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**Allstate Life Insurance Group**
**Combined Management Discussion and Analysis**
**For the Year Ended December 31, 2011**

The Allstate Life Insurance Group ("Company") consists of Allstate Life Insurance Company ("ALIC"), Allstate Life Insurance Company of New York, Lincoln Benefit Life Company, Surety Life Insurance Company, Charter National Life Insurance Company, Intramerica Life Insurance Company, Allstate Assurance Company and ALIC Reinsurance Company. 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.

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 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. 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 specialized structured settlement brokers.

## FINANCIAL POSITION

### Cash and invested assets

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

A strategic asset allocation approach is employed, using 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 continues to manage risks associated with rising interest rates and a changing liability profile.

The Company's investment strategy focuses on the total return of assets needed to support its underlying liabilities, asset liability management and achieving 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. There is continued focus on 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 anticipates changing its asset allocation for long-term annuities by reducing fixed income securities and increasing investments in limited partnerships, equities and other alternative investments.

The composition of the investment portfolio at December 31 was:

| (in millions) | | 2011 | | 2010 |
|---|---|---|---|---|
| Bonds | $ | 43,300 | $ | 47,186 |
| Preferred stocks | | 64 | | 64 |
| Common stocks | | 157 | | 184 |
| Mortgage loans on real estate | | 6,393 | | 6,405 |
| Cash and cash equivalents | | 504 | | 1,109 |
| Short-term investments | | 211 | | 87 |
| Contract loans | | 835 | | 843 |
| Other invested assets | | 2,382 | | 1,767 |
| Other | | 203 | | 511 |
| Total | $ | 54,049 | $ | 58,156 |

Total invested assets decreased $4.11 billion, or 7%, at December 31, 2011 and was primarily due to negative cash from operations and net withdrawals on deposit-type contracts. Explanation for the most significant items follow.

**Bonds**

The bond portfolio consists of corporate bonds including privately placed securities, asset-backed securities ("ABS"), mortgage-backed securities ("MBS"), tax-exempt and taxable municipal bonds, U.S. government bonds, and foreign government bonds.

At December 31, 2011, 91% 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; an A.M. Best rating of aaa, aa, a, or bbb; a Moody's rating of Aaa, Aa, A, or Baa, a S&P, Fitch, Dominion, or Realpoint rating of AAA, AA, A or BBB; or a comparable internal rating if an externally provided rating is not available. The investment grade percentage for each individual bond category ranged from 79% to 100%. The most significant change in the bond portfolio mix from the prior year occurred in the privately placed securities portfolio which decreased $2.94 billion. There was no significant change in the bond portfolio quality distribution from the prior year.

Bonds with an NAIC designation of 1 through 5, including loan-backed and other structured securities, are stated at amortized cost using the effective yield method. Bonds with an NAIC designation of 6 are carried at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus. The fair value of bonds was $45.24 billion and $48.19 billion at December 31, 2011 and 2010, respectively. Unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $1.94 billion and $1.01 billion as of December 31, 2011 and 2010, respectively.

Corporate bonds totaled $25.11 billion and $26.57 billion at December 31, 2011 and 2010, respectively. As of December 31, 2011, the portfolio also contained $8.99 billion of privately placed corporate obligations compared with $11.93 billion at December 31, 2010. The benefits of privately placed securities as compared to public securities are 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.

The bond portfolio also contained $5.88 billion and $3.72 billion of ABS at December 31, 2011 and 2010, 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. Interest rate risk is similar to the risk posed by MBS, but to a lesser degree due to the nature of the underlying assets.

At December 31, 2011 and 2010, $4.76 billion and $6.53 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.

The Company 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, 2011, the ABS RMBS portfolio had net unrealized losses of $209 million, of which all but $3 million were gross unrealized losses. At December 31, 2010, the ABS RMBS portfolio had net unrealized losses of $267 million, of which all but $4 million were gross unrealized losses.

Municipal bonds, including tax-exempt and taxable securities, totaled $3.83 billion at December 31, 2011 compared to $4.56 billion at December 31, 2010.

**Mortgage loans on real estate**

Mortgage loans on real estate decreased $12 million to $6.39 billion at December 31, 2011. Mortgage loans are collateralized by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage exposure. Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable the Company will not collect the contractual principal and interest. The Company recorded $50 million and $64 million of realized capital losses related to other-than-temporary impairments on mortgage loans for the year ended December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, the Company did not report valuation allowances on mortgage loans.

**Other invested assets**

Other invested assets increased $615 million to $2.38 billion at December 31, 2011 mostly attributed to limited partnerships and low income housing tax credits due to additional funding.

**From Separate Accounts**

Separate Accounts balances decreased by $1.53 billion, or 17%, to $7.46 billion at December 31, 2011 due in large part to lower investment income and increased surrenders and benefits.

The assets of the Separate Accounts are carried at fair value. Separate Accounts liabilities represent the contractholders' claims to the related assets and 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. Reserves for guarantees provided by the Company are included in Exhibit 5 of the Company's General Account annual statement.

Separate Accounts held by the Company are for variable annuity contracts, variable life policies and registered deferred annuity contracts. The assets and liabilities of variable annuity contracts and variable life policies are recorded as assets and liabilities of the Separate Accounts and are legally insulated from the General Account. The legal insulation of the Separate Accounts assets prevents such assets from being generally available to satisfy claims resulting from the General Account. Separate Accounts which contain variable annuity and variable life business are unit investment trusts and registered with the Securities and Exchange Commission ("SEC"). As of December 31, 2011 and 2010, all assets of the Separate Accounts that support the variable annuity and variable life business were legally insulated. The assets and liabilities of registered deferred annuity contracts are also recorded as assets and liabilities of the Separate Accounts, however, they are not legally insulated from the General Account. The registered deferred annuity product is non-unitized and is registered with the SEC.

Variable annuity and variable life business allow the contractholder to accumulate funds within a variety of portfolios, at rates which depend upon the return achieved from the types of investments chosen. The net investment experience of the Separate Accounts is credited directly to the contractholder and can be favorable or unfavorable. The assets of each portfolio are held separately from the other portfolios and each has distinct investment objectives and policies. 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 Account's funds may not meet their stated investment objectives.

**Aggregate reserve for life contracts**

| (in millions) | 2011 | 2010 |
|---|---|---|
| Fixed annuities | $ 15,168 | $ 17,305 |
| Interest sensitive life | 10,018 | 9,751 |
| Structured settlements | 7,110 | 6,963 |
| MVAA | 5,051 | 5,911 |
| Indexed annuities | 3,548 | 4,478 |
| Traditional | 1,745 | 1,637 |
| Annuity buyouts | 1,022 | 881 |
| Single premium immediate annuities | 564 | 596 |
| Payout annuities | 550 | 512 |
| Other | 255 | 218 |
| Total | $ 45,031 | $ 48,252 |

Aggregate reserves for life contracts decreased $3.22 billion to $45.03 billion as of December 31, 2011. The decrease was primarily driven by decreases in fixed annuities reserves ($2.14 billion), indexed annuities reserves ($0.93 billion) and MVAA reserves ($0.86 billion). The decreases in fixed annuities reserves and MVAA reserves were primarily due to the Company's strategic approach to reduce exposure to spread-based products. The decrease in indexed annuities reserves was mostly due to the discontinuation of marketing several equity indexed annuity products.

**Liability for deposit-type contracts**

The liability for deposit-type contracts decreased $0.75 billion to $5.51 billion as of December 31, 2011 compared to $6.26 billion as of December 31, 2010. The majority of the decrease was driven by payments for maturing funding agreements.

**Asset valuation reserve**

Asset valuation reserve ("AVR") increased $166 million to $270 million as of December 31, 2011. The increase was primarily attributed to other invested assets and bonds. The AVR for other invested assets increased $96 million and was primarily driven by unrealized capital gains and the current year reserve contributions. AVR also increased $77 million for bonds and was mostly due to a significant reduction in current year realized capital losses.

**Derivatives**

Derivatives decreased $163 million to $88 million as of December 31, 2011. The decrease was primarily due to a decrease in negative market value on exchange-traded written options and the termination of swap notional that was in a large negative position.

**Payable for securities**

Payable for securities increased $113 million to $217 million as of December 31, 2011. The increase was due to timing of cash settlements on investment purchasing activities at year end.

**Capital and surplus**

Capital and surplus increased $86 million to $3.58 billion. The increase was mainly due to a $394 million decrease in nonadmitted assets primarily attributed to interest maintenance reserves ("IMR"), partially offset by a $181 million change in reserve on account of change in valuation basis and a $166 million increase in AVR. The decrease in nonadmitted IMR was primarily driven by an increase in realized capital gains. The change in valuation basis was related to a change in the valuation interest rate on a closed block of non-participating paid-up group annuities to better align with supporting assets.

## RESULTS OF OPERATIONS

| (in millions) | 2011 | 2010 |
|---|---|---|
| Premiums and annuity considerations | $ 2,244 | $ 2,787 |
| Net investment income including IMR amortization | 2,498 | 2,704 |
| Commissions and expense allowances | 156 | 164 |
| Reserve adjustments on reinsurance ceded | (1,333) | (1,244) |
| Income from fees | 64 | 67 |
| Other income | 13 | 9 |
| Total revenue | 3,642 | 4,487 |
| | | |
| Provision for benefits | 4,223 | 4,937 |
| Commissions and general insurance expenses | 728 | 792 |
| Insurance taxes, licenses and fees | 69 | 64 |
| Net transfers to or (from) Separate Accounts | (1,234) | (1,223) |
| Total expense | 3,786 | 4,570 |
| | | |
| Net gain from operations before dividends to policyholders and federal income taxes | (144) | (83) |
| Federal and foreign income taxes incurred | (202) | (135) |
| | | |
| Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses) | 58 | 52 |
| Realized gains (losses), net of IMR and federal income taxes | (141) | (509) |
| | | |
| Net income | $ (83) | $ (457) |

**Net income**
The net loss of $83 million at December 31, 2011 consisted mostly 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 $6 million primarily due to reduced benefits and expenses that were partially offset by reduced revenue.

**Premiums and annuity considerations**
Premiums and annuity considerations decreased $543 million, or 19%, due in large part to decreases in interest sensitive life (“ISL”) of $254 million, indexed annuities of $176 million and fixed annuities of $102 million. The decreases in ISL and indexed annuities sales were primarily the result of rate reductions. The decrease in fixed annuities sales was primarily due to the Company’s strategy to reduce exposure to spread-based products.

**Net investment income**
Net investment income, including IMR amortization, decreased $206 million, or 8%. Net investment income decreased $306 million primarily due to a decrease in the average invested asset base. The decrease in net investment income was partially offset by an increase in amortization of IMR as a result of reduced realized losses.

**Provision for benefits**
Provision for benefits decreased $714 million, or 14%, and was largely attributed to a $1.48 billion decrease in aggregate reserves for life and accident and health contracts, partially offset by a $746 million increase in surrenders. The decrease in reserves was mostly comprised of $1.15 billion in indexed annuities driven by higher surrenders and lower premiums.

**Commissions and general insurance expenses**
Commissions and general insurance expenses decreased $64 million, or 8%, primarily due to the decrease in premium and a reduction in employee benefits related expenses.

**Net realized capital losses**
Net realized capital losses decreased $368 million, or 72%, due to lower impairment writedowns of bonds.

## CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

| (in millions) | | 2011 | | 2010 |
|---|---|---|---|---|
| Net cash from operations | $ | (3,286) | $ | (1,000) |
| Net cash from investments | | 4,231 | | 2,854 |
| Net cash from financing and miscellaneous sources | | (1,426) | | (2,261) |
| Net change in cash, cash equivalents and short-term investments | $ | (481) | $ | (407) |

The principal sources of cash flows 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 and federal income taxes paid.

The net cash from investments was primarily attributed to bonds. The maturity structure of the Company's bonds, which represent 80% 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 component of the negative cash flows from financing and miscellaneous sources was net withdrawals on deposit-type contracts of $1.05 billion, mainly due to scheduled distributions of maturing funding agreements.

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, 2011, excluding Separate Accounts, comprised 76% of total reserves in-force. Of the total annuity reserves, $15.97 billion, or 39%, 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), A+ (negative) and A1 (negative) by A.M. Best, Standard & Poor's and Moody's, respectively, at January 26, 2012.

### 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. The formula for calculating RBC takes into account factors relating to insurance, business, asset and interest rate risks. At December 31, 2011, 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 to assist state regulators in monitoring the financial condition of insurance companies that require special attention or action. 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 of the twelve ratios. At December 31, 2011, 4 of the 8 insurers comprising the Company had at least one ratio that was out of the usual range.

## OTHER

The Company's reinsurance ceded on life insurance in-force decreased $16.26 billion to $221.37 billion at December 31, 2011 compared to $237.63 billion at December 31, 2010. 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 December 31, 2011 and 2010, 42% and 45%, respectively of the Company's face amount of life insurance in-force was reinsured. 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 to non-affiliates.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2011, 92% 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.