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**Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2009**

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, and voluntary accident and health insurance products to individuals and institutional customers. Its products include fixed annuities, including deferred and immediate annuities, interest-sensitive, traditional and variable life insurance, voluntary accident and health 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), specialized structured settlement brokers and financial service firms such as banks, broker-dealers. Effective March 31, 2010, the Company will no longer wholesale or provide distribution support to banks and broker-dealers. The Company's funding agreements are sold to unaffiliated trusts that issue MTNs to institutional and individual investors.

ACCOUNTING PERMITTED PRACTICES

The Company prepares its financial statements in conformity with accounting practices prescribed or permitted by the Illinois Department 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. At December 31, 2009, no accounting permitted practices were used in preparing the Company's statutory annual statement. The Company (ALIC only), 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 and expired December 30, 2009. 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. Previously, MVAA's were valued using the market value method of accounting. The permitted practice was requested because the Illinois Administrative Code is silent on MVAA's issued by a Separate Account. Due to the extreme market conditions of the economic crisis at that time, 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 were not representative of the economics of the related liabilities. During the fourth quarter of 2009, the Company transferred all MVAA related investments held in its Separate Account to a new MVAA General Account. If the Company (ALIC only) 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 involved a modification to the accounting for deferred income taxes per SSAP No. 10, *Income Taxes* (“SSAP No. 10”). The permitted practice increased the amount of deferred tax assets that could be recognized as an admitted asset and included in statutory surplus to the lesser of deferred taxes that can be realized within three years or 15% of adjusted statutory surplus. SSAP No. 10 provided for a one year realization limitation and a surplus limitation of 10%. Effective December 31, 2009, SSAP No. 10R, *Income Taxes – Revised, a Temporary Replacement of SSAP No. 10* (“SSAP No. 10R”) was adopted which revised the accounting for deferred tax assets similar to the permitted practice. 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 Company employs a strategic asset allocation approach which uses models that consider the nature of its liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which it invests. This asset allocation is informed by the global economic and market outlook, as well as other inputs and constraints, including diversification effects, duration, liquidity and capital considerations. The Company will continue to manage risks associated with rising interest rates and commercial real estate.

The Company's investment strategy focuses on the total return of assets needed to support its underlying liabilities and to achieve an appropriate return on capital. Within the ranges set by the strategic asset allocation model, tactical investment decisions are made in consideration of prevailing market conditions.

The Company continues to focus its strategic risk mitigation efforts towards managing interest rate, credit and real estate investment risks, while the return optimization efforts focus on investing in market opportunities to generate income and capital appreciation.

The Company has a comprehensive portfolio monitoring process to identify and evaluate each security whose carrying values may be other-than-temporarily impaired. The portfolio monitoring process includes a quarterly review of all securities through a screening process which identifies instances where the fair value compared to amortized cost for bonds, including loan-backed and structured securities and cost for stocks is below established thresholds, and also includes the monitoring of other criteria such as ratings and payment defaults.

The composition of the investment portfolio at December 31 was:

(in millions)		<u>2009</u>		<u>2008</u>
Bonds	\$	49,429	\$	42,856
Preferred stocks		69		1,980
Common stocks		167		64
Mortgage loans on real estate		7,514		7,706
Cash and cash equivalents		1,423		2,394
Short-term investments		180		1,399
Contract loans		826		816
Other invested assets		1,411		1,367
Other		675		185
		<u>61,694</u>		<u>58,767</u>
Total	\$	<u>61,694</u>	\$	<u>58,767</u>

Total invested assets increased \$2.93 billion, or 4.98%, at December 31, 2009 and was primarily due to cash from operations and capital contributions, partially offset by net withdrawals on deposit-type contracts and 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, 2009, 92.41% 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, Fitch, Dominion, or Realpoint 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 \$47.70 billion and \$37.63 billion at December 31, 2009 and 2008, respectively. Unrealized net capital losses on the bond portfolio, which are calculated as the difference between statement value and fair value, were \$1.73 billion and \$5.22 billion as of December 31, 2009 and 2008, respectively.

Corporate bonds totaled \$27.30 billion and \$22.84 billion at December 31, 2009 and 2008, respectively. As of December 31, 2009, the portfolio also contained \$13.06 billion of privately placed corporate obligations compared with \$11.90 billion at December 31, 2008. 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. 90.14% of the privately placed securities were rated investment grade by either the NAIC or internal ratings.

At December 31, 2009 and 2008, \$7.06 billion and \$7.76 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, 2009, 93.93% of the MBS portfolio was rated investment grade.

The bond portfolio also contained \$4.20 billion and \$4.19 billion of ABS at December 31, 2009 and 2008, 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 structures, reserve funds, guarantees and/or insurance. 68.71% 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 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, 2009, the ABS RMBS portfolio had net unrealized losses of \$530 million, of which all but \$1 million were gross unrealized losses. 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.

Municipal bonds, including tax-exempt and taxable securities, totaled \$5.60 billion at December 31, 2009 compared to \$3.72 billion at December 31, 2008. 97.76% of these securities were rated investment grade at December 31, 2009.

Fixed income securities issued by the U.S. government and agencies of the U.S. government totaled \$4.59 billion at December 31, 2009 compared to \$3.90 billion at December 31, 2008. 99.89% of these securities were rated investment grade at December 31, 2009.

Preferred stocks

Preferred stocks decreased by \$1.91 billion to \$69 million at December 31, 2009 primarily due to a reclassification of hybrid securities that were previously categorized as preferred stocks to bonds in 2009 pursuant to a NAIC definition change effective January 1, 2009.

Mortgage loans on real estate

Mortgage loans on real estate decreased \$192 million to \$7.51 billion at December 31, 2009 primarily due to the Company's risk mitigation efforts of reducing real estate exposure 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 other-than-temporary impairment adjustments and placing loans on non-accrual status. Accrual of income is suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable. 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 \$85 million and \$1 million of realized capital losses related to other-than-temporary impairments on mortgage loans for the year ended December 31, 2009 and 2008, respectively. Additionally, the Company reported \$90 million and \$24 million in valuation allowances on mortgage loans for the year ended December 31, 2009 and 2008, respectively.

Short-term investments

The short-term investment portfolio decreased \$1.22 billion to \$180 million at December 31, 2009. The decrease was mostly due to funding reductions in contractholder obligations and purchases of bonds. 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.

From Separate Accounts

Separate Accounts balances decreased by \$7.15 billion, or 43.31%, to \$9.36 billion at December 31, 2009 due in large part to the transfer of MVAA assets to the ALIC General Account.

The assets of the Separate Accounts are carried at fair value. Separate Accounts liabilities represent the contractholders' claims to the related assets are carried at the fair value of the assets. 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 and variable life 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 provides a guarantee the contractholders of the variable annuity and variable life products bear the investment risk that the Separate Accounts funds may not meet their stated investment objectives.

Aggregate reserve for life contracts

(in millions)	<u>2009</u>	<u>2008</u>
Fixed annuities	\$ 19,115	\$ 18,914
Interest sensitive life	9,230	8,792
Market value adjusted annuities	6,936	-
Structured settlements	6,885	6,664
Indexed annuities	4,257	3,691
Traditional	1,531	1,409
Annuity buy outs	923	1,024
Single premium immediate annuities	629	658
Other	651	591
Total	<u>\$ 50,157</u>	<u>\$ 41,743</u>

Aggregate reserves increased \$8.41 billion to \$50.16 billion as of December 31, 2009 compared to \$41.74 billion as of December 31, 2008. MVAA reserves relate to ALIC only and increased \$6.94 billion due to the transfer of MVAAs from the ALIC Separate Account. The \$565 million increase in indexed annuities reserves was primarily due to improved market performance. Reserves for interest sensitive life increased \$438 million as a result of increases in account values. Structured settlements increased \$221 million mostly due to reserve strengthening. Fixed annuity reserves increased \$201 million primarily due to lower surrenders.

Liability for deposit-type contracts

Liability for deposit type contracts decreased \$4.50 billion to \$8.11 billion as of December 31, 2009 compared to \$12.61 billion as of December 31, 2008. The majority of the decrease was driven by scheduled distributions and buybacks for MTNs. New issues of MTNs also reduced significantly as a direct result of the Company's strategy to reduce its exposure to spread-based products.

Transfers to Separate Accounts due or accrued

Transfers to Separate Accounts due or accrued decreased \$1.23 billion at December 31, 2009 from December 31, 2008. The majority of the decrease was related to the previously noted transfer of the MVAA reserves from the Separate Account.

Asset Valuation Reserve

Asset valuation reserve ("AVR") decreased \$193 million, or 82.48% to \$41 million as of December 31, 2009. The decrease was primarily due to higher realized capital losses mostly driven by write-downs.

Aggregate Write-ins for liabilities

Aggregate write-ins for liabilities increased \$250 million, or 33.38%, to \$999 million as of December 31, 2009. Increases in swap collateral and securities lending collateral were the main drivers. The increase in swap collateral was primarily due to increased counterparty exposure on derivatives. The increase in securities lending collateral was the result of increased activity stemming from lending opportunities for the Company's bond holdings.

Capital and surplus

Capital and surplus increased \$213 million to \$3.61 billion. The Company received capital contributions totaling \$715 million from its parent during the year. Surplus increased by \$154 million related to the incremental deferred tax asset. The incremental deferred tax asset resulted from the election to admit a higher amount of adjusted gross deferred tax asset pursuant to SSAP No. 10R. Decreases in nonadmitted assets and AVR of \$267 million and \$193 million, respectively, also increased surplus. The overall increase was partially offset by the net loss of \$929 million and a \$206 million decrease in deferred income tax.

RESULTS OF OPERATIONS

(in millions)

	2009	2008
Premiums and annuity considerations	\$ 3,736	\$ 5,559
Net investment income including IMR amortization	2,379	3,119
Commissions and expense allowances	191	269
Reserve adjustments on reinsurance ceded	(1,118)	(1,833)
Income from fees	71	77
Other income	8	12
Total revenue	<u>5,267</u>	<u>7,203</u>
Provision for benefits	15,255	7,710
Commissions and general insurance expenses	843	1,101
Insurance taxes, licenses and fees	64	66
Net transfers to or (from) Separate Accounts	(10,446)	36
Maturities and other scheduled payments	-	14
Total expense	<u>5,716</u>	<u>8,927</u>
Net gain from operations before dividends to policyholders and federal income taxes	(449)	(1,724)
Federal and foreign income taxes incurred	<u>(449)</u>	<u>(594)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	-	(1,130)
Realized gains (losses), net of IMR and federal income taxes	<u>(929)</u>	<u>(855)</u>
Net income	<u>\$ (929)</u>	<u>\$ (1,985)</u>

Net income

The net loss of \$0.93 billion at December 31, 2009 consisted of net realized capital losses, net of IMR and federal income taxes. Net gain from operations after dividends to policyholders and federal income taxes and before realized capital losses increased \$1.13 billion primarily due to reduced benefits and expenses.

Premiums and annuity considerations

Premiums and annuity considerations decreased \$1.82 billion, or 32.79%, due in large part to the decreases in fixed annuities of \$1.00 billion and MVAAs of \$727 million. The decrease in fixed annuities was primarily due to the Company's strategy to reduce exposure to spread-based products. The decrease in MVAA sales was due to deteriorating market returns for this product.

Net investment income

Net investment income, including interest maintenance reserve ("IMR") amortization, decreased \$740 million, or 23.73%. Net investment income decreased \$354 million primarily due to a decline in the average investment yield. IMR amortization decreased \$386 million due to the increase in realized capital losses.

Provision for benefits

Provision for benefits increased \$7.55 billion, or 97.86%, and was largely attributed to the increase in aggregate reserves for life and accident and health contracts of \$8.18 billion, partially offset by a \$308 million decrease in interest on deposit-type contracts and a \$292 million decrease in surrenders. The increase in reserves was mostly due to the transfer of the MVAAs from the Separate Account. Interest on deposit-type contracts decreased \$308 million, or 45.90%, primarily due to the increased distributions and buybacks of MTNs, as well as a decrease in LIBOR rates. Surrender benefits decreased \$292 million, or 6.89%, mainly due to the improved overall market conditions.

Net transfers from Separate Accounts

The transfers from Separate Accounts increased \$10.48 billion in 2009, primarily due to the transfer of the MVAAs to the General Account which more than offset the increases in benefits. The transfer primarily consisted of MVAA reserves and other related items such as fund transfers, premiums and surrenders.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	<u>2009</u>	<u>2008</u>
Net cash from operations	\$ 7,597	\$ 1,094
Net cash from investments	(5,540)	6,544
Net cash from financing and miscellaneous sources	<u>(4,248)</u>	<u>(4,193)</u>
Net change in cash, cash equivalents and short-term investments	\$ <u>(2,191)</u>	\$ <u>3,445</u>

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

The negative net cash from investments was primarily with bonds as the acquisitions of \$23.97 billion exceeded bond proceeds of \$16.86 billion. The bond acquisitions included those related to the MVAA transfer from the Separate Account. The maturity structure of the Company's bonds, which represent 80.12% 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 \$5.01 billion, partially offset by \$0.71 billion in capital contributions. The net withdrawals on deposit-type contracts were primarily attributable to MTN contracts due to scheduled distributions and buybacks.

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, 2009, excluding Separate Accounts, comprise 80.81% of total reserves in-force. Of the total annuity reserves, \$18.17 billion, or 38.38%, 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+ (negative), AA- (negative) and A1 (stable) by A.M. Best, Standard & Poor's and Moody's, respectively, at December 31, 2009.

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, 2009, RBC for 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, 2009, two of the insurers comprising the Company had four ratios that were out of the usual range. The Company is not currently under additional regulatory scrutiny based on these ratio results.

OTHER

The Company's reinsurance ceded on life insurance was relatively stable with \$251.89 billion at December 31, 2009 from \$249.64 billion at December 31, 2008. 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 insurance subsidiaries are domiciled in Illinois, Nebraska, New York and South Carolina. The IL and NE domiciled insurance subsidiaries have a 100% intercompany reinsurance agreement in place with ALIC.

As of both December 31, 2009 and 2008, 47% of the Company's face amount of life insurance in-force was reinsured. As of December 31, 2009 and 2008, 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.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2009, 92.22% of ceded premiums under uncollateralized non-affiliate reinsurance treaties were ceded to companies that currently have an A.M. Best financial strength rating of A- or better.