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Allstate Life Insurance Company
Management Discussion and Analysis
For the Year Ended December 31, 2019

Allstate Life Insurance Company (the "Company"), an Illinois domiciled insurer, 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 (the "Corporation").

The Company is authorized to sell life insurance and retirement products in 49 states, the District of Columbia and Puerto Rico. Beginning in 2015 and concluding in 2019, the Corporation transitioned the majority of new life insurance offerings from the Company to Allstate Assurance Company ("AAC"), an affiliate. The Company previously offered or assumed and continues to have in force traditional and interest-sensitive life insurance products as well as deferred and immediate annuities but currently only issues new term conversion interest-sensitive life insurance. The Company also distributes non-proprietary fixed annuities as well as long-term care, disability and substandard life insurance products offered by third-party providers. The Company also previously offered variable annuities and substantially all of this business is reinsured.

The Company discontinued the sale of proprietary annuities over an eight-year period from 2006 to 2014, reflecting expectations of declining returns. As a result, the declining volume of business is managed with a focus on increasing lifetime economic value. Both the deferred and immediate annuity businesses have been adversely impacted by the historically low interest rate environment. The immediate annuity business has also been impacted by medical advancements that have resulted in annuitants living longer than anticipated when many of these contracts were originated. The Company focuses on the distinct risk and return profiles of the specific products when developing investment and liability management strategies. The level of legacy deferred annuities in force has been significantly reduced and the investment portfolio and crediting rates are proactively managed to improve profitability of the business while providing appropriate levels of liquidity. The investment portfolio supporting immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of immediate annuities, the Company uses performance-based investments (primarily limited partnership investments) in which it has ownership interests and a greater proportion of return is derived from idiosyncratic assets or operating performance. The Company continues to review strategic options to reduce exposure and improve returns of the business. As a result, the Company may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

FINANCIAL POSITION

BALANCE SHEET

(in millions)	2019	2018
Cash and invested assets	$ 26,634	$ 26,778
Premiums and considerations	213	222
Other assets	354	376
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	2,965	2,755
Total assets	$ 30,166	$ 30,131
Aggregate reserves for life contracts	$ 18,674	$ 19,211
Aggregate reserves for accident and health contracts	82	92
Liability for deposit-type contracts	1,880	2,028
Contract claims and liabilities	121	123
Asset valuation reserve	1,008	907
Funds held under coinsurance	776	713
Other liabilities	843	831
From Separate Accounts Statement	2,965	2,755
Total liabilties	26,349	26,660
Capital and surplus	3,817	3,471
Total liabilties and capital and surplus	$ 30,166	$ 30,131

Cash and invested assets

Total cash and invested assets decreased $144 million, or 1%, as of December 31, 2019 primarily to fund business operations and from payment of a cash dividend to AIC. Explanations of significant items to follow.

Portfolio composition by investment strategy

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

	2019			2018
(in millions)	Market-based	Performance-based	Total	Total
Bonds	$ 16,609	$ 19	$ 16,628	$ 16,906
Preferred stocks	14	15	29	30
Common stocks	1,476	82	1,558	1,703
Mortgage loans on real estate	3,197	-	3,197	3,224
Real estate	-	169	169	124
Cash and cash equivalents	454	-	454	479
Short-term investments	438	1	439	133
Contract loans	556	-	556	559
Other invested assets	308	3,181	3,489	3,582
Derivatives	103	-	103	28
Securities lending reinvested collateral assets	7	-	7	5
Other	5	-	5	5
Total	$ 22,167	$ 3,467	$ 26,634	$ 26,778
% of total	87%	13%		

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 shorter-term annuity liability cash flows and life insurance liabilities, the Company invests primarily in bonds and commercial mortgage loans with maturity profiles aligned with liability cash flow requirements. For longer-term immediate annuity liability cash flows, the

Company invests primarily in performance-based investments, such as limited partnerships, and publicly traded common stocks.

The Company utilizes two primary 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 strategy includes investments primarily in fixed income securities and common stocks. It seeks to deliver predictable earnings aligned to business needs and take advantage of short-term opportunities primarily through public and private fixed income investments and public equity securities. As of December 31, 2019, 87% of the portfolio follows this strategy with 86% in bonds and commercial mortgage loans and 6% in common stocks.

Performance-based strategy seeks to deliver attractive risk-adjusted returns and supplement market risk with idiosyncratic risk. Returns are impacted by a variety of factors including general macroeconomic and public market conditions as public benchmarks are often used in the valuation of underlying investments. Variability in earnings will also result from the performance of the underlying assets or business and the timing of sales of those investments. Earnings from the sales of investments may be recorded as net investment income or realized capital gains and losses. The portfolio, which primarily includes private equity and real estate with a majority being limited partnerships, 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 often enhance returns and income through transformation at the company or property level. A portion of these investments seek returns in markets or asset classes that are dislocated or special situations, primarily in private markets. As of December 31, 2019, 13% of the portfolio follows this strategy with 12% in other invested assets primarily invested in limited partnerships.

Invested assets and market-based investments are expected to decline with reductions in contractholder funds and income related to performance-based investments will result in variability of earnings. Performance-based investments and equity securities will continue to be allocated primarily to the longer-term immediate annuity liabilities to reduce the risk that investment returns are below levels required to meet their funding needs while shorter-term annuity liabilities will be invested in market-based investments.

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.

Bonds

Bonds decreased $278 million, or 2% from the prior year primarily to fund business operations and cash dividend paid to AIC.

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

As of December 31, 2019, 84% of the consolidated bond portfolio was rated investment grade, which is defined as a security having an 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. 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 and excluding Securities Valuation Office-identified investments, 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 $13.58 billion and $13.54 billion as of December 31, 2019 and 2018, respectively. The bond portfolio contained $9.29 billion and $9.12 billion of publicly traded corporate bonds as of December 31, 2019 and 2018, respectively. As of December 31, 2019, 88% of the publicly traded corporate bonds were rated investment grade. As of December 31, 2019, the portfolio also contained $4.29 billion of privately placed corporate securities compared to $4.43 billion as of December 31, 2018. 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, 2019, 67% of the privately placed securities were rated investment grade.

The bond portfolio also contained $1.20 billion of ABS as of both December 31, 2019 and 2018. 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 features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance. As of December 31, 2019, 78% of the ABS securities were rated investment grade.

Municipal bonds totaled $1.00 billion as of December 31, 2019 compared to $1.33 billion as of December 31, 2018. 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, 2019, 100% of the municipal bonds were rated investment grade. The municipal bond portfolio as of December 31, 2019 consisted of 194 issues from 127 issuers. The largest exposure to a single issuer was 11% of the municipal bond portfolio.

U.S. government bonds totaled $0.73 billion and $0.61 billion as of December 31, 2019 and 2018, respectively. As of December 31, 2019, 100% of the U.S government bonds were rated investment grade.

As of December 31, 2019 and 2018, $113 million and $165 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 prepayment risk from the underlying residential mortgage loans. CMBS investments are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. As of December 31, 2019, 95% of the MBS portfolio was rated investment grade.

Foreign government bonds totaled $18 million as of December 31, 2019 compared to $58 million as of December 31, 2018. As of December 31, 2019, 86% of the foreign government bonds were rated investment grade.

The fair value of all bonds was $17.72 billion and $17.09 billion as of December 31, 2019 and 2018, respectively. Unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $1.09 billion and $0.19 billion as of December 31, 2019 and 2018, respectively.

Common stocks

Common stocks decreased $145 million to $1.56 billion as of December 31, 2019 primarily driven by rebalancing of equity investments during the year.

Mortgage loans on real estate

Mortgage loans on real estate decreased $27 million to $3.20 billion as of December 31, 2019. 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.

Other invested assets

Other invested assets decreased $93 million to $3.49 billion as of December 31, 2019. Other invested assets primarily consist of limited partnerships which include investments in private equity funds, real estate funds and other funds.

Off-balance sheet financial instruments

The contractual amounts of off-balance-sheet financial instruments as of December 31 were as follows:

(in millions)		2019		2018
Commitments to invest in limited partnership interests	$	930	$	1,041
Other loan commitments	$	39	$	97
Commitments to invest in real estate	$	5	$	-
Private placement commitments	$	1	$	7

Commitments to invest in limited partnership interests represent agreements to acquire new or additional participation in certain limited partnership investments. The Company enters into these agreements in the normal course of business.

Other loan commitments are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan funding at predetermined interest rates. Commitments have either fixed or varying expiration dates or other termination clauses.

Commitments to invest in real estate represent an agreement to provide additional capital for the development of real estate property. The Company enters into these agreements in the normal course of business.

Private placement commitments represent commitments to purchase private placement debt and private equity securities at a future date. The Company enters into these agreements in the normal course of business.

The contractual amounts represent the amount at risk if the contract was fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. The Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Non-investment-grade Investments

The Company's investment policy allows it to purchase and hold below investment grade securities. The Company believes with quality research and underwriting, these securities complement its broader investment strategy and provide the appropriate level of return for the increased risk.

From Separate Accounts

Separate Accounts assets increased $210 million, or 8%, to $2.97 billion as of December 31, 2019. The increase was primarily due to positive investment results. Substantially all of the products are closed to new business and only additional deposits are accepted on existing contracts.

Aggregate reserve for life contracts

(in millions)		2019		2018
Structured settlements	$	5,546	$	5,515
Interest sensitive life ("ISL")		5,998		5,945
Fixed annuities		3,331		3,656
Traditional life		771		810
Indexed annuities		886		949
Annuity buyouts		610		654
Payout annuities		437		473
Indexed life		479		432
Modified guaranteed annuity ("MGA") contracts		271		409
Single premium immediate annuities		257		287
Other		88		81
Total	$	18,674	$	19,211

Aggregate reserves for life contracts decreased $537 million to $18.67 billion as of December 31, 2019 and were primarily attributed to the decreases in reserves of $325 million for fixed annuities, $138 million for MGA contracts, $63 million for indexed annuity, $44 million for annuity buyout, partially offset by an increase in reserves of $53 million for ISL. The decrease in reserves for fixed annuities and MGA contracts was primarily driven by a decrease in account value as the blocks are in run-off. The decrease in indexed annuities was mostly driven by a decrease in account value. The decrease in reserves for annuity buyouts was primarily due to continued run-off for these closed blocks of business. The increase in reserves for interest sensitive life was primarily driven by AXXX reserve growth.

Liability for deposit-type contracts
Liability for deposit-type contracts decreased $148 million to $1.88 billion as of December 31, 2019 primarily due to run-off of structured settlements and the single premium immediate annuities.

Asset valuation reserve
Asset valuation reserve (“AVR”) increased $101 million, or 11%, to $1.01 billion as of December 31, 2019 primarily due to an increase in the AVR factors across all investment categories per NAIC Annual Instructions.

Capital and surplus

(in millions)	2019	2018
Capital and surplus, December 31, prior year	$ 3,471	$ 3,408
Net income	487	342
Change in net unrealized capital gains (losses)	36	44
Change in net unrealized foreign exchange capital gains (losses)	(16)	4
Change in net deferred income tax	(21)	(13)
Change in nonadmitted assets	36	(85)
Change in AVR	(101)	21
Dividends to stockholders	(75)	(250)
Capital and surplus, December 31, current year	$ 3,817	$ 3,471

Capital and surplus increased $346 million to $3.82 billion as of December 31, 2019. The increase was due to the $487 million in net income, a $36 million decrease in non-admitted assets and an increase of $20 million in net unrealized capital gains, partially offset by $101 million increase in AVR, $75 million dividends paid to AIC and a $21 million decrease in net deferred income tax.

RESULTS OF OPERATIONS

(in millions)	2019	2018
Premiums and annuity considerations	$ 925	$ 959
Net investment income including interest maintenance reserve (“IMR”) amortization	1,187	1,201
Commissions and expense allowances on reinsurance ceded	97	96
Reserve adjustments on reinsurance ceded	(413)	(475)
Experience refund on reinsurance ceded	127	24
Other income	80	73
Total revenue	2,003	1,878
Provision for benefits	1,689	1,644
Commissions and general insurance expenses, including insurance taxes, licenses and fees	303	347
Net transfers to or (from) Separate Accounts	(446)	(504)
Funds withheld expense	31	23
Total expense	1,577	1,510
Net gain from operations before dividends to policyholders and before federal income taxes	426	368
Federal and foreign income taxes incurred (excluding tax on capital gains)	7	8
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	419	360
Realized gains (losses), net of IMR and federal income taxes	68	(18)
Net income	$ 487	$ 342

Net income
The Company reported net income of $487 million and $342 million for 2019 and 2018, respectively. The $145 million increase in net income was primarily due to $125 million increase in total revenue and $86 million increase in realized capital gains, partially offset by $58 million of transfers from Separate Accounts. The increase in total revenue was primarily due to $103 million increase in experience refund on reinsurance ceded and $62 million

decrease in reserve adjustments on reinsurance ceded, partially offset by $34 million decrease in premiums and annuity considerations and $14 million decrease in net investment income.

Premiums and annuity considerations

Premiums and annuity considerations decreased $34 million compared to 2018. The decrease in premiums was primarily due to $15 million in ISL, $7 million in traditional life, $6 million in indexed life and $4 million in variable life. The overall premiums in the Company is expected to decline as these blocks continue to run off.

Net investment income including IMR amortization

Net investment income including IMR amortization decreased $14 million, or 1%, primarily attributed to the decrease in income from other invested assets of $61 million and bonds of $28 million, partially offset by an increase in income from derivative instruments of $56 million, common stocks of $11 million and short-term investments of $8 million. The decrease in other invested assets was primarily due to lower final distributions received from limited partnerships compared to 2018. The overall decrease in net investment income was primarily due to lower average investment balances.

Reserve adjustments on reinsurance ceded

Reserve adjustments on reinsurance ceded related to a modified coinsurance reinsurance agreement decreased $62 million to $413 million in 2019. The decrease is expected to continue as it relates to the closed variable annuity contract.

Experience refund on reinsurance ceded

Experience refund on reinsurance ceded increased $103 million to $127 million in 2019. Under the terms of the coinsurance agreement with ALIC Reinsurance Company ("ALIC Re), a wholly-owned subsidiary, an experience refund account balance is calculated as of the last day of each calendar year in accordance with a specific formula defined in the agreement and is payable to the Company provided that certain financial benchmarks are attained. The increase in experience refund in 2019 was driven by favorable mortality and a smaller than expected increase in the funds withheld balance in 2019, primarily due to improved actual to expected mortality experience.

Provision for benefits

Provision for benefits increased $45 million compared to 2018 primarily due to an increase in change in reserves and death benefits, partially offset by decrease in surrenders, annuity benefits and other contract charges. The increase in change in reserves was mostly attributed to change in account value. Death benefits increased primarily due to higher claim experience on ISL. The decrease in surrenders was primarily driven by fixed annuities due to elevated surrenders in 2018.

Realized gains net of IMR and federal income taxes

The Company recorded realized gains net of IMR and federal income taxes of $68 million in 2019 compared to a realized loss of $18 million in 2018. The increase in net realized capital gains was primarily attributed to investment in common stocks of $58 million, other invested assets of $28 million and derivatives of $12 million, partially offset by decrease in bonds of $12 million. The increase in net realized capital gains for investment in common stocks was primarily due to lower write-downs in 2019 compared to 2018 and higher trading gains on sale.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	2019	2018
Net cash from operations	$ (10)	$ (208)
Net cash from investments	650	779
Net cash from financing and miscellaneous sources	(359)	(584)
Net change in cash, cash equivalents and short-term investments	$ 281	$ (13)

The principal sources of cash from operations were net investment income, premiums, net transfers from Separate Accounts and miscellaneous income. The principal uses were the payment of benefits, commissions and operating expenses and federal income taxes. Negative net cash from operations decreased $198 million in 2019 compared to 2018 primarily due to the lower benefits and loss related payments.

Cash flows from investments were driven by sales proceeds in excess of new investment purchases. The net cash from investments was primarily attributed to bonds, stocks, other invested assets and mortgage loans. The maturity structure of the Company's bonds, which represent 62% 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 negative cash flows from financing and miscellaneous sources decreased $225 million from the prior year primarily due to lower dividends paid to AIC in 2019 and a decline in net deposits on deposit-type contracts.

Liquidity for life insurance companies is measured by the ability to pay contractual benefits and operating expenses, and fund investment commitments. Annuity reserves, including liability for deposit-type contracts, as of December 31, 2019, excluding Separate Accounts, consisted of $13.19 billion, or 64%, of total reserves in force. Of the total annuity reserves, including liability for deposit-type contracts, $9.33 billion, or 65%, 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+, A+ and A2 by A.M. Best, S&P Global Ratings and Moody's, respectively; all with a stable outlook.

Dividend restriction

The ability of the Company to pay dividends is generally dependent on business conditions, income, cash requirements, receipt of dividends and other relevant factors. More specifically, the Illinois Insurance Code ("Code") provides a two-step process. First, no dividend may be declared or paid except from earned (unassigned) surplus, as distinguished from contributed surplus, nor when the payment of a dividend reduces surplus below the minimum amount required by the Code. Secondly, a determination of the ordinary versus extraordinary dividends that can be paid is formula based and considers net income and capital and surplus, as well as the timing and amounts of dividends paid in the preceding twelve months as specified by the Code. Ordinary dividends to shareholders do not require prior approval of the Illinois Department of Insurance ("IL DOI"). Dividends are not cumulative. As of December 31, 2019, the maximum ordinary dividend that can be declared and paid in 2020 by the Company is limited to $487 million, less dividends paid during the preceding twelve months measured at that point in time. The payment of a dividend in excess of this amount requires 30 days advance written notice to the IL DOI. The dividend is deemed approved, unless the IL DOI disapproves it within the 30 day notice period. Additionally, any dividend must be paid out of unassigned surplus excluding unrealized appreciation from investments, which for the Company totaled $648 million as of December 31, 2019, and cannot result in capital and surplus being less than the minimum amount required by law.

Risk-based capital

The NAIC has a uniform capital adequacy standard, referred to as 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 the total adjusted 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, 2019, the Company's total adjusted capital that was significantly above the company action level RBC.

Insurance Regulatory Information System ("IRIS") ratios

The NAIC has also developed a set of financial relationships or tests known as IRIS 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. As of December 31, 2019, the Company had one ratio that was outside of the usual range.

Reinsurance

The Company's reinsurance ceded on life insurance in force decreased $17.50 billion to $225.25 billion as of December 31, 2019 compared to $242.75 billion as of December 31, 2018. Of the $225.25 billion life insurance in force ceded as of December 31, 2019, $158.19 billion and $4.40 billion were ceded to ALIC Re and AAC, respectively, while the rest was ceded to unaffiliated reinsurers. Of the $242.75 billion life insurance in force ceded as of December 31, 2018, $167.99 billion and $4.84 billion were ceded to ALIC Re and AAC, respectively, while the rest was ceded to unaffiliated reinsurers. The business ceded to ALIC Re was pursuant to the Amended and Restated Reinsurance Agreement entered into by the Company and ALIC Re effective January 1, 2017. The business ceded to AAC was pursuant to the reinsurance agreement entered into by the Company and AAC effective

April 1, 2015. 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, 2019 and 2018, 65% 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 to non-affiliates.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2019, 58% and 11% 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 were not rated by A.M. Best.