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**Allstate Life Insurance Group  
Combined Management Discussion and Analysis  
For the Year Ended December 31, 2008**

The Allstate Life Insurance Group ("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 Allstate Insurance Holdings, LLC ("AIH"), a Delaware limited liability company. AIH 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 products include fixed annuities, including deferred, immediate and indexed, interest-sensitive, traditional and variable life insurance, and funding agreements backing medium-term notes ("MTNs").

Individual products are sold through a wide range of distribution channels, including Allstate exclusive agencies, which include exclusive financial specialists, independent agents (including master brokerage agencies), and financial service firms such as banks, broker-dealers, and specialized structured settlement brokers. The Company's funding agreements are sold to unaffiliated trusts that issue MTNs to institutional and individual investors.

### **SIGNIFICANT ACCOUNTING POLICIES**

The Company prepares its financial statements in conformity with accounting practices prescribed or permitted by the Illinois Division of Insurance ("IL DOI"). 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.

The state of Illinois requires its domestic insurance companies to prepare financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the IL DOI. The Company, with IL DOI approval, used two accounting permitted practices in preparing its statutory annual statement at December 31, 2008.

The first permitted practice related to applying the book value method of accounting for market value adjusted annuities ("MVAA") whose related assets are held in a Separate Account. This permitted practice resulted in MVAA related investments being recorded at amortized cost, which is consistent with statutory accounting for other fixed income investments and the book value method of accounting required by the Illinois Administrative Code for MVAA investments held in a General Account. The permitted practice was requested because the Illinois Administrative Code is silent on MVAA's issued by a Separate Account. In the extreme market conditions of the current economic crisis, the market value method of accounting greatly reduced surplus due to the unrealized losses on investments caused by wide credit spreads and the liquidity based dislocations in the investment markets that are not representative of the economics of the related liabilities. If the Company had not obtained the permitted practice to use the book value method of accounting for MVAA's, statutory surplus would have been \$1.24 billion lower at December 31, 2008.

The second permitted practice involves a modification to the accounting for deferred income taxes allowed in SSAP No. 10, *Income Taxes* ("SSAP No. 10"). The permitted practice increased the amount of deferred tax assets that can be recognized as an admitted asset and included in statutory surplus the lesser of deferred taxes that can be realized within three years or 15% of adjusted statutory surplus. SSAP No. 10 provides for a one year realization limitation and a surplus limitation of 10%. If the Company had applied SSAP No. 10 guidance without regard to the permitted practice, statutory surplus would have been \$140 million lower at December 31, 2008.

## FINANCIAL POSITION

### Cash and invested assets

An important component of our financial results is the return on our investment portfolio. The investment portfolio is managed based upon the nature of the business and its corresponding liability structure.

The global economy is under significant stress and financial markets continue to experience extreme levels of volatility. The Company's strategy in 2009 will focus primarily upon mitigating the risks from a potential increase in risk-free interest rates, reducing exposure to certain investment sectors, and maintaining sufficient liquidity and capital. In order to achieve this, the Company expects to use a combination of reinvestment of the portfolio's significant cash flows, derivatives and other portfolio actions.

The Company's investment strategy focuses on the total return of assets needed to support the underlying liabilities to achieve return on capital and profitable growth. The portfolio management process begins with a strategic asset allocation model which considers the nature and risk tolerances of the liabilities, as well as the risk and return parameters, of the various asset classes in which the Company invests. This approach is informed by the Company's economic and market outlook, as well as other inputs and constraints including duration, liquidity and capital preservation. Within the ranges set by the strategic asset allocation model, tactical investment decisions are made in consideration of prevailing market conditions.

As a result of tactical decisions in managing the portfolio, 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. The Company has a comprehensive portfolio monitoring process to identify and evaluate investments whose carrying value may be other-than-temporarily impaired.

During 2008, the Company developed risk mitigation and return optimization programs as the outlook on the economy changed significantly as conditions deteriorated throughout the year. The Company continues to monitor the progress of actions taken as market and economic conditions develop and will adapt its strategies as appropriate. The continuing focus is to manage risks and position the portfolio to take advantage of market opportunities while attempting to mitigate further adverse effects. Continuing risk mitigation efforts will focus on shortening duration of the fixed income portfolio, reducing exposures to real estate and certain other market sectors, and managing excess market volatility through macro hedging programs.

The composition of the investment portfolio at December 31 was:

(in millions)		<u>2008</u>		<u>2007</u>
Bonds	\$	42,856	\$	49,748
Preferred stocks		1,980		2,458
Common stocks		64		101
Mortgage loans on real estate		7,706		8,145
Cash and cash equivalents		2,394		159
Short-term investments		1,399		189
Contract loans		816		772
Other invested assets		1,367		1,125
Other		185		592
Total	\$	<u>58,767</u>	\$	<u>63,289</u>

Total invested assets decreased \$4.52 billion, or 7.15%, at December 31, 2008 and was primarily due to net withdrawals on deposit-type contracts, a decrease in securities lending collateral and an increase in net realized capital losses on investments.

### Bonds

The bond portfolio consists of corporate bonds including privately placed securities, mortgage-backed securities ("MBS"), asset-backed securities ("ABS"), tax-exempt and taxable municipal bonds, U.S. government 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, 2008, 93.32% of the consolidated bond portfolio was rated investment grade, which is defined as a security having a NAIC Securities Valuation Office rating of 1 or 2; a Moody's rating of Aaa, Aa, A, or Baa, a S&P rating of AAA, AA, A or BBB; an A.M. Best rating of A+, A-, B+ or B-; 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 \$37.63 billion and \$50.75 billion at December 31, 2008 and 2007, respectively. At December 31, 2008, unrealized net capital losses on the bond portfolio, which are calculated as the difference between statement value and fair value, were \$5.22 billion compared to unrealized net capital gains of \$1.00 billion as of December 31, 2007.

Corporate bonds totaled \$22.84 billion and \$26.24 billion at December 31, 2008 and 2007, respectively. As of December 31, 2008, the portfolio also contained \$11.90 billion of privately placed corporate obligations compared with \$13.52 billion at December 31, 2007. 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. 86.69% of the privately placed securities were rated investment grade by either the NAIC or internal ratings.

At December 31, 2008 and 2007, \$7.76 billion and \$9.78 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, 2008, 98.59% of the MBS portfolio was rated investment grade.

The bond portfolio also contained \$4.19 billion and \$5.23 billion of ABS at December 31, 2008 and 2007, 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. 91.32% 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 Company identified it had exposure to subprime residential mortgage related risk in the form of asset-backed residential mortgage-backed securities ("ABS RMBS") and asset-backed collateralized debt obligations ("ABS CDO"). The ABS RMBS portfolio includes securities that are collateralized by mortgage loans issued to borrowers that cannot qualify for prime or alternative financing terms due in part to an impaired or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit profile. The ABS CDO portfolio contains securities collateralized by a variety of residential mortgage-backed and other securities, which may include subprime residential mortgage-backed securities. At December 31, 2008, the ABS RMBS portfolio had net unrealized losses of \$765 million, of which all but \$8 thousand were gross unrealized losses. At December 31, 2007, the ABS RMBS portfolio had net unrealized losses of \$256 million, which were fully comprised of gross unrealized losses.

The Company continues to believe that the unrealized losses on these securities are not predictive of the ultimate performance of the underlying collateral. In the absence of further deterioration in the collateral relative to its positions in the securities' respective capital structures, which could be other than temporary, the unrealized losses should reverse over the remaining lives of the securities.

Municipal bonds, including tax-exempt and taxable securities, totaled \$3.72 billion at December 31, 2008 compared to \$4.01 billion at December 31, 2007. 98.63% of these securities were rated investment grade at December 31, 2008.

Fixed income securities issued by the U.S. government and agencies of the U.S. government totaled \$3.90 billion at both December 31, 2008 and 2007. 99.87% of these securities were rated investment grade at December 31, 2008.

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 decreased by \$478 million to \$1.98 billion at December 31, 2008. The decrease was primarily due to increased reinvestment of proceeds in short-term investments and a larger lower-of-cost-or-market adjustment.

#### **Mortgage loans on real estate**

Mortgage loans on real estate decreased \$439 million to \$7.71 billion at December 31, 2008 primarily due to the Company's risk mitigation efforts of reducing exposure to real estate to adapt to current market conditions. The Company's mortgage loans are collateralized by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage exposure.

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. The Company recorded \$1 million of realized capital losses related to other-than-temporary impairments on mortgage loans for the year ended December 31, 2008 and none for the year ended December 31, 2007. Additionally, the Company reported \$24 million in valuation allowances on mortgage loans for the year ended December 31, 2008 and none for the year ended December 31, 2007.

#### **Short-term investments**

The short-term investment portfolio was \$1.40 billion and \$189 million at December 31, 2008 and 2007, respectively. The increase was primarily a result of planned liquidity management actions. The Company invests all available cash balances primarily in taxable short-term securities having a final maturity date or redemption date of less than one year.

#### **Current federal tax recoverable**

Current federal tax recoverable was \$534 million and \$80 million at December 31, 2008 and 2007, respectively. The increase was mostly due to the increase in current year provision for tax benefits resulting from an increase in pre-tax operating losses.

#### **Net deferred tax asset**

Net deferred tax asset increased by \$131 million, or 40.45%, to \$452 million at December 31, 2008. \$140 million of the increase was driven by the accounting permitted practice previously discussed on page 1.

#### **From Separate Accounts**

Separate Accounts balances decreased by \$6.77 billion, or 29.09%, to \$16.50 billion at December 31, 2008 due in large part to the decline in the equity market performance.

The assets of the Separate Accounts, except for MVAA, are carried at fair value. Please see page 1 for details of the MVAA permitted practice. Separate Accounts liabilities represent the contractholders' claims to the related assets and, except for MVAA products in 2008, are carried at the fair value of the assets. In 2008, MVAA products are carried at book value. In the event 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. Certain guarantees provided by the Company are reserved in Exhibit 5 of the Company's General Account Annual Statement.

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)	<u>2008</u>	<u>2007</u>
Fixed annuities	\$ 18,914	\$ 19,690
Interest sensitive life	8,792	8,372
Structured settlements	6,664	6,269
Indexed annuities	3,691	3,564
Traditional	1,409	1,318
Annuity buy outs	1,024	1,061
Single premium immediate annuities	658	659
Other	591	574
Total	<u>\$ 41,743</u>	<u>\$ 41,507</u>

Aggregate reserves increased \$236 million to \$41.74 billion as of December 31, 2008 compared to \$41.51 billion as of December 31, 2007. Reserves for interest sensitive life increased \$420 million primarily due to an increase in account value. Structured settlements increased \$394 million primarily due to reserve strengthening. Improved sales drove reserves increases in indexed annuity (\$128 million) and traditional life (\$91 million). The overall increase was partially offset by a \$776 million decrease in fixed annuity reserves due to higher surrenders and death benefits.

### **Aggregate reserve for A&H contracts**

Aggregate reserve was \$154 million and \$107 million at December 31, 2008 and 2007, respectively. The increase was primarily due to the aging of the Life Care block of business and reinsurance of the disability income block of business from American Heritage Life Insurance Company, an affiliated company, pursuant to a reinsurance agreement effective January 1, 2008.

### **Liability for deposit-type contracts**

Liability for deposit type contracts decreased \$4.04 billion to \$12.61 billion as of December 31, 2008 compared to \$16.65 billion as of December 31, 2007. The majority of the decrease was due to scheduled distributions for MTNs.

### **Transfers to Separate Accounts due or accrued**

Transfers to Separate Accounts was \$1.22 billion as of December 31, 2008 compared to \$219 million as of December 31, 2007. The majority of the increase was due to the change from the market value method to the book value method of accounting for the MVAA assets that were held in the Separate Accounts effective December 31, 2008 as previously noted on page 1.

### **Net adjustments in assets and liabilities due to foreign exchange rates**

This account balance decreased \$227 million, or 60.89%, to \$146 million as of December 31, 2008. The decrease was primarily due to the exposure of Canadian foreign exchange rates.

### **Asset Valuation Reserve**

Asset valuation reserve decreased \$372 million, or 61.43% to \$234 million. The decrease was primarily due to higher realized and unrealized capital losses. The increase in realized capital losses was mostly due to write-downs. The reserve at December 31, 2008 included a \$100 million voluntary contribution by the Company to provide an additional allowance for potential future adverse impacts to the underlying MVAA investment portfolio held in the Separate Accounts in view of the current turbulent market conditions.

### **Aggregate Write-ins for liabilities**

Aggregate write-ins for liabilities decreased \$1.26 billion, or 62.64%, to \$749 million as of December 31, 2008. The decrease was mainly due to a decrease in securities lending collateral resulting from management's action to reduce security lending exposure.

### **Capital and surplus**

Capital and surplus increased \$648 million to \$3.39 billion. The Company received additional capital contributions totaling \$1.35 billion from its parent during the year. Surplus also increased by \$450 million due to issuance of surplus notes. These increases were partially offset by a \$1.08 billion decrease in unassigned funds. The decrease in unassigned funds was primarily due to current year net loss of \$1.99 billion, an increase in nonadmitted assets of \$490 million, and an increase in unrealized capital losses of \$328 million. This overall decrease was partially offset by a favorable change in cumulative effect of change in accounting principles of \$1.54 billion resulting from MVAA permitted practice noted earlier.

## RESULTS OF OPERATIONS

(in millions)	<u>2008</u>	<u>2007</u>
Premiums and annuity considerations	\$ 5,559	\$ 5,249
Net investment income including IMR amortization	3,119	3,604
Commissions and expense allowances	269	311
Reserve adjustments on reinsurance ceded	(1,833)	(1,917)
Income from fees	77	76
Other income	12	19
Total revenue	<u>7,203</u>	<u>7,342</u>
Provision for benefits	7,710	8,868
Commissions and general insurance expenses	1,101	1,021
Insurance taxes, licenses and fees	66	71
Net transfers to or (from) Separate Accounts	36	(2,786)
Maturities and other scheduled payments	14	30
Total expense	<u>8,927</u>	<u>7,204</u>
Net gain from operations before dividends to policyholders and federal income taxes	(1,724)	138
Federal and foreign income taxes incurred	<u>(594)</u>	<u>(52)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	(1,130)	190
Realized gains (losses), net of IMR and federal income taxes	<u>(855)</u>	<u>(23)</u>
Net income	<u>\$ (1,985)</u>	<u>\$ 167</u>

### **Net income**

The net loss of \$1.99 billion at December 31, 2008 represents a significant change from the \$167 million net income reported at December 31, 2007. The net loss was mainly due to a \$2.82 billion increase in net transfers to Separate Accounts, an \$832 million increase in realized capital losses and a \$485 million decrease in net investment income. The increases were partially offset by a \$1.16 billion decrease in provision for benefits, a \$542 million increase in federal income tax benefits and a \$310 million increase in premiums.

### **Premiums and annuity considerations**

Premiums and annuity considerations increased \$310 million, or 5.91%, due in large part to improved sales of MVAAs (\$901 million), partially offset by a \$563 million decrease in fixed annuities. The increase in MVAAs sales was primarily attributable to Choice Rate and Tactitan Plus annuities driven by a competitive position within the market place. The decrease in fixed annuities was mostly driven by the current lower interest rate environment.

### **Net investment income**

Net investment income, including interest maintenance reserve ("IMR") amortization, decreased \$485 million, or 13.46%. The decrease, excluding IMR amortization, was due to lower yields on short-term investments as money was shifted from long-term bonds to short-term investments in an effort to enhance liquidity.

### **Provision for benefits**

Provision for benefits decreased \$1.16 billion, or 13.06%, and was largely driven by surrender benefits and aggregate life reserves and interest on deposit-type contracts, partially offset by an increase in death benefits.

Surrender benefits decreased \$602 million, or 12.45%, and was primarily due to decreases in MVAAs and fixed annuities.

Increase in aggregate reserves decreased \$331 million, or 55.56%, mainly the result of a decrease on indexed annuities attributable to the decrease in account value. Also contributing was the decrease in interest sensitive life attributable to the decrease in sales. The overall decrease was partially offset by an increase in the structured settlements reserves mainly attributable to CARVM.

Interest on deposit-type contracts decreased \$287 million, or 30.00%, primarily driven by increased maturities of MTNs and the decrease in credited interest due to a decrease in LIBOR.

### **Net transfers to Separate Accounts**

The transfers increased \$2.82 billion in 2008, primarily due to higher MVAA effect, premiums and surrenders. MVAA effect increased \$1.54 billion, primarily due to the decrease in market value of the invested assets. Transfer activities related to premiums increased \$734 million mostly due to an \$741 million increase in MVAA premiums.

### **CASH FLOW AND LIQUIDITY**

The following table summarizes cash flow.

<b>(in millions)</b>	<b>2008</b>	<b>2007</b>
Net cash from operations	\$ 1,094	\$ 2,129
Net cash from investments	6,544	(995)
Net cash from financing and miscellaneous sources	<u>(4,193)</u>	<u>(1,525)</u>
Net change in cash, cash equivalents and short-term investments	\$ <u>3,445</u>	\$ <u>(391)</u>

The principal sources of positive cash flow from operations were premiums, investment income and net transfers from Separate Accounts. The principal uses were the payment of claims and related expenses, and commissions and operating expenses.

The major contributor to the net cash from investments was bonds. Proceeds from bond dispositions of \$13.13 billion was partially offset by cost of acquisitions of \$6.91 billion resulting in a net cash inflow of \$6.22 billion. The significant increase in net cash from investments was driven by the Company's decision for liquidity enhancement as noted earlier. The maturity structure of the Company's bonds, which represent 72.93% 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.

The most significant components of the negative cash flow from financing and miscellaneous sources were net withdrawals on deposit-type contracts of \$4.70 billion and other cash applied of \$1.30 billion, partially offset by a \$1.35 billion capital contribution from the parent and \$450 million from surplus notes issuance. The net withdrawals on deposit-type contracts were primarily attributable to MTN contracts due to scheduled distributions. Other cash applied was mainly comprised of a \$1.41 billion decrease in securities lending collateral.

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, 2008, excluding Separate Accounts, comprise 80.60% of total reserves in-force. Of the total annuity reserves, \$21.63 billion, or 49.10%, are not subject to discretionary withdrawal. The Company maintains a strong liquidity position and is well positioned to meet its policyholders' obligations.

### **Financial strength ratings and outlook**

The Company's financial strength ratings and outlook were A+ (stable), AA- (negative) and A1 (stable) by A.M. Best, Standard & Poor's and Moody's, respectively, at December 31, 2008.

### **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, claim, expense and reserve items. At December 31, 2008, RBC each of the insurers comprising 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. At December 31, 2008, none of the insurers comprising the Company had four or more ratios that were out of the usual range. The Company is not currently under regulatory scrutiny based on these ratios.

## OTHER

### Reinsurance

The Company's reinsurance ceded on life insurance was relatively stable with \$249.64 billion at December 31, 2008 from \$244.83 billion at December 31, 2007. The minor 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.

As of December 31, 2008 and 2007, 47% and 49%, respectively, of the Company's face amount of life insurance in-force was reinsured. As of December 31, 2008 and 2007, for certain term life insurance policies, the Company ceded up to 90% of the mortality risk depending on the year of policy issuance. 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 July 2007, for new life insurance contracts, the Company ceded mortality risk associated with coverage in excess of \$3 million per life for contracts issued to individuals age 70 and over, and ceded the mortality risk associated with coverage in excess of \$5 million per life for most other contracts. Also beginning in July 2007, the Company increased its mortality risk retention to \$10 million per individual life for insurance policies meeting specific criteria. During the first six months of 2007, the Company ceded the mortality risk on new life contracts that exceeded \$2 million per individual.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2008, approximately 92.83% 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.