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Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2004

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

Effective January 1, 2003, Northbrook Life Insurance Company ("NLIC"), an affiliated life insurer, merged with ALIC. NLIC's assets and liabilities were transferred to ALIC's balance sheet at statutory carrying values as of the effective date of the merger.

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

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

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

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

FINANCIAL POSITION

Cash and Invested Assets

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

The composition of the investment portfolio at December 31 was:

(in millions)	2004	2003
Bonds	$ 48,026	$ 41,171
Preferred stocks	124	468
Common stocks	56	57
Mortgage loans on real estate	6,203	5,485
Real estate	34	34
Cash	1,006	59
Short-term investments	489	725
Contract loans	720	685
Other invested assets	310	206
Total	$ 56,968	$ 48,890

Total invested assets increased $8.08 billion, or 17%, at December 31, 2004. The increase in investments was primarily due to amounts invested from positive cash flows generated from operating and financing activities and increased funds associated with securities lending.

Bonds

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

At December 31, 2004, approximately 93% of the long and short-term fixed income securities portfolio was rated investment-grade, which is defined as having a NAIC rating of 1 or 2, a Moody's rating of Aaa, Aa, A, or Baa, or a comparable internal rating. There were no material changes in the invested asset mix or quality distribution from the prior year.

Bonds are carried at amortized cost. Fair value of bonds was $51.26 billion and $44.24 billion at December 31, 2004 and 2003, respectively. At December 31, 2004, unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value were $3.24 billion compared to $3.07 billion as of December 31, 2003.

Fixed income securities issued by the U.S. government and agencies of the U.S. government totaled $3.38 billion at December 31, 2004 compared to $4.32 billion at December 31, 2003. All of these securities were rated investment grade at December 31, 2004.

Municipal bonds, including tax-exempt and taxable securities, totaled $2.98 billion and were all rated investment grade at December 31, 2004. There were $1.64 billion of municipal bonds at December 31, 2003. The municipal bond portfolio at December 31, 2004 consisted of approximately 223 issues from nearly 176 issuers.

The bond portfolio contained $11.57 billion and $10.49 billion of privately placed corporate obligations at December 31, 2004 and 2003, respectively. The benefits of privately placed securities as compared to public securities are generally higher yields, improved cash flow predictability through pro-rata sinking funds on many bonds, and a combination of covenant and call protection features designed to better protect the holder against losses resulting from credit deterioration, reinvestment risk and fluctuations in interest rates. A potential disadvantage of privately placed securities as compared to public securities is reduced liquidity. Approximately 93% of the privately placed securities were rated investment grade by either the NAIC or internal ratings.

At December 31, 2004 and 2003, $9.87 billion and $7.28 billion, respectively, of the fixed income securities portfolio were invested in mortgage-backed securities ("MBS"). The MBS portfolio consists primarily of securities which were issued by or have underlying collateral that is guaranteed by U.S. government agencies or sponsored entities, thus minimizing credit risk. The MBS portfolio, however, is subject to interest rate risk since price volatility and ultimate realized yield are affected by the rate of repayment of the underlying mortgages. The Company attempts to limit interest rate risk on these securities by investing a portion of the portfolio in securities that provide prepayment protection. At December 31, 2004, approximately 100% of the MBS portfolio were rated investment grade.

The fixed income securities portfolio also contained $3.73 billion and $2.97 billion of asset-backed securities ("ABS") at December 31, 2004 and 2003, respectively. The ABS portfolio is subject to credit and interest rate risks. Credit risk is mitigated by monitoring the performance of the collateral. In addition, many of the securities in the ABS portfolio are credit enhanced with features such as over - collateralization, subordinated debt, reserve funds, guarantees and/or insurance. Approximately 95% of the ABS securities were rated investment grade by either the NAIC or internal ratings. Interest rate risk is similar to the risk posed by MBS, but to a lesser degree due to the nature of the underlying assets. The portfolio is primarily backed by securitized home equity, manufactured housing and auto loans.

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

Mortgage Loans on Real Estate

The $6.20 billion investment in mortgage loans at December 31, 2004 was comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage mortgage loan risk.

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

Short-term Investments

The short-term investment portfolio was $489 million and $725 million at December 31, 2004 and 2003, respectively. The Company invests all available cash balances in taxable and tax-exempt short-term securities having a final maturity date or redemption date of one year or less.

The Company participates in securities lending, as an investment yield enhancement, with third parties such as brokerage firms. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of domestic and foreign securities, respectively, and monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. In return for these securities, the Company receives cash that is subsequently invested and included in short-term investments and an offsetting liability is recorded in other liabilities. At December 31, 2004, fixed income securities with a carrying value of $1.71 billion were pledged as collateral under these agreements.

Reinsurance Receivable

The increase of $397 million is primarily attributable to the $386 million due from American Heritage Life Insurance Company ("AHL") as defined by the reinsurance agreement. Although the treaty was effective December 31, 2004, the asset transfer occurred during the beginning of January 2005. The asset transfer was comprised of bonds and fixed income securities. Transferred reserves included $164 million of ordinary life and $221 million of ordinary annuities. Refer to the Other section for more details.

Separate Accounts

Separate Accounts balances increased by $2.35 billion, or 11%, to $23.57 billion at December 31, 2004 due primarily to improved equity market performance during the year.

The assets of the Separate Accounts are carried at fair value. Separate Accounts liabilities represent the contract holders' claim to the related assets and are carried at the fair value of the assets. Investment income and realized capital gains and losses of the Separate Accounts accrue directly to the contract holders, and therefore, are not included in the consolidated Statements of Operations. Revenues from the Separate Accounts consist of contract maintenance and administration fees, and mortality, surrender and expense charges.

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

Aggregate Reserves for Life Contracts

(in thousands)	2004	2003
Fixed annuities	$ 17,845,097	$ 14,463,893
Interest sensitive life	6,857,671	5,913,760
Structured settlements	5,572,314	5,294,127
Indexed annuities	1,866,982	1,461,563
Variable annuities	1,608,383	1,677,021
Annuity buy outs	1,176,890	1,214,555
Traditional	1,096,484	1,122,553
Other	1,650,506	2,097,839
Total	$ 37,674,327	$ 33,245,311

Fixed annuities increased $3.4 billion due to the issuance of new business and the resulting CARVM. Reserves for interest sensitive life increased $944 million primarily due to an increase in account value, driven by premium and credited interest. The largest contributor to the change in reserves in the other line was GICs. GICs decreased $546 million from 2003 due to higher benefit payments in 2004.

Liability for Deposit-type Contracts

Liability for deposit type contracts increased by 24% to $13.39 billion. In 2004, $3.1 billion of new deposits from institutional investors were received for MTN and structured settlement.

Transfers to Separate Accounts

Transfers to Separate Accounts as of December 31, 2004 and 2003 were $241.8 million and $630.2 million, respectively. The change of $479 million can be attributed to timing of investment purchases contributing to the difference in the market value adjusted annuity (“MVAA”) assets and liabilities. CARVM also decreased $26 million during 2004, almost entirely due to variable annuities.

Borrowed Money

Borrowed money was $721 million and $636 million as of December 31, 2004 and 2003, respectively. This change was the result of additional repurchase agreements ($85 million) to enhance the Company’s cash position.

Collateral for Securities Lending

Collateral for securities lending increased $793 million to $1.71 billion, or 87%. In 2004, additional asset classes were allowed under the program, thereby increasing the lending limit.

Capital and Surplus

Capital and surplus increased $96 million to $3.66 billion. The increase was primarily driven by income of $265 million and $116 million of unamortized gains from the sale of the Direct Response book of business, offset by $67 million of changes in AVR and $226 million of dividends to stockholders.

RESULTS OF OPERATIONS

(in millions)	2004	2003
Premiums and annuity considerations	$ 10,816	$ 9,059
Net investment income including IMR amortization	2,851	2,750
Income from fees	259	219
Other income	308	277
Total	14,234	12,305
Provision for benefits	10,389	8,526
Commissions and general insurance expenses	1,363	1,282
Insurance taxes, licenses and fees	69	71
Net transfers to or (from) Separate Accounts	1,280	652
Maturities and other scheduled payments	616	931
Reserves transferred	(6)	(15)
Total	13,711	11,447
Net gain from operations before dividends to policyholders and federal income taxes	523	858
Federal and foreign income taxes incurred	197	214
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	326	644
Realized gains or (losses), net of IMR and federal income taxes	(61)	(35)
Net income	$ 265	$ 609

Net Income

The decrease of $344 million was primarily due to growth in premium and annuity considerations and increases in policy benefits. Premium growth was mainly the result of the introduction of new products and a significant increase in sales in the bank, independent agent and Allstate Financial Services channels. An increase in the provision for benefits of $1.86 billion included a $469 million increase in reserves on interest sensitive life in the same distribution channels previously noted.

Premium and Annuity Considerations

Premiums and annuity considerations increased $1.76 billion, or 19%, due to a growth in sales of MVAA, fixed annuities, interest sensitive annuities, and indexed annuities offset by a decrease in variable annuities. The increase in MVAA sales was mainly attributable to the introduction of a new product called “ChoiceRate” along with an increase in Treasury rates. Fixed annuity sales increased due to highly attractive crediting rates and the bonus interest promotions. Increases in interest sensitive annuity sales were primarily driven by the Generation Advantage product sold in the bank channel. Indexed annuity sales growth was caused by the launch of a new equity indexed annuity product, “Market Smart”. The decrease in the variable annuities was primarily driven by decrease in Morgan Stanley Dean Witter sales.

Net Investment Income

Net investment income, including IMR amortization, increased $102 million, or 4%. The increase, not including IMR amortization, was due to higher investment portfolio balances, offset by lower portfolio yields which were 5.8% in 2004 compared to 6.3% in 2003. Investments, excluding Separate Accounts assets, grew 17% in 2004 due to positive cash flow from operations.

Provision for Benefits

Provision for benefits was mainly comprised of increase in aggregate life reserves, surrender benefits, and annuity benefits, increased $1.86 billion, or 22%.

Reserves increased $1.19 billion, or 34%, in large part due to increased sales of interest sensitive life annuities and fixed annuities.

Surrender benefits increased $443 million, or 14%, primarily due to higher surrenders of fixed annuities and MVAAs.

The $285 million increase in annuity benefits (22%), was primarily attributable to fixed annuities, payout annuities, and MVAA benefits. The $185 million increase in fixed annuities benefits was due to strong sales, which resulted in a reserve increase of approximately $3.38 billion over prior year. Annuity benefits paid increased as the size of the block of business grew. The $42 million increase in payout annuities benefits was due to a larger reserve base. The $35 million increase in MVAA benefits was due to an increase in account value.

Commissions and General Insurance Expenses

Commissions and general expenses increased $90 million, or 16%. Commissions increased $111 million, or 16%, consistent with the increase in premiums and annuity considerations. General expenses decreased $21 million, or 3%. Loading decreased $9 million as the Level Best Term product moved from the first year to renewal years. The resulting higher renewal premiums on term life allow net premium to be greater than gross premium, resulting in a negative loading.

Net Transfers to Separate Accounts

The transfers increased $628 million, or 96%, in 2004 due to higher premiums and benefits. Customers' confidence to invest in variable annuities and market value adjusted annuities resulted in $743 million higher premiums in 2004. Lower variable universal life account values resulted in $29 million lower CARVM and $27 million lower transfers to fixed funds. The offset was mainly accounted for by a $132 million increase in MVAA income.

Maturities and Other Scheduled Payments

The decrease of $329 million, or 35%, over the prior year was due to lower scheduled distributions as reserve balances decline. These contractual payments vary from year to year due to contract requirements.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)		2004		2003
Net cash from operations	$	5,011	$	3,912
Net cash from investments		(7,383)		(6,284)
Net cash from financing and miscellaneous sources		3,083		2,176
Net change in cash and short-term investments	$	711	$	(196)

The Company generated positive cash from operations of $5,011 million and $3,912 million in 2004 and 2003, respectively. The principal sources of funds from operations were premiums and investment income. The principal uses were the payment of claims and related expenses, and commissions and operating expenses. The positive cash flow from financing and miscellaneous sources of $3,083 million was mainly comprised of $2,298 million of net deposits on deposit-type contracts. The cash inflow from deposit-type contracts was mainly comprised of $2,677 million net deposits in European medium-term notes and $188 million in structured settlements, offset primarily by $569 million in net indexed fixed annuities.

The maturity structure of the Company's bonds, which represent 84% of the Company's total investments, is managed to meet the anticipated cash flow requirements of the underlying liabilities. A portion of the diversified product portfolio, primarily fixed deferred annuities and universal life insurance policies, is subject to discretionary surrender and withdrawal by customers. Management believes its assets are sufficiently liquid to meet future obligations to its life and annuity policyholders, under various interest rate scenarios.

Liquidity for life insurance companies is measured by the ability to pay contractual benefits and operating expenses, and fund investment commitments. Annuity reserves at December 31, 2004, excluding Separate Accounts, comprise 84% of total reserves in-force. Of the total annuity reserves, $30 billion, or 74%, are not subject to discretionary withdrawal. The Company maintains a strong liquidity position and is well positioned to meet its policyholders' obligations.

Dividends

The ability of ALIC to pay dividends is dependent on business conditions, income, cash requirements, receipt of dividends and other relevant factors. The payment of shareholder dividends without the prior approval of the Illinois Division of Insurance is limited to formula amounts based on net income and capital and surplus as specified under Illinois insurance law.

In 2004, ALIC paid $226 million of dividends, which is below the maximum payment amount that can be distributed without prior approval by the Illinois Insurance Department. Dividends paid were comprised of $200 million to AIC on common stock, $24 million securities dividend to AIC, and $2 million to Northbrook Holdings, LLC on Series A preferred stock.

Financial Ratings and Strength

At December 31, 2004, the ALIC's insurance claims-paying ratings from A.M. Best, Moody's Investors Services, Inc., and Standard & Poor's Ratings Services Company were A+ (Superior), Aa2 (Excellent), and AA (Very Strong), respectively.

Risk Based Capital

The NAIC has a standard to help assess the solvency of insurance companies, which is referred to as risk based capital ("RBC"). The standard is based on a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. RBC is calculated by applying factors to various asset, premium and liability items. At December 31, 2004, RBC for the Company was significantly above levels that would require regulatory action.

IRIS Ratios

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. The NAIC analyzes data provided by insurance companies using prescribed financial data ratios, each with defined usual ranges. Additional regulatory scrutiny may occur if a company's ratios fall outside the usual ranges ratios for four or more of the ratios. If an insurance company has insufficient capital, regulators may also act to reduce the amount of insurance it can issue.

At December 31, 2004, each of ALIC's affiliates had at least one ratio that was out of the expected range. Management will, upon inquiry, appropriately respond to the causes of the unusual results. No additional regulatory scrutiny is anticipated.

OTHER

Reinsurance

The Company's reinsurance ceded on life insurance policies increased 16% to $205.59 billion at December 31, 2004 from $177.28 billion at December 31, 2003. The increase is consistent with the growth in life insurance policies in-force at the end of the year. The Company purchases reinsurance to limit aggregate and single losses on large risks, while continuing to have primary liability as a direct insurer for risks reinsured.

ALIC and AHL entered into a Reinsurance Agreement and Retrocessional Reinsurance Agreement effective December 31, 2004, whereby ALIC assumes certain blocks of life and annuity business from AHL on a 100% coinsurance basis. Significant amounts ceded were $397 million of premiums and $386 million of reserves.

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

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

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2004, approximately 94% of ceded premiums under uncollateralized non-affiliate reinsurance treaties were ceded to parties with financial strength ratings above investment-grade level, as measured by at least one of the major rating agencies. In certain cases, these ratings refer to the financial strength of the affiliated group or parent company of the reinsurer.

Merger

GLAC, one of ALIC's wholly owned subsidiaries, merged into the ALIC effective January 1, 2005. ALIC is now the surviving legal entity and GLAC has ceased to exist as an independent entity. In conjunction with the merger, Glenbrook Life and Annuity Company Separate Account A and Glenbrook Life Multi-manager Variable Account will merge with Allstate Financial Advisors Separate Account I. Additionally, the Glenbrook Life Variable Life Separate Account A will merge with Allstate Life Variable Life Separate Account A.