Management's Discussion and Analysis

The Allstate Life Insurance Group, collectively known as the "Company", consists of Allstate Life Insurance Company ("ALIC"), Allstate Life Insurance Company of New York ("ALNY"), Lincoln Benefit Life Company ("LBL"), Surety Life Insurance Company ("Surety"), Charter National Life Insurance Company ("CNLIC"), Intramerica Life Insurance Company ("ILIC"), Allstate Assurance Company ("AAC") and ALIC Reinsurance Company ("ALIC Re"). Regulatory approval was received to prepare a combined Management Discussion and Analysis ("MD&A"). Accordingly, the combined results of the aforementioned companies have been analyzed in this MD&A.

Effective January 1, 2005, Glenbrook Life and Annuity Company ("GLAC"), a subsidiary life insurer, merged with ALIC. GLAC's assets and liabilities were transferred to ALIC's balance sheet at statutory carrying values as of the effective date of the merger. In conjunction with the merger, Glenbrook Life and Annuity Company Separate Account A and Glenbrook Life Multi-manager Variable Account merged with Allstate Financial Advisors Separate Account I. Additionally, the Glenbrook Life Variable Life Separate Account A merged with Allstate Life Variable Life Separate Account A.

ALIC Re was incorporated on December 29, 2004 as a special purpose financial captive insurance company in the state of South Carolina. ALIC provided the initial capital on February 15, 2005 and business commenced July 1, 2005.

ALIC is a wholly owned subsidiary of Allstate Insurance Company ("AIC"), which is a wholly owned subsidiary of Allstate Corporation ("ALCORP"). The Company is licensed to conduct business in all 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.

Retirement products sold to retail customers include variable 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, 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.

As a result of tactical decisions, the Company may sell securities during the period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. Portfolio reviews, which include identifying securities that are other than temporarily impaired and recognizing impairment on securities in an unrealized loss position for which the Company does not have the intent and ability to hold until recovery, are conducted regularly.

The composition of the investment portfolio at December 31 was:

(in millions)		2005		2004
Bonds	$	51,714	$	48,026
Preferred stocks		106		124

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Common stocks		(13)		56
Mortgage loans on real estate		6,743		6,203
Real estate		7		34
Cash		698		1,006
Short-term investments		175		489
Contract loans		726		720
Other		464		310
Total	$	60,620	$	56,968

Total invested assets increased $3.65 billion, or 6%, at December 31, 2005. The increase was primarily due to positive cash flows generated from operating and financing activities.

Bonds

The bond 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 bond portfolio to maturity, but has classified all bonds as available for sale to allow maximum flexibility in portfolio management.

At December 31, 2005, approximately 95% of the consolidated bond portfolio was rated investment grade, which is defined as a security having a NAIC rating of 1 or 2; a Moody's rating of Aaa, Aa, A, or Baa, a S&P, Fitch or Dominion rating of AAA, AA, A or BBB; or a comparable internal rating if an externally provided rating is not available. There were no material changes in the invested asset mix or quality distribution from the prior year.

Bonds are carried at amortized cost. The fair value of bonds was $53.97 billion and $51.26 billion at December 31, 2005 and 2004, respectively. At December 31, 2005, unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value were $2.26 billion compared to $3.24 billion as of December 31, 2004.

Fixed income securities issued by the U.S. government and agencies of the U.S. government totaled $3.51 billion at December 31, 2005 compared to $3.38 billion at December 31, 2004. All of these securities were rated investment grade at December 31, 2005.

Municipal bonds, including tax-exempt and taxable securities, totaled $4.03 billion and were all rated investment grade at December 31, 2005. There were $2.98 billion of municipal bonds at December 31, 2004. The municipal bond portfolio at December 31, 2005 consisted of approximately 250 issues from 208 issuers.

The bond portfolio contained $12.65 billion and $11.57 billion of privately placed corporate obligations at December 31, 2005 and 2004, 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 94% of the privately placed securities were rated investment grade by either the NAIC or internal ratings.

At December 31, 2005 and 2004, $10.34 billion and $9.87 billion, respectively, of the bond 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, 2005, the entire MBS portfolio was rated investment grade.

The bond portfolio also contained $4.55 billion and $3.73 billion of asset-backed securities ("ABS") at December 31, 2005 and 2004, 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 97% 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 $6.74 billion investment in mortgage loans at December 31, 2005 was comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key

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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 by financial and investment management at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status. The underlying collateral values are based upon either discounted property cash flow projections or a commonly used valuation method that utilizes a one-year projection of expected annual income divided by an expected rate of return.

Short-term Investments

The short-term investment portfolio was $175 million and $489 million at December 31, 2005 and 2004, respectively. The Company invests all available cash balances primarily in taxable and tax-exempt short-term securities having a final maturity date or redemption date of less than one year.

The Company also participates in securities lending, primarily as an investment yield enhancement, with third parties such as brokerage firms. The Company obtains collateral in an amount equal to 102% of the fair value of securities 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, 2005, the amount of securities lending collateral reinvested in short-term investments had a carrying value of $1.78 billion. This compares to $0.74 billion at December 31, 2004..

Reinsurance Receivable

The decrease of $384 million is primarily attributable to the settlement of the balance due from American Heritage Life Insurance Company in January 2005, pursuant to the reinsurance agreement that was effective December 31, 2004.

Separate Accounts

Separate Accounts balances increased by $1.02 billion, or 4%, to $24.58 billion at December 31, 2005 due in large part to the improved equity market performance.

The assets of the Separate Accounts are carried at fair value. Separate Accounts liabilities represent the contractholders' 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 contractholders, 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 contractholders bear the investment risk that the Separate Accounts funds may not meet their stated investment objectives.

Aggregate Reserve for Life Contracts

(in millions)		2005		2004
Fixed annuities	$	19,469	$	17,845
Interest sensitive life		7,233		6,858
Structured settlements		5,770		5,572
Indexed annuities		2,436		1,867
Variable annuities		1,456		1,608
Annuity buy outs		1,140		1,177
Traditional		1,129		1,096
Other		1,402		1,651
Total	$	40,035	$	37,674

Fixed annuities increased $1.62 billion due to the issuance of new business and the resulting CARVM. Reserves for interest sensitive life increased $376 million primarily due to an increase in account value driven by premium and credited interest. Indexed annuities increased $570 million mostly due to an increase in account value driven by

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premium and growth in the equity market. GICs, which are included in Other, decreased $286 million from 2004 due to higher benefit payments in 2005.

Liability for Deposit-type Contracts
Liability for deposit type contracts increased by 15% to $15.4 billion. In 2005, $2.48 billion of new deposits from institutional investors were received for MTN and structured settlements.

Transfers to Separate Accounts
Transfers to Separate Accounts as of December 31, 2005 and 2004 were $379 million and $242 million, respectively. The change of $240 million can be attributed to timing of investment purchases contributing to the difference in the market value adjusted annuity ("MVAA") assets and liabilities. This was offset by an increase of $45 million in CARVM, almost entirely due to variable annuities.

Borrowed Money
Borrowed money was $87 million and $721 million as of December 31, 2005 and 2004, respectively. This change was the result of a decrease in dollar roll transactions.

Capital and Surplus
Capital and surplus increased $8 million to $3.66 billion. In 2005, net income of $266 million was offset by $262 million of dividends paid to stockholder.

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RESULTS OF OPERATIONS

(in millions)	2005	2004
Premiums and annuity considerations	$ 8,913	$ 10,816
Net investment income including IMR amortization	3,189	2,851
Income from fees	286	259
Other income	274	308
Total	12,662	14,234
Provision for benefits	10,513	10,389
Commissions and general insurance expenses	1,265	1,363
Insurance taxes, licenses and fees	79	69
Net transfers to or (from) Separate Accounts	(8)	1,280
Maturities and other scheduled payments	306	616
Reserves transferred	-	(6)
Total	12,155	13,711
Net gain from operations before dividends to policyholders and federal income taxes	507	523
Federal and foreign income taxes incurred	170	197
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	337	326
Realized gains or (losses), net of IMR and federal income taxes	(71)	(61)
Net income	$ 266	$ 265

Net Income
Net income improved slightly by $1 million to $266 million. Higher investment income was offset by the effects of a decrease in premiums and annuity considerations.

Premium and Annuity Considerations
Premiums and annuity considerations decreased $1.9 billion, or 18%, due to a decline in sales of MVAA, fixed annuities, and interest sensitive annuities, offset by an increase in indexed annuities and variable annuities. The decrease in MVAA sales was mainly attributable to the introduction of a new product called "ChoiceRate", along with an increase in Treasury rates in 2004 that generated exceptional sales in the prior year. Fixed annuity sales decreased due to intense competition from competitors and a shift in customer preference towards short-term CDs as a result of an increase in the Treasury yield. Decreases in interest sensitive annuity sales were primarily due to lower sales of the "Generation Advantage" product sold in the bank channel. The indexed annuity sales growth was the result of continued strong sales of the "Savers Index" product and "Market Smart". The increase in the variable annuities was primarily driven by increase in Morgan Stanley Dean Witter sales due to recent enhancements to the underlying investment funds, the guaranteed accumulation benefits, and the new guaranteed withdrawal benefits.

Net Investment Income
Net investment income, including IMR amortization, increased $338 million, or 12%. The increase, not including IMR amortization, was due to higher investment portfolio balances. Portfolio yields remained constant at 5.8% for both 2005 and 2004. Investments, excluding Separate Accounts assets, grew 6% in 2005 due to positive cash flow from operations.

Provision for Benefits
Provision for benefits increased $124 million, or 1%, and was mainly driven by aggregate life reserves, surrender benefits, and annuity benefits.

Increase in aggregate reserves decreased $2.02 billion, or 46%, in large part due to decreased sales of interest sensitive life annuities and fixed annuities.

Surrender benefits increased $1.53 billion, or 42%, primarily due to higher surrenders of fixed annuities, interest sensitive life annuities and MVAAs.

The $283 million, or 18%, increase in annuity benefits, was primarily attributable to fixed annuities, variable annuities, and MVAA benefits. The $145 million increase in fixed annuities benefits was directly related to the aging of the block of business. The $23 million increase in variable annuities benefits was due to a higher account value release balance. MVAA benefits increased $95 million caused by the release of account value due to death.

Commissions and General Insurance Expenses
Commissions and general expenses decreased $98 million, or 7%. Commissions decreased $37 million, or 5%, consistent with the decrease in premiums and annuity considerations. General expenses decreased $37 million, or 6%. Loading decreased $28 million primarily due to a change in valuation methodology resulting in an increase in net due and deferred premium assets. In addition, the Level Best Term product moved from the first year to renewal years.

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Net Transfers to Separate Accounts
The transfers decreased $1.29 billion in 2005 due to higher surrenders and lower premiums. MVAA policy surrenders increased $833 million primarily attributable to declines in crediting interest rates. Variable annuities ("VA") policy surrenders increased $115 million driven by an increase in account value. MVAA premiums decreased $352 million, offset by a $222 million increase in VA premiums.

Maturities and Other Scheduled Payments
The decrease of $310 million, or 50%, over the prior year was primarily due to lower scheduled distributions for GICs. The total numbers of contracts along with the reserve balance continues to decrease since GICs are essentially in run-off given the Company's current strategic product focus.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)		2005		2004
Net cash from operations	$	3,484	$	4,983
Net cash from investments		(4,343)		(7,286)
Net cash from financing and miscellaneous sources		237		3,014
Net change in cash and short-term investments	$	(622)	$	711

The Company generated positive cash from operations of $3,484 million and $4,983 million in 2005 and 2004, 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 $237 million was mainly comprised of $1,317 million of net deposits on deposit-type contracts, offset by cash applied on borrowed funds repayment of $634 million and dividends to stockholder of $262 million. The cash inflow from deposit-type contracts was mainly comprised of $2,210 million net deposits in European medium-term notes and $275 million in structured settlements, offset partially by $1,087 million of scheduled maturities in indexed fixed annuities.

The maturity structure of the Company's bonds, which represent 85% 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, 2005, excluding Separate Accounts, comprise 78% of total reserves in-force. Of the total annuity reserves, $24 billion, or 54%, 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 ("IL DOI") is limited to formula amounts based on net income and capital and surplus as specified under Illinois insurance law.

In 2005, ALIC paid $262 million of dividends, which is below the maximum amount that can be distributed without prior approval by the IL DOI. Dividends paid were comprised of $260 million to AIC on common stock, and $2 million to Northbrook Holdings, LLC on Series A preferred stock.

Financial Rating and Strength
At December 31, 2005, the ALIC's insurance financial strength ratings from A.M. Best, Moody's, and Standard & Poor's 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, 2005, 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 that require special attention or action by insurance regulatory authorities. The NAIC analyzes data provided by insurance companies using prescribed ratios, each with defined usual range. Additional regulatory scrutiny may occur if a

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company's ratio results fall outside the usual range for four or more ratios. If an insurance company has insufficient capital, regulators may also act to reduce the amount of insurance it can issue. At December 31, 2005, ALIC had three ratios and each of the insurers comprising the Allstate Life Insurance Group had at least one ratio that was out of the usual range.

OTHER

Reinsurance

The Company's reinsurance ceded on life insurance increased 9% to $223.19 billion at December 31, 2005 from $205.59 billion at December 31, 2004. 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 retaining primary liability as a direct insurer for all risks ceded to reinsurers.

ALIC's domestic insurance subsidiaries are domiciled in Illinois, Nebraska, New York, and South Carolina. Except for those domiciled in New York, ALIC has 100% intercompany reinsurance agreements in place with its domestic insurance subsidiaries.

ALIC and ALIC Re entered into a Coinsurance Agreement effective July 1, 2005, whereby ALIC cedes on a 100% automatic coinsurance basis the net guaranteed level premium term policies sold after January 1, 2000.

ALIC entered into Amendment No. 1 to the Coinsurance Agreement with Surety effective December 31, 2005, where by Surety cedes previously retained single premium deferred annuities to ALIC.

As of December 31, 2005 and 2004, 50% of the Company's face amount of life insurance in force is reinsured. As of December 31, 2005, for certain term life insurance policies, the Company ceded 25 - 90% of the mortality risk depending on the length of the term, policy premium guarantees and the date of policy issuance. Comparatively, as of December 31, 2004, for certain term life insurance policies, the Company ceded 25 - 100% of the mortality risk. The Company also cedes 100% of the morbidity risk on substantially all of the long-term care contracts. Since 1998, the Company has ceded the mortality risk on new life contracts that exceed $2 million per individual, whereas prior to 1998, the Company ceded mortality risk in excess of specific amounts up to $1 million per life for individual coverage. Also, on certain in-force variable annuity contracts, the Company cedes 100% of the mortality and certain other risks related to product features.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2005, approximately 83% 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.

Subsequent Event

On March 8, 2006, ALCORP, ALIC, and ALNY entered into a definitive agreement ("Agreement") with Prudential Financial, Inc. and its subsidiary, The Prudential Insurance Company of America (collectively, "Prudential"), for the sale pursuant to a combination of coinsurance and modified coinsurance reinsurance of substantially all of its variable annuity business. Total consideration is expected to be approximately $581 million, subject to adjustment for changes in equity markets and interest rates between the effective date of the Agreement and the closing of the transaction.

The terms of the Agreement will give Prudential the right to be the exclusive provider of its variable annuity products through the Allstate proprietary agency force for three years and a non-exclusive preferred provider for the following two years. During a transition period, ALIC and ALNY will continue to issue new variable annuity contracts, accept additional deposits on existing business from existing contractholders on behalf of Prudential and, for a period of twenty-four months or less, service the reinsured business while Prudential prepares for the migration of the business onto its servicing platform. ALIC and ALNY have also agreed to continue to issue variable annuity contracts in the financial institutions channel for a period of at least thirty-three months and cede them to Prudential. The Agreement is subject to regulatory approval and is expected to be completed by the end of the second quarter of 2006.