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Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2012

The Allstate Life Insurance Group ("Company") consists of Allstate Life Insurance Company ("ALIC"), Allstate Life Insurance Company of New York, Lincoln Benefit Life Company, Charter National Life Insurance Company, Intramerica Life Insurance Company, Allstate Assurance Company 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. The prior year's results of Surety Life Insurance Company, a wholly-owned subsidiary of ALIC until its sale to a non-affiliated entity on August 1, 2012, is also included 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 principal products are interest-sensitive, traditional and variable life insurance and fixed annuities, including deferred and immediate annuities. Its institutional products, which were most recently offered in 2008, consist of funding agreements sold to unaffiliated trusts backing medium-term notes issued to institutional and individual investors. Products are sold to individuals through multiple intermediary distribution channels, including Allstate exclusive agencies and exclusive financial specialists, independent master brokerage agencies, workplace enrolling independent agents in New York, directly through call centers and the internet, and through March 22, 2013, specialized structured settlement brokers.

FINANCIAL POSITION

Cash and invested assets

The return on the investment portfolio is an important component of the Company's financial results. The Company's investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital.

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. Within the ranges set by the strategic asset allocation, tactical investment decisions are made in consideration of prevailing market conditions. The Company manages risks associated with interest rates, credit spreads, equity markets, real estate and currency exchange rates. The Company's continuing focus is to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects.

The Company continues to focus on managing the alignment of its assets with respect to the changing liability profile and shifting the portfolio mix in the next few years to have less reliance on lending to borrowers and a greater proportion of ownership of assets. Reductions in contractholder funds were primarily funded through scheduled maturities.

The composition of the investment portfolio at December 31 was:

(in millions)	2012	2011
Bonds	$ 40,841	$ 43,300
Preferred stocks	45	64
Common stocks	346	157
Mortgage loans on real estate	5,770	6,393
Property held for the production of income	28	-
Cash and cash equivalents	953	504
Short-term investments	247	211
Contract loans	836	835
Other invested assets	2,761	2,382
Other	147	203
Total	$ 51,974	$ 54,049

Total invested assets decreased $2.08 billion, or 4%, at December 31, 2012 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"), tax-exempt and taxable municipal bonds, mortgage-backed securities ("MBS"), U.S. government bonds, and foreign government bonds.

At December 31, 2012, 92% 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 83% to 100%. The most significant decreases in the bond portfolio mix from the prior year occurred in the mortgage-backed, asset-backed and the privately placed securities portfolio which decreased $1.61 billion, $1.22 billion and $0.74 billion, respectively. The overall decrease in the bond portfolio mix was partially offset by a $1.43 billion increase in the publicly traded corporate bonds portfolio. 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 $44.51 billion and $45.24 billion at December 31, 2012 and 2011, respectively. Unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $3.67 billion and $1.94 billion as of December 31, 2012 and 2011, respectively.

Corporate bonds totaled $25.79 billion and $25.11 billion at December 31, 2012 and 2011, respectively. As of December 31, 2012, the portfolio also contained $8.25 billion of privately placed corporate securities compared with $8.99 billion at December 31, 2011. Privately placed corporate obligations contain structural security features such as financial covenant and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. At December 31, 2012, 88% of the privately placed securities were rated investment grade.

The bond portfolio also contained $4.66 billion and $5.88 billion of ABS at December 31, 2012 and 2011, respectively. The ABS portfolio includes CDO and Consumer and other ABS. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance. At December 31, 2012, 91% of the ABS securities were rated investment grade.

Municipal bonds, including tax-exempt and taxable securities, totaled $3.72 billion at December 31, 2012 compared to $3.83 billion at December 31, 2011. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest). At

December 31, 2012, 99% of the municipal bonds were rated investment grade.

At December 31, 2012 and 2011, $3.15 billion and $4.76 billion, respectively, of the bond portfolio were invested in MBS. The MBS portfolio is subject to interest risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying residential mortgage loans. The credit risk associated with the U.S. Agency portfolio is mitigated because they were issued by or have underlying collateral that is guaranteed by U.S. government agencies. At December 31, 2012, 83% of the MBS portfolio were rated investment grade.

Mortgage loans on real estate

Mortgage loans on real estate decreased $623 million to $5.77 billion at December 31, 2012. Mortgage loans are secured 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 $8 million and $50 million of realized capital losses related to other-than-temporary impairments on mortgage loans for the year ended December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, the Company did not report valuation allowances on mortgage loans.

Other invested assets

Other invested assets increased $379 million to $2.76 billion at December 31, 2012 mostly attributed to limited partnerships, considered to be a growing investment opportunity with appropriate risk/return.

From Separate Accounts

Separate Accounts balances decreased by $315 million, or 4%, to $7.15 billion at December 31, 2012 mainly due to surrenders and benefits exceeding premium income additions and investment income.

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, 2012 and 2011, 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.

Registered deferred annuity products provide the opportunity for the contractholder to invest for a specified length of 5, 7, or 10 years in one or more investment options linked to the S&P 500 and subject to a maximum and minimum investment performance which may be negative.

Aggregate reserve for life contracts

(in millions)		2012		2011
Fixed annuities	$	13,138	$	15,168
Interest sensitive life		10,322		10,018
Structured settlements		7,109		7,110
MVAA		4,352		5,051
Indexed annuities		3,345		3,548
Traditional		1,894		1,745
Annuity buyouts		962		1,022
Single premium immediate annuities		551		564
Payout annuities		591		550
Other		286		255
Total	$	42,550	$	45,031

Aggregate reserves for life contracts decreased $2.48 billion to $42.55 billion as of December 31, 2012 and were primarily driven by decreases in fixed annuities reserves ($2.03 billion) and MVAA reserves ($0.70 billion). These decreases were primarily due to surrenders and benefits in excess of premium deposits received.

Asset valuation reserve

Asset valuation reserve ("AVR") increased $186 million to $456 million as of December 31, 2012. The increase was primarily attributed to other invested assets and common stocks within the equity component. The AVR for other invested assets increased $148 million and was primarily driven by unrealized capital gains and the current year reserve contributions. AVR also increased $30 million for common stocks and was mostly due to a significant increase in current year realized capital gains.

Payable for securities lending

Payable for securities lending increased $324 million to $543 million as of December 31, 2012 due to increased securities lending activities in the current year.

Capital and surplus

Capital and surplus decreased $93 million to $3.49 billion. The decrease was mainly due to the partial repayment ($200 million) of the surplus note issued to its parent, the increase in AVR ($186 million), the change in surplus as a result of reinsurance ($177 million) and the decrease in incremental deferred tax asset ($170 million). The overall decrease was partially offset by current year net income ($381 million), the decrease in nonadmitted assets ($152 million), and the increase in net unrealized capital gains ($146 million).

The decreases in the nonadmitted deferred tax asset and incremental deferred tax asset were primarily due to the adoption of new income tax accounting guidance effective January 1, 2012.

RESULTS OF OPERATIONS

(in millions)	2012	2011
Premiums and annuity considerations	$ 2,491	$ 2,244
Net investment income including IMR amortization	2,526	2,498
Commissions and expense allowances	308	156
Reserve adjustments on reinsurance ceded	(1,081)	(1,333)
Income from fees	61	64
Other income	8	13
Total revenue	4,313	3,642
Provision for benefits	4,169	4,223
Commissions and general insurance expenses	771	728
Insurance taxes, licenses and fees	53	69
Net transfers to or (from) Separate Accounts	(1,057)	(1,234)
Total expense	3,936	3,786
Net gain from operations before dividends to policyholders and federal income taxes	377	(144)
Federal and foreign income taxes incurred	(108)	(202)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	485	58
Realized gains (losses), net of IMR and federal income taxes	(104)	(141)
Net income	$ 381	$ (83)

Net income

The Company reported net income of $381 million for 2012, representing an increase of $464 million from the prior year. Net gain from operations after dividends to policyholders and federal income taxes and before realized capital losses increased $427 million primarily due to increased premiums and annuity considerations, commissions and expense allowances, partially offset by the reduced federal income tax benefit.

Premiums and annuity considerations

Premiums and annuity considerations increased $247 million, or 11%, due in large part to the increase in indexed annuities of $252 million mostly related to sales of two new products offered during the year.

Net investment income

Net investment income including IMR amortization was flat year over year. Amortization of IMR increased $200 million primarily due to reduced realized capital losses. This was partially offset by a $172 million decrease in net investment income mostly due to a decrease in the average invested asset base.

Commissions and expense allowances

Commission and expense allowances increased $152 million, or 97%, primarily due to an update of the assumptions used to amortize the deferred gain on the sale of its variable annuity business in 2006.

Provision for benefits

A slight decrease ($54 million) in the provision for benefits was largely attributed to a $925 million decrease in surrenders, partially offset by a $902 million unfavorable change in aggregate reserves for life and accident and health contracts. The decrease in surrenders was mostly related to indexed annuities ($430 million), fixed annuities ($247 million) and market value adjusted annuities ($228 million). The increase in reserves was primarily driven by lower surrenders and annuity benefits compared to 2011.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	2012	2011
Net cash from operations	$ (1,904)	$ (3,286)
Net cash from investments	2,649	4,231
Net cash from financing and miscellaneous sources	(260)	(1,426)
Net change in cash, cash equivalents and short-term investments	$ 485	$ (481)

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.

The net cash from investments was primarily attributed to bonds. The maturity structure of the Company's bonds, which represent 79% 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 $346 million, mainly due to scheduled distributions of maturing funding agreements, and partial surplus note repayment of $200 million. The cash outflows were partially offset by $286 million of other cash provided mostly from an increase 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, 2012, excluding Separate Accounts, consisted of $35.47 billion, or 73%, of total reserves in force. Of the total annuity reserves, $15.73 billion, or 42%, 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 were A+ (superior) with a stable outlook, A+ (good) with a negative outlook and A1 (good) with a negative outlook by A.M. Best, Standard & Poor's and Moody's, respectively, at January 31, 2013.

Risk based capital

The NAIC has a uniform capital adequacy standard, referred to as the risk-based capital ("RBC"), that serves as one of the solvency monitoring regulatory tools to measure and assess the amount of capital that is appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The standard utilizes a formula to calculate a company's minimum capital requirement ("company action level RBC") based on the insurance, business, asset and interest rate risk associated with its business. There is no regulatory action required if a company maintains an actual capital level greater than the company action level RBC. A RBC model law does, however, mandate four levels of regulatory action based on a company's degree of capital impairment. At December 31, 2012, each of the insurers comprising the Group had actual capital that was significantly above the company action level RBC.

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. IRIS ratios are not applicable to ALIC Re, a special purpose financial captive insurance company domiciled in South Carolina. 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, 2012, 4 of the 6 applicable 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 $12.40 billion to $208.97 billion at December 31, 2012 compared to $221.37 billion at December 31, 2011. The Company enters into reinsurance

agreements with unaffiliated reinsurers to limit risk of mortality and morbidity losses, while retaining primary liability as a direct insurer for all risks ceded to reinsurers.

ALIC's insurance subsidiaries, excluding ALIC Re, are domiciled in Illinois, Nebraska and New York. The IL and NE domiciled insurance subsidiaries have a 100% intercompany reinsurance agreement in place with ALIC.

As of December 31, 2012 and 2011, 39% and 42%, 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, 2012, 92% of ceded premiums under uncollateralized external reinsurance treaties were ceded to companies that currently have an A.M. Best financial strength rating of A- or better.