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**Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2016**

The Allstate Life Insurance Group ("Company") consists of Allstate Life Insurance Company ("ALIC"), Allstate Life Insurance Company of New York 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. Charter National Life Insurance Company ("CNL"), an Illinois domiciled insurance company and a wholly-owned subsidiary of ALIC, was included in the financial results until January 1, 2016 when it merged with ALIC. Intramerica Life Insurance Company ("ILIC"), a New York domiciled insurance company and a wholly-owned subsidiary of ALIC, was included in the financial results until November 1, 2015 when it was sold to Allstate Financial Insurance Holdings Corporation ("AFIHC"), an affiliate.

ALIC, the lead company, is a wholly-owned subsidiary of Allstate Insurance Company ("AIC"), 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 sells traditional, interest-sensitive and variable life insurance products through Allstate exclusive agencies and exclusive financial specialists. The Company also sells voluntary accident and health insurance through workplace enrolling independent agents in New York. Fixed annuities, such as deferred and immediate annuities, were previously offered and continue to be in force. Also, the Company previously offered institutional products consisting of funding agreements sold to unaffiliated trusts that used them to back medium-term notes. There are no institutional products outstanding as of December 31, 2016. Variable annuities were also previously offered and substantially all of this business is reinsured. To help meet customer needs when an Allstate issued solution is unavailable, Allstate exclusive agencies and exclusive financial specialists have a portfolio of non-proprietary products to sell, including mutual funds, fixed and variable annuities, disability insurance and long-term care insurance.

The Company's strategy is to focus on expanding Allstate customer relationships, growing the number of products delivered to customers through Allstate exclusive agencies, and managing the run-off of the in-force annuity products with a focus on increasing lifetime economic value.

On January 1, 2015, ALIC sold Allstate Assurance Company ("AAC"), an Illinois domiciled insurance company and a wholly-owned subsidiary, to AFIHC. ALIC received \$11 million in cash.

In connection with AAC's plan to withdraw its New York license, the New York Department of Financial Services ("NYDFS") required ALIC to establish a custodial account for the protection of AAC's New York issued business. As required by the NYDFS, the custodial account is to be maintained with a minimum amount of assets which may vary over time. As of December 31, 2016, the balance in the custodial account was \$3 million.

Effective April 1, 2015, ALIC and AAC entered into a reinsurance agreement whereby ALIC retroceded to AAC 100% of its liability for certain universal life policies originally written by Surety Life Insurance Company, a former affiliate, Great Southern Life Insurance Company and Security Life of Denver Insurance Company. ALIC transferred assets of \$499 million and ceded statutory policy liabilities of \$478 million, net of third party reinsurance, plus an adjustment for the interest maintenance reserve ("IMR") of \$21 million to AAC in connection with this agreement.

On November 1, 2015, ALIC sold ILIC to AFIHC. ALIC received \$10 million in cash.

CNL, one of ALIC's wholly owned subsidiaries, merged with ALIC effective January 1, 2016. ALIC is now the surviving legal entity and CNL has ceased to exist as an independent entity. Per SSAP No. 3, *Accounting Changes and Corrections of Errors*, CNL was effectively a shell company and the Company is exempt from prior year restatement. In conjunction with the merger, Charter National Variable Separate Account merged with Allstate Life Variable Life Separate Account A. In addition, ALIC became the depositor of the Charter National Variable Annuity Separate Account, which was renamed Allstate Life Insurance Company Variable Annuity Separate Account C.

On December 22, 2016, ALIC purchased \$279 million of bonds issued by Allstate Finance Company Agency Loans, LLC ("AFCAL"), an affiliate. AFCAL is a special purpose entity wholly-owned by Allstate Non-insurance Holdings, Inc., which is wholly-owned by the Corporation. The purpose of AFCAL is limited to purchasing and securitizing fixed rate and term agent loans from Allstate Finance Company, LLC ("AFCO"), a wholly-owned subsidiary, at fair value. AFCO originates commercial loans to exclusive insurance agents of AIC generally for the purpose of acquiring agencies or books of business and refinancing existing agent debt. The transaction is structured as a loan securitization with oversight by a trustee and a servicer managing the portfolio. AFCAL purchased the agent loans and used them as collateral in the issuance of bonds, which are the sole source of cash flows for debt service.

On December 2, 2016, ALIC purchased for cash a \$40 million 3.07% surplus note due December 2, 2036 that was issued by AAC. No payment of principal or interest is permitted on the surplus note without the written approval from the proper regulatory authority. The regulatory authority could prohibit the payment of interest and principal on the surplus notes if certain statutory capital requirements are not met.

FINANCIAL POSITION

Cash and invested assets

The return on the investment portfolio is an important component of the Company's ability to offer good value to customers and earn an acceptable return on capital. The Company identifies a strategic asset allocation which considers both the nature of the liabilities and the risk and return characteristics of the various asset classes in which it invests. This allocation is informed by long-term market expectations, as well as other considerations such as risk appetite, portfolio diversification, duration, desired liquidity and capital. Within appropriate ranges relative to strategic allocations, tactical allocations are made in consideration of prevailing and potential future market conditions. The Company manages risks that involve uncertainty related to interest rates, credit spreads, equity returns and currency exchange rates.

The Company's portfolio is comprised of assets chosen to generate returns to support corresponding liabilities, within an asset-liability framework that targets an appropriate return on capital. For longer-term immediate annuity liabilities, the Company invests primarily in performance-based and other equity investments. For shorter-term annuity and life insurance liabilities, the company invests primarily in interest-bearing investments, such as bonds and commercial mortgage loans.

The Company utilizes four high level strategies to manage risks and returns and to position the portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. As strategies and market conditions evolve, the asset allocation may change or assets may be moved between strategies.

Market-Based Core strategy seeks to deliver predictive earnings aligned to business needs through investments primarily in publicly traded bonds and common stocks. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt are also included in this category. As of December 31, 2016, 88% of the portfolio follows this strategy with 88% in bonds and commercial mortgage loans and 5% in common stocks.

Market-Based Active strategy seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This strategy may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably. The portfolio primarily includes publicly traded bonds and common stocks. As of December 31, 2016, 4% of the portfolio follows this strategy with 72% in bonds and 16% in common stock.

Performance-Based Long-Term strategy seeks to deliver attractive risk-adjusted returns over a longer horizon. The return is a function of both general market conditions and the performance of the underlying assets or businesses. The portfolio, which primarily includes private equity, real estate, infrastructure and agriculture-related assets, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and may offer the potential to add value through transformation at the company or property level. As of December 31, 2016, 8% of the portfolio follows this strategy with 94% in other invested assets primarily invested in limited partnerships.

Performance-Based Opportunistic strategy seeks to earn attractive returns by making investments that involve asset dislocations or special situations, often in private markets.

Portfolio composition by investment strategy

The following table presents the investment portfolio by strategy as of December 31:

(in millions)	2016					2015
	Total	Market-Based Core	Market-Based Active	Performance-Based Long-Term	Performance-Based Opportunistic	Total
Bonds	\$ 23,402	\$ 22,496	\$ 895	\$ 11	\$ -	\$ 23,757
Preferred stocks	30	18	-	12	-	39
Common stocks	1,364	1,126	203	35	-	1,521
Mortgage loans on real estate	3,838	3,838	-	-	-	3,668
Real estate	95	-	-	95	-	61
Cash and cash equivalents	472	467	5	-	-	653
Short-term investments	274	127	147	-	-	192
Contract loans	596	596	-	-	-	601
Other invested assets	3,510	829	-	2,673	8	3,372
Derivatives	78	72	-	6	-	52
Securities lending reinvested collateral assets	2	2	-	-	-	28
Other	2	2	-	-	-	22
Total	<u>\$ 33,663</u>	<u>\$ 29,573</u>	<u>\$ 1,250</u>	<u>\$ 2,832</u>	<u>\$ 8</u>	<u>\$ 33,966</u>
% of total		88%	4%	8%	-%	

Invested assets and income are expected to decline in line with reductions in contractholder funds. The Company continues to shift the portfolio mix to include more performance-based investments. A greater proportion of the return on these investments is derived from idiosyncratic asset or operating performance. While the Company anticipates higher returns on these investments over time, the investment income can vary significantly between periods.

The Company has a comprehensive portfolio monitoring process to identify and evaluate each security whose carrying value may be other-than-temporarily impaired. The portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost (for bonds) or cost (for stocks) is below established thresholds. The process also includes monitoring of other impairment indicators such as ratings, rating downgrades and payment defaults.

Total invested assets decreased \$303 million, or 1%, as of December 31, 2016 and was primarily due to a decrease in net deposits on deposit-type contracts (\$433 million), net capital losses on investments (\$107 million) and negative cash from operations (\$51 million), partially offset by unrealized capital gains on invested assets (\$128 million), an increase in payable for securities (\$74 million) and an issuance of surplus notes (\$50 million) to ALIC, which in turn sold the surplus notes to Kennett Capital, Inc. ("Kennett"), a wholly-owned subsidiary of the Corporation, in exchange for full recourse notes issued by Kennett for the same amount. Explanation for the most significant items follow.

Bonds

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

As of December 31, 2016, 85% of the consolidated bond portfolio was rated investment grade, which is defined as a security having a National Association of Insurance Commissioners ("NAIC") designation of 1 or 2, a rating of Aaa, Aa, A, or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings, a comparable rating from another nationally recognized rating agency or a comparable internal rating if an externally provided rating is not available. The investment grade percentage for each individual bond category ranged from 73% to 100%. 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 structured securities, are reported at amortized cost using the effective yield method. Bonds with an NAIC designation of 6 are reported at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus as unrealized capital loss.

Corporate bonds totaled \$17.71 billion and \$16.70 billion as of December 31, 2016 and 2015, respectively. The bond portfolio contained \$12.35 billion and \$11.55 billion of publicly traded corporate bonds as of December 31, 2016 and 2015, respectively. As of December 31, 2016, 86% of the publicly traded corporate bonds were rated investment grade. As of December 31, 2016, the portfolio also contained \$5.36 billion of privately placed corporate securities compared to \$5.15 billion as of December 31, 2015. Privately placed securities primarily

consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form. Privately placed corporate obligations contain structural security features such as financial covenants 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. As of December 31, 2016, 73% of the privately placed securities were rated investment grade.

Municipal bonds totaled \$1.96 billion as of December 31, 2016 compared to \$2.09 billion as of December 31, 2015. 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). As of December 31, 2016, 99% of the municipal bonds were rated investment grade. The municipal bond portfolio as of December 31, 2016 consisted of 256 issues from 138 issuers. The largest exposure to a single issuer was 6% of the municipal bond portfolio.

The bond portfolio also contained \$1.77 billion and \$2.66 billion of ABS as of December 31, 2016 and 2015, respectively. The ABS portfolio includes collateralized debt obligations 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. As of December 31, 2016, 85% of the ABS securities were rated investment grade.

U.S. government bonds totaled \$1.25 billion and \$1.17 billion as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, \$527 million and \$818 million, respectively, of the bond portfolio were invested in MBS, which consisted of residential MBS ("RMBS") and commercial MBS ("CMBS"). The RMBS 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 CMBS portfolio is subject to credit risk and has a sequential paydown structure. As of December 31, 2016, 96% of the MBS portfolio were rated investment grade.

Foreign government bonds totaled \$180 million as of December 31, 2016 compared to \$314 million as of December 31, 2015.

The fair value of all bonds was \$24.52 billion and \$24.64 billion as of December 31, 2016 and 2015, respectively. Unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were \$1.12 billion and \$0.88 billion as of December 31, 2016 and 2015, respectively.

Common stocks

Common stocks decreased \$157 million to \$1.36 billion as of December 31, 2016 primarily driven by public equity sales to reduce energy exposure and writedowns.

Mortgage loans on real estate

Mortgage loans on real estate increased \$170 million to \$3.84 billion as of December 31, 2016. The increase was due to increased investment. 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 did not record realized capital losses related to other-than-temporary impairments on mortgage loans for the years ended December 31, 2016 or 2015. For the years ended December 31, 2016 and 2015, the Company did not report valuation allowances on mortgage loans.

Other invested assets

Other invested assets increased \$138 million to \$3.51 billion as of December 31, 2016 mostly attributed to limited partnerships due to increased investment in support of the long-term performance based strategy. The limited partnership portfolio consisted of investments in private equity funds, co-investments, real estate funds, joint ventures and other funds.

From Separate Accounts

Separate Accounts balances decreased \$315 million, or 8%, to \$3.84 billion as of December 31, 2016 mainly due to increases in surrenders and benefits activities, partially offset by improved investment results.

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, modified guaranteed annuity ("MGA") contracts and indexed variable 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"). The assets and liabilities of MGA and indexed variable annuity contracts are also recorded as assets and liabilities of the Separate Accounts, however, they are not legally insulated from the General Account. The MGA products are non-unitized products, most of which are not registered with the SEC. The indexed variable 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. The Company no longer sells variable annuity contracts and substantially all of the Company's variable annuity business was reinsured beginning in 2006.

MGA products provide the opportunity for the contractholder to invest in one or any combination of up to ten interest rate guarantee periods. Amounts withdrawn from the contract in excess of the free withdrawal amount are subject to market value adjustments.

Indexed variable 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.

The Separate Accounts includes only contractholders' purchase payments applicable to the variable portions of their contracts and excludes any purchase payments directed by the contractholder to the Fixed Account in which the contractholders' deposits are included in the General Account assets and earn a fixed rate of return. The Company holds on a direct basis and assumes via a modified coinsurance agreement, reserves for variable annuity contracts and variable life policies at less than the fund balances carried in the Separate Accounts. The difference between the reserves and the fund balances of the Separate Accounts is transferred from the Separate Accounts to the General Account, and the majority of the variable annuity portion is subsequently reinsured via a modified coinsurance agreement. Premiums, contract benefits, reserve transfers, policy loans and policyholder charges are also transferred from the Separate Accounts to the General Account and subsequently reinsured via modified coinsurance agreement.

Aggregate reserve for life contracts

(in millions)	<u>2016</u>	<u>2015</u>
Structured settlements	\$ 7,449	\$ 7,305
Interest sensitive life	6,703	6,601
Fixed annuities	5,893	6,370
Traditional life	2,615	2,420
Indexed annuities	995	1,146
MGA	956	1,093
Annuity buyouts	751	800
Payout annuities	595	624
Single premium immediate annuities	394	454
Indexed life	337	289
Other	83	81
Total	<u>\$ 26,771</u>	<u>\$ 27,183</u>

Aggregate reserves for life contracts decreased \$0.41 billion to \$26.77 billion as of December 31, 2016 and were primarily attributed to reserve decreases for fixed annuities (\$477 million), indexed annuities (\$151 million) and MGA (\$137 million), partially offset by reserves increases for traditional life (\$195 million), structured settlements (\$144

million) and interest sensitive life (\$102 million). The decreases in reserves for fixed annuities, indexed annuities and MGA were primarily due to run-off of the annuity business. The increase in reserves for structured settlements was primarily due to the change in mortality assumptions applied to substandard policies. The increase in reserves for interest sensitive life was primarily driven by premiums and credited interest exceeding benefits, surrenders and withdrawals, as well as the application of Actuarial Guideline 38D.

Liability for deposit-type contracts

Liability for deposit-type contracts decreased \$285 million to \$2.78 billion as of December 31, 2016 primarily due to run-off of structured settlements and the final distribution of medium-term note ("MTN") contracts.

Capital and surplus

Capital and surplus increased \$200 million to \$3.14 billion as of December 31, 2016. The increase was mainly due to current year net income (\$192 million), net unrealized capital gains (\$76 million), an increase in surplus notes (\$50 million), partially offset by an increase in asset valuation reserve ("AVR") (\$108 million) and an increase in nonadmitted assets (\$13 million). The increase in AVR was primarily due to increased unrealized capital gains on common stocks, increase in investment in other invested assets mainly limited partnership and a decline in ratings on bonds.

RESULTS OF OPERATIONS

(In millions)

	<u>2016</u>	<u>2015</u>
Premiums and annuity considerations	\$ 1,472	\$ 1,037
Net investment income including IMR amortization	1,584	1,675
Commissions and expense allowances	77	67
Reserve adjustments on reinsurance ceded	(529)	(722)
Income from fees	37	37
Other income	1	1
Total revenue	<u>2,642</u>	<u>2,095</u>
Provision for benefits	2,607	2,336
Commissions and general insurance expenses	354	460
Insurance taxes, licenses and fees, excluding federal income taxes	22	33
Net transfers to or (from) Separate Accounts	(590)	(772)
Transfer of IMR due to reinsurance agreement	-	(21)
Total expense	<u>2,393</u>	<u>2,036</u>
Net gain from operations before dividends to policyholders and before federal income taxes	249	59
Federal and foreign income taxes incurred (excluding tax on capital gains)	<u>1</u>	<u>(25)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	248	84
Realized gains (losses), net of IMR and federal income taxes	<u>(56)</u>	<u>(151)</u>
Net income (loss)	<u>\$ 192</u>	<u>\$ (67)</u>

Net income

The Company reported net income of \$192 million for 2016 compared to net loss of \$67 million for 2015. The increase in net income was due to an increase in premiums and annuity considerations (\$435 million), a decrease in reserve adjustments on reinsurance ceded (\$193 million), a decrease in commissions and general insurance expenses (\$106 million) and a decrease in realized losses net of IMR and federal income taxes (\$95 million), partially offset by an increase in provision for benefits (\$271 million), a decrease in net transfers from Separate Accounts (\$182 million) and a decrease in net investment income including IMR amortization (\$91 million).

Premiums and annuity considerations

Prior year activity included a \$499 million reduction in premium and annuity considerations resulting from the transfer in connection with the reinsurance agreement between ALIC and AAC effective April 1, 2015. Excluding the one-time impact, premium and annuity considerations decreased \$64 million primarily attributed to interest sensitive life (\$39 million) and traditional life (\$25 million). AAC is now the primary Allstate Company writing new life business.

Net investment income including IMR amortization

Net investment income including IMR amortization decreased \$91 million, or 5%, primarily due to lower fixed income yields resulting from lower market yields, portfolio repositioning, and lower average investment balances.

Reserve adjustments on reinsurance ceded

Reserve adjustments on reinsurance ceded decreased \$193 million due to a decline in surrenders and benefits related to the variable annuities business reinsured to Prudential on a modified coinsurance basis. Variable annuity is a closed block of business.

Provision for benefits

Prior year activity included a \$472 million decrease in reserves due to reserves transferred from ALIC to AAC in connection with the reinsurance agreement effective April 1, 2015. Excluding the one-time impact, the provision for benefits decreased \$201 million primarily due to the decreases in surrenders (\$239 million), annuity benefits (\$58 million), partially offset by an increase in reserves (\$124 million). The decrease in surrenders was primarily attributed to MVAA (\$170 million) and fixed annuities (\$82 million). The \$124 million increase in the change in reserves was mostly attributed to MVAA (\$257 million) and fixed annuities (\$153 million) driven by smaller decline year over year in the run off of the reserves. The increase in the change in reserves was partially offset by decreases in indexed annuities (\$131 million) and structured settlements (\$88 million) driven by continued run off of the annuity block.

Realized gains net of IMR and federal income taxes

The \$95 million decrease in realized losses net of IMR and federal income taxes was primarily caused by a \$77 million reclass of tax on capital gains to federal income taxes incurred due to a refinement to the tax allocation methodology that results in better matching of the financial statement income with tax expense by ordinary income and capital gains income character in 2016 compared to 2015. The decrease also included a prior year impact of \$11 million as a result of realized capital loss on sale of ILIC and AAC-

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	<u>2016</u>	<u>2015</u>
Net cash from operations	\$ (56)	\$ (598)
Net cash from investments	343	949
Net cash from financing and miscellaneous sources	<u>(386)</u>	<u>(404)</u>
Net change in cash, cash equivalents and short-term investments	<u>\$ (99)</u>	<u>\$ (53)</u>

The principal sources of cash flows from operations were investment income, premiums and net transfers from Separate Accounts. The principal uses were the payment of benefits and commissions and operating expenses. The negative net cash from operations decreased \$542 million in 2016 compared to 2015 primarily due to income tax refunds in 2016 compared to income tax payments in 2015 and lower operating costs and expenses, partially offset by lower net investment income.

The net cash from investments was primarily attributed to bonds due to purchase and sale activities for the year. The maturity structure of the Company's bonds, which represent 70% 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 net negative cash flows from financing and miscellaneous sources was due to net withdrawals on deposit-type contracts, 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 as of December 31, 2016, excluding Separate Accounts, consisted of \$19.83 billion, or 67%, of total reserves in force. Of the total annuity reserves, \$12.66 billion, or 59%, 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), A+ (good) and A1 (good) by A.M. Best, S&P Global Ratings and Moody's, respectively; all with a stable outlook.

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, interest rate, health credit and market 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. As of December 31, 2016, each of the insurers comprising the Company 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. As of December 31, 2016, none of the companies had four or more ratio results fall outside of the usual range.

Reinsurance

The Company's reinsurance ceded on life insurance inforce decreased \$4.49 billion to \$94.04 billion as of December 31, 2016 compared to \$98.53 billion as of December 31, 2015. Of the \$94.04 billion life insurance inforce ceded as of December 31, 2016, \$5.53 billion was ceded to AAC pursuant to the reinsurance agreement entered into by ALIC and AAC effective April 1, 2015 while the rest was ceded to unaffiliated reinsurers. The Company enters into reinsurance agreements with unaffiliated reinsurers to limit aggregate and single exposure to losses on large risks, while retaining primary liability as a direct insurer for all risks ceded to reinsurers.

As of December 31, 2016 and 2015, 23% of the Company's face amount of life insurance inforce was reinsured. The Company also cedes substantially all of the risk associated with variable annuity contracts to non-affiliates.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2016, 86% and 13% 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 and two companies with a rating of B, respectively. The rest was ceded to companies that are not rated by A.M. Best.

Events Subsequent

External Reserve Financing Transaction

ALIC, through its wholly-owned captive subsidiary, ALIC Re, entered into an external reserve financing arrangement which replaced the existing \$325 million affiliated surplus note arrangement. The external financing resulted in increasing ALIC Re's surplus note capacity to accommodate the expansion of the existing reinsurance agreement effected contemporaneously. The refinancing comprised the following transactions:

On January 19, 2017, ALIC and ALIC Re entered into an Amended and Restated Reinsurance Agreement effective January 1, 2017. The original reinsurance agreement included guaranteed term business written by ALIC and former wholly-owned subsidiary Lincoln Benefit Life Insurance Company ("LBL"), in 2000 through 2009. The Amended and Restated Reinsurance Agreement expanded the covered business to include guaranteed term business assumed by ALIC and written by LBL and AAC, an affiliate, with issue years 2010 through 2017. The LBL and AAC businesses were ceded to ALIC and retroceded to ALIC Re. Upon implementation of the Amended and Restated Reinsurance Agreement, CRVM reserves in the amount of \$844.3 million were ceded from ALIC to ALIC Re. ALIC recognized an after-tax gain in income of \$373.5 million, representing the difference between the statutory reserves ceded and the amount of assets needed for Primary Security under Actuarial Guideline XLVIII ("AG48"), while ALIC Re recognized an offsetting after-tax loss in income. In addition, the agreement also amended on the effective date the experience rated refund formula to utilize AG48 reserves and the results of the revised calculation generated an additional \$185.6 million of after-tax net income which was accrued in January, 2017, while ALIC Re recognized an offsetting after-tax reduction in income. The net effect on the Company's combined earned surplus as a result of the Amended Restated Reinsurance Agreement and amended experience refund is zero. The reinsurance and financing transactions result in the combined group effectively holding economic reserves on the basis of AG48 reserves for this business; which became the effective basis of reserve valuation for 2017 under principles based reserving.

Also on January 19, 2017, ALIC Re entered into a Master Transaction Agreement ("MTA") between ALIC Re and Bueller Financing LLC ("Bueller"), an external financing provider. In accordance with the MTA, Bueller issued on January 19, 2017 a variable funding puttable note also referred to as a credit-linked note ("CLN") in the amount of \$1.22 billion. The CLN amount is calculated as the amount that the CRVM reserves on the reinsured business is in excess of the AG48 reserves, currently \$1.22 billion with a maximum amount of \$1.75 billion. The CLN will be held in a trust in compliance with AG48. A permitted practice to recognize the CLN as an admitted asset on ALIC Re has been approved by the South Carolina Department of Insurance ("SC DOI") and the IL DOI has approved recognition of the CLN as Other Security under AG48.

The SC DOI approved in January 2017 the redemption of affiliated surplus notes issued by ALIC Re to ALIC with a par value of \$325 million as of December 31, 2016. The surplus notes were redeemed at par plus \$1.1 million of accrued interest through a transfer of cash and fair value of investments in the amount of \$326.1 million. Upon repayment of ALIC Re's surplus notes, the intercompany note agreement between ALIC and its affiliate, Kennett Capital, Inc. which had purchased the surplus notes from ALIC in the amount of \$325 million par was terminated, including settlement of \$1 million of accrued interest received by ALIC.

Effective January 1, 2017, ALIC entered into a coinsurance agreement with AAC for guaranteed term business issued by AAC in 2015 through 2017. Cash in the amount of \$19.8 million was transferred from AAC to ALIC in January 2017 in settlement of the agreement. Net business related liabilities transferred to ALIC were \$35.9 million. On effecting the reinsurance agreement, ALIC recognized a loss in net income of \$5.2 million after tax and a loss in surplus of \$8.6 million.

Intercompany Liquidity Loan

Pursuant to the Liquidity Agreement whereby ALIC and the Corporation are parties, an intercompany liquidity loan in the amount of \$311 million was extended from the Corporation to ALIC on March 14, 2017, to provide short term liquidity for settlement of intercompany taxes with ALIC Re following the captive term reserve financing transaction. The loan along with interest of \$151 thousand was repaid on March 30, 2017.

Pursuant to the Liquidity Agreement whereby ALIC and AFCO are parties, an intercompany liquidity loan in the amount of \$25 million was extended from ALIC to AFCO on February 14, 2017, to help fund additional loans to Allstate agencies to facilitate the purchase of agencies and agency expansion. The loan along with interest of \$22 thousand was repaid on March 16, 2017.