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Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2006

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.

ALIC, the lead company, is a wholly-owned subsidiary of Allstate Insurance Company ("AIC") and an Illinois domiciled insurer. AIC is a wholly-owned subsidiary of The Allstate Corporation ("Corporation"). The Company is licensed to conduct business in all states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. The Company provides life insurance, retirement and investment products to individuals and institutional customers. Its principal products are deferred and immediate fixed annuities, and interest-sensitive and traditional life insurance. Its principal institutional product is funding agreements backing medium-term notes ("MTNs").

Individual products are sold through multiple intermediary distribution channels, including Allstate exclusive agencies, independent agents, banks, broker-dealers, and specialized structured settlement brokers. The Company's funding agreements are sold to unaffiliated trusts that issue MTNs to institutional investors.

The Company's objective and focus is to improve its return on equity by developing strategies to improve returns on new business, accelerate sales through Allstate Agencies, deepen non-proprietary distribution partner relationships, improve cost structure through scale and efficiencies, advance enterprise risk management program and leverage the strength of the Allstate brand name across products and distribution channels. The execution of business strategies has and may continue to involve simplifying our business model and focusing on those products and distribution relationships where the Company can secure strong leadership positions while generating acceptable returns. This may require modifying the number and selection of products marketed (for example, through such actions as the exit from the long-term care product market and the sale through reinsurance of variable annuity business), terminating underperforming distribution relationships and or reducing compensation to selected distribution partners, reducing the number of policy administration systems, and other appropriate actions.

On June 1, 2006, the Corporation, 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.

The terms of the Agreement gave 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 the financial results to Prudential.

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 monitoring, which includes 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)	2006	2005
Bonds	$ 51,513	$ 51,714
Preferred stocks	1,796	106
Common stocks	63	61
Mortgage loans on real estate	7,124	6,743
Real estate	-	7
Cash and cash equivalents	708	698
Short-term investments	31	175
Contract loans	753	726
Other	783	464
Total	$ 62,771	$ 60,694

Total invested assets increased $2.08 billion, or 3%, at December 31, 2006. The increase was primarily due to positive cash flows generated from operating activities.

Bonds

The bond portfolio consists of publicly traded corporate bonds, privately placed securities, mortgage-backed securities ("MBS"), asset-backed securities ("ABS"), U.S. government bonds, tax-exempt and 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, 2006, approximately 95% of the consolidated bond portfolio was rated investment

grade, which is defined as a security having a National Association of Insurance Commissioners ("NAIC") Securities Valuation Office 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; an A.M. Best 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 $53.14 billion and $53.97 billion at December 31, 2006 and 2005, respectively. At December 31, 2006, unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $1.63 billion compared to $2.26 billion as of December 31, 2005.

Fixed income securities issued by the U.S. government and agencies of the U.S. government totaled $3.73 billion at December 31, 2006 compared to $3.51 billion at December 31, 2005. Approximately 99.4% of these securities were rated investment grade at December 31, 2006.

Municipal bonds, including tax-exempt and taxable securities, totaled $4.31 billion and were all rated investment grade at December 31, 2006. There were $4.03 billion of municipal bonds at December 31, 2005. The municipal bond portfolio at December 31, 2006 consisted of approximately 283 issues from 239 issuers.

The bond portfolio contained $12.43 billion and $12.65 billion of privately placed securities at December 31, 2006 and 2005, 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, 2006 and 2005, $10.51 billion and $10.34 billion, respectively, of the bond portfolio were invested in 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, 2006, approximately 99.9% of the MBS portfolio was rated investment grade.

The bond portfolio also contained $4.90 billion and $4.55 billion of ABS at December 31, 2006 and 2005, 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 98% 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, collateralized debt obligations and collateralized loan obligations.

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.

Preferred Stocks

Preferred stocks increased by $1.69 billion to $1.80 billion at December 31, 2006 primarily due to the

reclassification of hybrid securities that were originally classified as bonds.

Mortgage Loans on Real Estate
The $7.12 billion investment in mortgage loans at December 31, 2006 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 by 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 $31 million and $175 million at December 31, 2006 and 2005, 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.

Separate Accounts
Separate Accounts balances increased by $0.80 billion, or 3%, to $25.38 billion at December 31, 2006 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 Statement 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 which for variable annuities was reinsured to Prudential in 2006, 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)	2006	2005
Fixed annuities	$ 20,422	$ 19,469
Interest sensitive life	7,810	7,233
Structured settlements	6,072	5,770
Indexed annuities	3,092	2,436
Variable annuities	7	1,456
Annuity buy outs	1,102	1,140
Traditional	1,195	1,129
Single premium immediate annuities	681	691
Payout annuities	403	416
Other	154	295
Total	$ 40,938	$ 40,035

Aggregate reserves increased $903 million to $40.94 billion as of December 31, 2006 compared to $40.04 billion as of December 31, 2005. Fixed annuities and indexed annuities increased $0.95 billion

and $0.66 billion, respectively, due to strong sales performance. Reserves for interest sensitive life increased $0.58 billion primarily due to an increase in account value driven by premium and credited interest. The overall increase was partially offset by a $1.45 billion decrease in variable annuity reserves for benefit guarantees which were reinsured to Prudential.

Liability for Deposit-type Contracts

Liability for deposit type contracts increased $512 million to $15.91 billion. The majority of the increase was due to credited interest payable to institutional investors for MTNs.

Transfers to Separate Accounts

Transfers to Separate Accounts as of December 31, 2006 and 2005 were $76 million and $379 million, respectively. The change of $303 million was primarily attributed to CARVM ceded to Prudential pursuant to a modco reinsurance agreement for variable annuities.

Aggregate write-ins for special surplus funds

Aggregate write-ins for special surplus funds increased almost 100% to $485 million. The balance was almost entirely comprised of deferred gains on reinsurance. At December 31, 2005, $93 million of deferred gains on reinsurance were reported as unassigned funds. In compliance with the requirements of Appendix 791 of the Accounting Practices and Procedures Manual, a change in presentation to report such gains as an aggregate write-in was adopted effective January 1, 2006. During 2006, $440 million of deferred gains were added as a result of the disposition of variable business to Prudential through reinsurance. This was offset by $49 million of amortization of deferred gains.

Capital and Surplus

Capital and surplus decreased $235 million to $3.50 billion. In 2006, net income of $252 million and the $485 million increase in surplus as a result of reinsurance were more than offset by $676 million of dividends paid and $261 million of increase in non-admitted assets.

RESULTS OF OPERATIONS

(in millions)	2006	2005
Premiums and annuity considerations	$ 7,027	$ 8,913
Net investment income including IMR amortization	3,535	3,189
Commissions and expense allowances	439	198
Income from fees	182	286
Other income	(903)	76
Total revenue	10,280	12,662
Provision for benefits	9,473	10,513
Commissions and general insurance expenses	1,263	1,265
Insurance taxes, licenses and fees	75	79
Net transfers to or (from) Separate Accounts	(1,160)	(8)
Maturities and other scheduled payments	163	306
Transfer of IMR due to reinsurance agreement	21	-
Total expense	9,835	12,155
Net gain from operations before dividends to policyholders and federal income taxes	445	507
Federal and foreign income taxes incurred	256	170
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	189	337
Realized gains or (losses), net of IMR and federal income taxes	63	(71)
Net income	$ 252	$ 266

Net Income

Net income decreased by $14 million to $252 million. Higher investment income and lower benefits were offset by the effects of lower premiums and annuity considerations and other income.

Premiums and Annuity Considerations

Premiums and annuity considerations decreased $1.89 billion, or 21%, due in large part to a decline in sales of variable annuities, partially offset by an increase in fixed annuities. The $2.37 billion decrease in variable annuities sales was mainly attributable to the sale to Prudential through reinsurance. A $1.36 billion transfer of reserves to Prudential related to the initial cession was reported as a decrease in variable annuity consideration. Fixed annuity sales increased $0.50 billion primarily driven by strong sales of the Preferred Performance and T-Link products.

Net Investment Income

Net investment income, including interest maintenance reserve ("IMR") amortization, increased $346 million, or 11%. The increase, not including IMR amortization, was due to higher investment portfolio balances and improved portfolio yield. Portfolio yields were 6.2% and 5.8% for 2006 and 2005, respectively. Investments, excluding Separate Accounts assets, grew 3% in 2006 due to positive cash flow from operations.

Commissions and Expense Allowances

Commissions and expense allowances increased $241 million primarily due to the disposition of variable annuity business to Prudential through reinsurance.

Other Income

Other income decreased $979 million primarily due to a $954 million negative reserve adjustment on variable annuity business ceded to Prudential under modified coinsurance.

Provision for Benefits
Provision for benefits decreased $1.04 billion, or 10%, and was mainly caused by aggregate life reserves, partially offset by an increase in interest and adjustments on deposit-type contract funds.

Increase in aggregate reserves decreased $1.43 billion, or 61%, in large part due to the disposition of the variable annuity business to Prudential through reinsurance and decreased sales of fixed annuities. The variable annuity transactions resulted in a $1.35 billion decrease in reserves on the initial cession.

Net Transfers from Separate Accounts
The transfers decreased $1.15 billion in 2006 due to lower premiums, fund transfers from Separate Accounts and the MVAA effect, partially offset by lower surrenders. Transfer activity due to premiums decreased $765 million, mostly driven by the sale of variable annuity business to Prudential. Fund transfers from Separate Accounts decreased $816 million as customers moved more money to fixed funds. The MVAA effect decreased transfer activity by $338 million and was primarily attributed to reserves for VA with MVA features ($323 million) ceded to Prudential. This was partially offset by a $736 million decrease in surrenders.

Maturities and Other Scheduled Payments
The decrease of $142 million, or 46%, over the prior year was primarily due to lower scheduled distributions for guaranteed investment contracts ("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)		2006		2005
Net cash from operations	$	2,151	$	3,484
Net cash from investments		(2,042)		(4,343)
Net cash from financing and miscellaneous sources		(243)		237
Net change in cash and short-term investments	$	(134)	$	(622)

The principal sources of positive cash from operations were premiums and investment income. The principal uses were the payment of claims and related expenses, and commissions and operating expenses. The negative cash flow from financing and miscellaneous sources of $243 million was mainly comprised of $460 million of net cash outlay on deposit-type contracts and dividends of $676 million, partially offset by other cash provided of $863 million. The cash outlay from deposit-type contracts was mainly comprised of $321 million net withdrawals in European medium-term notes and $104 million in the termination of guaranteed indexed Separate Account contracts. Other cash provided of $863 million was mainly comprised of a $485 million increase in deferred gains on reinsurance agreement primarily due to the disposition of the variable annuity business to Prudential and a $356 million increase in payable to parent, subsidiaries and affiliates. The increase in payable to parent, subsidiaries and affiliates was mainly due to the issuance of an intercompany note in the amount of $500 million by ALIC to AIC, its parent, in December 2006. This was partially offset by a note receivable from Kennett, Inc., an affiliate, in the amount of $100 million in exchange for the transfer of a surplus note issued by ALIC Re to ALIC in the second quarter of 2006.

The maturity structure of the Company's bonds, which represent 82% 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, 2006, excluding Separate Accounts, comprise 84% of total reserves in force. Of the total annuity reserves, $24 billion, or 51%, 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 IL DOI is limited to formula amounts based on net income and capital and surplus as specified under Illinois insurance law.

In 2006, ALIC paid $676 million of dividends, which included $310 million of extraordinary dividends approved by the IL DOI. Dividends paid were comprised of $675 million to AIC on common stock, and $1 million to Northbrook Holdings, LLC on Series A preferred stock.

Financial Rating and Strength

At December 31, 2006, ALIC's financial strength ratings from A.M. Best, Moody's, and Standard & Poor's were A+, Aa2, and AA, 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, 2006, RBC for the Company was significantly above levels that would require regulatory action.

IRIS Ratios

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of insurance companies that require special attention or action by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined usual range. Additional regulatory scrutiny may occur if a 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, 2006, ALIC had three ratios and each of the insurers comprising the Company except CNLIC and AAC had at least one ratio that was out of the usual range.

OTHER

Reinsurance

The Company's reinsurance ceded on life insurance increased 6% to $236.28 billion at December 31, 2006 from $223.19 billion at December 31, 2005. The increase was 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 and South Carolina, 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, 2006 and 2005, 50% of the Company's face amount of life insurance in force is reinsured. As of December 31, 2006, for certain term life insurance policies, the Company ceded up to 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, 2005, the Company ceded 25 - 90% of the mortality risk. The Company also cedes substantially all of the risk associated with variable annuity contracts and 100% of the morbidity risk on substantially all of the long-term care contracts. Beginning in 2006, the Company increased its mortality risk retention to $5 million per individual life for insurance applications meeting specific criteria. From October 1998 through December 2005, the Company ceded the mortality risk on new life contracts that exceed $2 million per individual.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2006, approximately 95% 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

In February 2007, ALIC entered into a Stock Purchase Agreement with Connecticut Life Insurance Company, an unaffiliated entity, to sell all of the issued and outstanding shares of AAC. Pending regulatory approval, the sale is expected to be completed in the second quarter of 2007.