments by Class & Maturity:		
Bonds and Short-Term Investments by Maturity - Statement Value		
Due within one year or less	$	2,066
Due after 1 year through 5 years		7,973
Due after 5 years through 10 years		14,064
Due after 10 years through 20 years		8,952
Due after 20 years		8,841
Total by maturity	$	41,896
Bonds and Short-Term Investments by Class - Statement Value		
Class 1	$	26,432
Class 2		12,234
Class 3		1,925
Class 4		1,033
Class 5		214
Class 6		58
Total by class	$	41,896
Total Bonds and Short-Term Investments Publicly Traded	$	29,071
Total Bonds and Short-Term Investments Privately Traded	$	12,825
Preferred Stocks - Statement Value	$	468
Common Stocks - Fair Value	$	50
Short-Term Investments - Book Value	$	725
Options Caps & Floors Owned - Statement Value	$	79
Options Caps & Floors Written and In Force - Statement Value	$	(3)
Collar, Swap & Forward Agreements Open - Statement Value	$	36
Futures Contracts Open - Current Value	$	831
Cash on Deposit	$	59
Life Insurance In Force:		
Industrial	$	-
Ordinary	$	179,930
Credit Life	$	-
Group Life	$	14,839
Amount of Accidental Death Insurance In Force Under Ordinary Policies	$	11,365

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

COMBINED SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

(in millions)

Life Insurance Policies with Disability Provisions:		
Industrial	$	-
Ordinary	$	37,289
Credit Life	$	-
Group Life	$	-
Supplementary Contracts:		
Ordinary - Not Involving Life Contingencies -		
Amount on Deposit	$	1
Income Payable	$	-
Ordinary - Involving Life Contingencies -		
Income Payable	$	-
Group - Not Involving Life Contingencies -		
Amount on Deposit	$	-
Income Payable	$	-
Group - Involving Life Contingencies -		
Income Payable	$	-
Annuities:		
Ordinary -		
Immediate - Amount of Income Payable	$	710
Deferred - Fully Paid Account Balance	$	17,835
Deferred - Not Fully Paid - Account Balance	$	32
Group -		
Amount of Income Payable	$	196
Fully Paid Account Balance	$	18,986
Not Fully Paid - Account Balance	$	-
Accident and Health Insurance - Premiums In Force:		
Ordinary	$	18
Group	$	79
Credit	$	1
Deposit Funds and Dividend Accumulations - Account Balance:		
Deposit Funds – Account Balance	$	8,615
Dividend Accumulations – Account Balance	$	2

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH

INSURANCE SUBSIDIARIES

COMBINED SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

(in millions)

Claim Payments 2003:		
Group Accident and Health Year Ended December 31, 2003:		
2003	$	38
2002	$	17
2001	$	3
2000	$	1
1999	$	-
Prior	$	1
Other Accident and Health:		
2003	$	8
2002	$	3
2001	$	-
2000	$	-
1999	$	-
Prior	$	-
Other Coverages that Use Developmental Methods to Calculate Claim Reserves:		
2003	$	-
2002	$	-
2001	$	-
2000	$	-
1999	$	-
Prior	$	-

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

COMBINING STATUTORY-BASIS STATEMENT OF FINANCIAL POSITION

December 31, 2003

(in millions, except par value and share data)	Combined	Intercompany Eliminations	Allstate Life Insurance Company	Allstate Life Insurance Company of New York	Glenbrook Life and Annuity Company	Lincoln Benefit Life Company	Surety Life Insurance Company	Charter National Life Insurance Company	Intramerica Life Insurance Company	Allstate Assurance Company
ADMITTED ASSETS										
Bonds (NAIC fair value: $44,197)	$ 41,171	$ 0	$ 36,991	$ 3,716	$ 161	$ 198	$ 49	$ 25	$ 21	$ 10
Preferred stocks (NAIC fair value: $520)	468	0	418	48	2	0	0	0	0	0
Common stocks:										
Unaffiliated companies (Cost: $36)	41	0	34	7	0	0	0	0	0	0
Uncombined subsidiaries and affiliates (Cost: $5)	16	(748)	764	0	0	0	0	0	0	0
Total common stocks	57	(748)	798	7	0	0	0	0	0	0
Mortgage loans on real estate	5,485	0	5,115	370	0	0	0	0	0	0
Real estate	34	0	34	0	0	0	0	0	0	0
Cash, cash equivalents and short-term investments	784	0	780	24	5	(28)	(2)	2	2	1
Contract loans	685	0	651	34	0	0	0	0	0	0
Other invested assets	79	0	79	0	0	0	0	0	0	0
Receivable for securities	8	0	7	1	0	0	0	0	0	0
Derivative contracts	119	0	119	0	0	0	0	0	0	0
Subtotals, cash and invested assets	$ 48,890	$ (748)	$ 44,992	$ 4,200	$ 168	$ 170	$ 47	$ 27	$ 23	$ 11
Investment income due and accrued	495	0	443	46	2	3	1	0	0	0
Premiums and considerations	202	0	195	10	0	(3)	0	0	0	0
Reinsurance recoverables	22	(86)	10	2	21	72	3	0	0	0
Current federal and foreign income taxes recoverable and interest thereon	0	(7)	0	5	1	1	0	0	0	0
Net deferred tax asset	200	(1)	195	6	0	0	0	0	0	0
Transfers to Separate Accounts due and accrued (net)	630	0	587	43	0	0	0	0	0	0
Other assets	20	(4)	21	2	0	0	0	1	0	0
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	21,216	0	16,883	859	1,228	1,912	0	293	37	4
Total	$ 71,675	$ (846)	$ 63,326	$ 5,173	$ 1,420	$ 2,155	$ 51	$ 321	$ 60	$ 15
LIABILITIES										
Aggregate reserve for life contracts	$ 33,245	$ 0	$ 29,865	$ 3,354	$ 0	$ 0	$ 23	$ 0	$ 3	$ 0
Aggregate reserve for accident and health contracts	107	0	106	1	0	0	0	0	0	0
Liability for deposit-type contracts	10,803	0	10,318	485	0	0	0	0	0	0
Contract claims and liabilities	131	(86)	203	9	1	0	1	3	0	0
Commissions to agents due or accrued	47	0	19	3	1	24	0	0	0	0
General expenses due or accrued	14	0	14	0	0	0	0	0	0	0
Current federal and foreign income taxes	15	(7)	22	0	0	0	0	0	0	0
Net deferred tax liability	0	(1)	0	0	0	0	1	0	0	0
Remittances and items not allocated	117	0	112	5	0	0	0	0	0	0
Borrowed money	636	0	636	0	0	0	0	0	0	0
Dividends to stockholders declared and unpaid	75	0	75	0	0	0	0	0	0	0
Asset valuation reserve	219	0	200	18	1	0	0	0	0	0
Payable to parent, uncombined subsidiaries and affiliates	145	(4)	105	6	21	17	0	0	0	0
Payable for securities	26	0	26	0	0	0	0	0	0	0
Securities lending collateral	949	0	815	134	0	0	0	0	0	0
Derivatives collateral	333	0	333	0	0	0	0	0	0	0
Other liabilities	78	0	75	4	0	0	(1)	0	0	0
From Separate Accounts Statement	21,175	0	16,842	859	1,228	1,912	0	293	37	4
Total liabilities	68,115	(98)	59,766	4,878	1,252	1,953	24	296	40	4
CAPITAL AND SURPLUS										
Common capital stock ($227 par value; 23,800 shares authorized, issued and outstanding)	5	(19)	5	2	3	3	3	3	2	3
Preferred capital stock ($100 par value; 1,500,000 shares authorized, 815,460 shares issued and outstanding)	82	0	82	0	0	0	0	0	0	0
Gross paid in and contributed surplus	1,023	(316)	1,023	47	118	120	17	6	1	7
Unassigned funds (surplus)	2,450	(413)	2,450	246	47	79	7	16	17	1
Total capital and surplus	3,560	(748)	3,560	295	168	202	27	25	20	11
Total liabilities, capital and surplus	$ 71,675	$ (846)	$ 63,326	$ 5,173	$ 1,420	$ 2,155	$ 51	$ 321	$ 60	$ 15

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions)	Combined	Intercompany Eliminations	Allstate Life Insurance Company	Allstate Life Insurance Company of New York	Glenbrook Life and Annuity Company	Lincoln Benefit Life Company	Surety Life Insurance Company	Charter National Life Insurance Company	Intramerica Life Insurance Company	Allstate Assurance Company
Premiums and annuity considerations for life and accident and health contracts	$ 9,059	$ 0	$ 8,227	$ 831	$ 0	$ 0	$ 0	$ 0	$ 1	$ 0
Net investment income	2,805	0	2,520	257	10	11	3	2	1	1
Amortization of interest maintenance reserve	(55)	0	(57)	2	0	0	0	0	0	0
Other income	496	(299)	337	15	96	345	2	0	0	0
Total revenues	12,305	(299)	11,027	1,105	106	356	5	2	2	1
Death benefits	478	0	457	21	0	0	0	0	0	0
Annuity benefits	1,308	0	1,195	113	0	0	0	0	0	0
Surrender benefits and withdrawals for life contracts	3,207	0	3,019	183	0	0	1	0	4	0
Increase in aggregate reserves for life and accident and health contracts	3,254	0	2,674	579	0	0	0	0	1	0
Other contract benefits	279	0	245	34	0	0	0	0	0	0
Commissions and general insurance expenses, including insurance taxes, licenses and fees	1,338	(299)	1,097	96	97	345	2	0	0	0
Net transfers to or (from) Separate Accounts net of reinsurance	652	0	632	24	0	0	0	0	(4)	0
Maturities and other scheduled payments	932	0	932	0	0	0	0	0	0	0
Total benefits and expenses	11,448	(299)	10,251	1,050	97	345	3	0	1	0
Net gain from operations after dividends to policyholders and before federal income taxes and realized capital gains or (losses)	857	0	776	55	9	11	2	2	1	1
Federal and foreign income taxes incurred	214	0	191	16	1	4	1	1	0	0
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	643	0	585	39	8	7	1	1	1	1
Net realized capital gains or (losses)	(35)	0	(35)	(2)	1	1	0	0	0	0
Net income	$ 608	$ 0	$ 550	$ 37	$ 9	$ 8	$ 1	$ 1	$ 1	$ 1

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

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

(in millions)	Combined	Intercompany Eliminations	Allstate Life Insurance Company	Allstate Life Insurance Company of New York	Glenbrook Life and Annuity Company	Lincoln Benefit Life Company	Surety Life Insurance Company	Charter National Life Insurance Company	Intramerica Life Insurance Company	Allstate Assurance Company
Capital and surplus, December 31, prior year	$ 3,245	$ (706)	$ 3,245	$ 271	$ 160	$ 195	$ 26	$ 24	$ 19	$ 11
Net income	608	0	550	37	9	8	1	1	1	1
Change in net unrealized capital gains or (losses)	(22)	(42)	17	3	0	0	0	0	0	0
Change in net deferred income tax	(105)	0	(97)	(6)	0	(2)	0	0	0	0
Change in nonadmitted assets and related items	88	0	85	2	0	1	0	0	0	0
Change in asset valuation reserve	(57)	0	(44)	(12)	(1)	0	0	0	0	0
Change in surplus of Separate Accounts Statement	18	0	18	0	0	0	0	0	0	0
Capital and surplus paid in	(11)	0	(11)	0	0	0	0	0	0	0
Dividends to stockholders	(200)	0	(200)	0	0	0	0	0	0	0
Other	(4)	0	(3)	0	0	0	0	0	0	(1)
Capital and surplus, December 31, current year	$ 3,560	$ (748)	$ 3,560	$ 295	$ 168	$ 202	$ 27	$ 25	$ 20	$ 11

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

COMBINING STATUTORY-BASIS STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2003

(in millions)	Combined	Intercompany Eliminations	Allstate Life Insurance Company	Allstate Life Insurance Company of New York	Glenbrook Life and Annuity Company	Lincoln Benefit Life Company	Surety Life Insurance Company	Charter National Life Insurance Company	Intramerica Life Insurance Company	Allstate Assurance Company
Cash from operations:										
Premiums collected net of reinsurance	$ 9,043	$ 0	$ 8,211	$ 830	$ 0	$ 1	$ 0	$ 0	$ 1	$ 0
Net investment income	2,618	0	2,388	202	10	12	3	1	1	1
Miscellaneous income	427	(238)	271	13	98	282	1	0	0	0
Total	12,088	(238)	10,870	1,045	108	295	4	1	2	1
Benefits and loss related payments	(5,065)	(61)	(4,619)	(322)	0	(56)	(1)	(2)	(4)	0
Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	(686)	0	(642)	(48)	0	0	0	0	4	0
Commissions, expenses paid and aggregate write-ins for deductions	(2,266)	299	(2,042)	(93)	(96)	(332)	(2)	0	0	0
Federal and foreign income taxes (paid) recovered	(159)	0	(138)	(14)	(2)	(4)	(1)	0	0	0
Total	(8,176)	238	(7,441)	(477)	(98)	(392)	(4)	(2)	0	0
Net cash from operations	3,912	0	3,429	568	10	(97)	0	(1)	2	1
Cash from investments:										
Proceeds from investments sold, matured or repaid	16,905	0	15,930	815	52	69	26	4	9	0
Cost of investments acquired (long-term only)	(23,195)	0	(21,560)	(1,452)	(56)	(84)	(27)	(5)	(10)	(1)
Net (increase) or decrease in contract loans and premium notes	6	0	7	(1)	0	0	0	0	0	0
Net cash from investments	(6,284)	0	(5,623)	(638)	(4)	(15)	(1)	(1)	(1)	(1)
Cash from financing and miscellaneous sources:										
Capital and paid in surplus, less treasury stock	(12)	0	(12)	0	0	0	0	0	0	0
Borrowed funds received	636	0	636	0	0	0	0	0	0	0
Net deposits on deposit-type contracts and other insurance liabilities	1,531	0	1,520	11	0	0	0	0	0	0
Dividends paid to stockholders	(125)	0	(125)	0	0	0	0	0	0	0
Other cash provided (applied)	146	0	167	(33)	4	8	0	0	0	0
Net cash from financing and miscellaneous sources	2,176	0	2,186	(22)	4	8	0	0	0	0
Reconciliation of cash and short-term investments:										
Net change in cash and short-term investments	(196)	0	(8)	(92)	10	(104)	(1)	(2)	1	0
Cash and short-term investments, beginning of year	980	0	788	116	(5)	76	(1)	4	1	1
Cash and short-term investments, end of period	$ 784	$ 0	$ 780	$ 24	$ 5	$ (28)	$ (2)	$ 2	$ 2	$ 1

ALLSTATE LIFE INSURANCE COMPANY AND COMBINED LIFE, ACCIDENT AND HEALTH INSURANCE SUBSIDIARIES

COMBINING STATUTORY-BASIS INTERCOMPANY ELIMINATING ENTRIES
YEAR ENDED DECEMBER 31, 2003

(in millions)	Debit	Credit
(A)		
Common capital stock	$ 19	
Gross paid in and contributed capital	316	
Unassigned funds (surplus)	413	
Common stocks - uncombined subsidiaries and affiliates		$ 748
(Elimination of intercompany investments)		
(B)		
Payable to parent, subsidiaries and affiliates	$ 4	
Other assets		$ 4
(Elimination of intercompany receivable and payable)		
(C)		
Current federal and foreign income taxes	$ 7	
Current federal and foreign income taxes recoverable and interest thereon		$ 7
(Reclassification of federal income taxes recoverable and federal income taxes due or accrued)		
(D)		
Net deferred tax liability	$ 1	
Net deferred tax asset		$ 1
(Reclassification of deferred tax asset and deferred tax liability)		
(E)		
Contract claims and liabilities	$ 86	
Reinsurance recoverables		$ 86
(Elimination of other amounts receivable/ payable under reinsurance contracts)		
(F)		
Other income	$ 299	
Commissions and general insurance expenses, including insurance taxes, licenses and fees		$ 299

(Elimination of intercompany commissions and expense allowances on reinsurance ceded/assumed)