
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or 12(g) of the
Securities Exchange Act of 1934

ALLSTATE LIFE INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

Illinois
(State of Incorporation)

36-2554642
(I.R.S. Employer Identification Number)

3100 Sanders Road, Northbrook, Illinois
(Address of principal executive offices)

60062
(Zip Code)

Registrant's telephone number, including area code: **(847) 402-5000**

Securities to be registered pursuant to Section 12(b) of the Act: **None.**

Securities to be registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$227.00 per share.**

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Item 1. Business.

Allstate Life Insurance Company was organized in 1957 as a stock life insurance company under the laws of the State of Illinois. It conducts substantially all of its operations directly or through wholly owned U.S. subsidiaries. In this document, we refer to Allstate Life Insurance Company as "Allstate Life," and to Allstate Life and its wholly owned subsidiaries as the "Allstate Life Group" or the "Company."

Allstate Life is a wholly owned subsidiary of Allstate Insurance Company, a stock property-liability insurance company organized under the laws of the State of Illinois. All of the outstanding stock of Allstate Insurance Company is owned by The Allstate Corporation, a publicly owned holding company incorporated under the laws of the State of Delaware. The Allstate Corporation, together with its subsidiaries, is the second largest personal property and casualty insurer in the United States on the basis of 2000 statutory premiums earned. Widely known through the "You're In Good Hands With Allstate®" slogan, The Allstate Corporation, through its subsidiaries, provides insurance products to more than 14 million households and has approximately 13,000 exclusive agents in the U.S. and Canada. In this document, we refer to The Allstate Corporation and its consolidated subsidiaries as the "Parent Group."

The Parent Group has four business segments, one of which is Allstate Financial. Allstate Financial, which is not a separate legal entity, is composed of the Allstate Life Group together with other Parent Group subsidiaries that are not part of the Allstate Life Group. In addition to being one of the Parent Group's business segments, the name Allstate Financial has also been used from time to time to refer collectively to the Allstate Life Group, the Allstate Bank and other

Parent Group subsidiaries. This document describes the Allstate Life Group. It does not describe the entire group of companies that form the Allstate Financial segment of the Parent Group.

The Allstate Life Group has two business segments: Retail and Structured Financial Products. Our Retail segment markets primarily retirement and protection products through a variety of distribution channels including Allstate agencies, independent agents and broker/dealers, other financial services firms and direct marketing. Our Structured Financial Products segment distributes a range of products including funding agreements, guaranteed investment contracts and structured settlement annuities either directly or indirectly through financial intermediaries, consultants and brokers to sponsors of qualified defined contribution retirement plans, other institutional buyers, and to buyers seeking specialized long term immediate annuities.

COMPANY STRATEGY

Our strategic intent is to become a dominant provider of retirement and protection solutions to targeted groups of U.S. consumers. We intend to implement our strategy as follows:

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- **Become more consumer centric:** Consumer centric principles encompass communications, product design and customer interaction, experience and support. We intend to improve our understanding of our target markets through consumer research and employ the resulting consumer insights to develop consumer centric programs that address the varying needs of our targeted consumer segments—
 - Middle-income consumers with retirement needs
 - Affluent, relationship-oriented consumers with retirement needs
 - Moderate-income consumers with family protection needs.
- **Extend the Allstate brand:** We intend to take advantage of the high consumer awareness and recognition that the Allstate brand enjoys. Our objectives are to extend the brand essence from property and casualty insurance to financial security; deepen relationships with existing customers of the Parent Group through a broader range of products and services; and continue to forge strategic alliances to reach a wider audience and accelerate the brand expansion.
- **Broaden and strengthen product distribution:** We are committed to a multi-channel distribution strategy. By focusing our resources on our more productive or profitable distribution channel partners, we believe we can efficiently create additional points of access for new customer relationships.
- **Invest in technology for accessibility:** We are committed to extending technology beyond the back office to consumers and distribution channel partners. By providing an integrated flow of information, we seek to enhance relationships, improve the efficiency of our distribution network and increase market intelligence.
- **Expand our structured financial products business:** We plan to further leverage the Allstate brand and our financial strength ratings to increase scale by developing and emphasizing new products that capitalize on our investment and risk management strengths.
- **Simplify our business operations to improve profitability:** We intend to gain strategic and operational efficiency through the streamlining of our business processes.

We are committed to building a high performance organization. We intend to grow the Allstate Life Group through a combination of organic growth, and selective acquisitions and alliances.

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A discussion of our two business segments, Retail and Structured Financial Products, including a discussion of the components of our strategy applicable to each segment, follows.

Segment Financial Information. For financial information about our segments, including statutory premiums and deposits by product line for the last three fiscal years, see the "Retail 2001 Highlights" and "Structured Financial Products 2001 Highlights" sections of our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 to the 2001 Consolidated Financial Statements.

RETAIL SEGMENT

Strategy

We intend to pursue the Company's strategy stated above to position our Retail segment as a leader in providing retirement and protection solutions for the retail market. In connection with this strategy, we plan to use our market research capabilities to develop innovative, consumer driven product solutions for our target markets. Our Parent Group already has strong relationships with the consumer markets identified above. By targeting these consumers, we are aiming at a customer base that already knows and relies on Allstate and that we already know and serve. To extend the Allstate brand, we plan to introduce additional products to the Allstate brand proprietary distribution channel, extend the Allstate brand to the non-proprietary distribution channels, and focus our advertising to broaden consumer awareness of the range of products offered under the Allstate brand.

Products

Our Retail segment markets a broad range of insurance products that we call "protection" products and a broad range of retirement products. Our Retail segment continues to develop new versions of its products to satisfy evolving consumer needs. By developing and offering a variety of products, we believe we can position our Retail segment to compete in various stock market and interest rate environments and to address the changing needs of our targeted customer groups. We believe that demographic trends, including the aging of the American population, will continue to support increased consumer demand for protection and retirement products.

The principal products offered by our Retail segment include:

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Protection	Retirement
<p>Life Insurance</p> <p>Traditional</p> <ul style="list-style-type: none"> Term life Whole life Credit life <p>Interest-sensitive life</p> <ul style="list-style-type: none"> Universal life Variable life* Variable universal life* Single premium life <p>Other Insurance</p> <ul style="list-style-type: none"> Long-term care Accidental death Hospital indemnity Credit disability <p>* — Separate Accounts products</p>	<p>Investment Contracts</p> <ul style="list-style-type: none"> Fixed annuities (including market value adjusted and equity-indexed annuities) Variable annuities* Immediate annuities

Separate Accounts and General Account

The assets and liabilities relating to variable annuities and variable life products are legally segregated and reflected as assets and liabilities of the Separate Accounts of the issuing insurer in the financial statements of the Allstate Life Group's members. Assets in the Separate Accounts are only available for the benefit of the holders of variable annuities and variable life products and are not available to other creditors or policyholders with a claim solely against the general account assets of an insurance company. Absent a provision in the contract for a guaranteed minimum return or account value upon death or annuitization, the contract holder of a variable product bears the investment risk that the funds in the Separate Accounts may not meet their stated investment objectives. The assets and liabilities relating to variable products issued with fixed fund options are divided between the applicable Separate Accounts for the variable portion of the product and the general account for the fixed portion of the product.

The assets and liabilities relating to our non-variable life insurance and annuity products, including any minimum guarantees of Separate Accounts products, are reflected in the general account of Allstate Life or the applicable subsidiary insurance company.

Distribution

Our Retail segment primarily distributes products through four distribution channels: Allstate agencies, independent agent broker/dealers including master brokerage agencies, financial services firms, and direct marketing. This multi-channel distribution strategy results in a broader distribution network and increased operating flexibility while still allowing us to focus our marketing. Our Retail segment has been expanding the distribution of its products by increasing cross sales to existing customers of its personal

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property and casualty affiliates and by driving increased sales activity through stronger wholesaling efforts, such as to independent agents, broker/dealers and financial services firms.

Allstate Agency Channel

Through the Allstate agency channel, our Retail segment uses exclusive agents and exclusive financial specialists to distribute its protection and retirement products. In some rural areas, the Allstate agency channel also utilizes independent agents to distribute products.

Historically, the Allstate exclusive agencies focused primarily on the sale of our personal property and casualty products such as auto and homeowners insurance, and exclusive financial specialists, previously called life specialists, on the sale of our traditional life insurance products. More recently, we have begun to integrate these sales forces and are seeking to substantially increase cross sales of our protection and retirement products to customers who have already purchased one or more of our personal property and casualty products, such as auto or homeowners insurance.

As part of this initiative, we now require exclusive financial specialists to have the "Personal Financial Representative" or PFR designation and any new Allstate exclusive agent that we appoint to become a PFR within 15 months after his or her appointment. We also encourage our existing Allstate exclusive agents to earn this designation. Each PFR earns the designation by completing an education curriculum and obtaining the licenses required to sell products such as variable annuities and variable life insurance. Almost half of the Allstate exclusive agents were PFRs at the end of 2001.

PFRs help their customers with retirement and protection products. They offer our portfolio of insurance and investment products, long-term care products and a preferred group of nonproprietary mutual fund product families to their customers. Frequently, exclusive financial specialists with the PFR designation team up with exclusive agents who are more focused on the sale of auto and homeowners insurance. Together, they are qualified to sell a wide range of products to our customers.

The Allstate agency channel primarily serves middle-income consumers with retirement and protection needs and moderate-income consumers with family protection needs. The products distributed through this channel include term life insurance, whole life, universal life and variable universal life insurance, fixed annuities, variable annuities, immediate annuities, long-term care insurance and nonproprietary mutual funds.

Independent Agents and Broker/Dealers Channel

Our Retail segment also distributes products through independent agents including master brokerage agencies and registered representatives of independent broker/dealers. Products distributed through independent agents include term life

insurance, whole life, universal life and single premium life insurance, fixed annuities, variable annuities, immediate annuities and long-term care products. Products distributed through registered representatives of independent broker/dealers include variable annuities and variable universal life insurance. In this channel, we are targeting affluent, relationship-oriented consumers and middle-income consumers with retirement and protection needs.

Financial Services Firms Channel

Through various investment management firms and banks across the country, our Retail segment targets affluent, relationship-oriented consumers and middle-income consumers who want assistance in investing for retirement. The products that we distribute through these financial services firms include fixed annuities, variable annuities, immediate annuities, variable life insurance and single premium life insurance products. We have established distribution arrangements with a number of unrelated third-party financial services firms including Putnam Investments LLC and Morgan Stanley DW Inc.

Direct Marketing Channel

Our Retail segment also uses direct marketing techniques such as telemarketing and direct mail. Through direct marketing, our Retail segment primarily distributes term life insurance, accidental death and hospital indemnity products to moderate-income consumers who have family protection needs.

The following table lists our Retail segment's primary protection and retirement products, the major distribution channels for these products and the targeted customer segment.

Distribution Channel	Primary Products	Targeted Customers
Allstate Agency	Term life insurance Whole life insurance Universal life insurance Variable universal life insurance Immediate annuities Long-term care	Middle-income consumers with retirement and protection needs and moderate-income consumers with family protection needs

Distribution Channel	Primary Products	Targeted Customers
Independent Agents	Term life insurance Whole life insurance Universal life insurance Single premium life Fixed annuities Variable annuities Immediate annuities Long-term care	Affluent, relationship-oriented consumers and middle-income consumers with retirement and protection needs
Independent Broker/Dealers	Variable annuities Variable universal life insurance	
Financial Services Firms—		Affluent, relationship-oriented consumers and middle-income consumers with retirement needs
• Putnam Investments LLC	Variable annuities	
• Morgan Stanley DW Inc.	Fixed annuities Variable annuities Immediate annuities Variable life insurance	
• Other Investment Management Firms	Variable annuities Variable life insurance	
Banks	Fixed annuities Variable annuities Single premium life insurance Variable life insurance	Middle-income consumers with retirement needs
Direct Marketing	Term life insurance	Moderate-income consumers with family

Underwriting and Pricing

Our Retail segment underwrites based on detailed and uniform policies and procedures to assess and quantify the risk of each applicant. Our Retail segment may require medical examinations and, in some cases, it may order attending physicians' statements and consumer investigative reports.

Our life insurance policies generally provide us with the flexibility to adjust charges and credits to reflect changes from expected mortality and expense experience or higher or

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lower investment returns. However, this flexibility is limited by contractual maximum charges, contractual minimum credits and state regulatory limits on increasing charges after a policy is issued.

Our Retail segment prices new products to achieve a target return on required capital based on assumptions regarding mortality, expenses, investment return, persistency, required reserves and capital. We have developed these assumptions based on reviews of our experience. We periodically revise inforce products through non-guaranteed charges or credits as permitted by contract and state law and regulation.

Reinsurance

We use reinsurance as a means of transferring mortality risk to external reinsurers as well as among the Allstate Life Group companies. As of December 31, 2001 the Allstate Life Group retained a maximum risk of \$2 million on each insured life. The primary uses of reinsurance include ceding amounts greater than the \$2 million retention limit, proportional sharing of some term insurance policies with external reinsurance pools, and catastrophe reinsurance which limits overall life insurance losses as a result of catastrophic events.

For more information on reinsurance, see Note 9 to the 2001 Consolidated Financial Statements and the "Reinsurance Recoverable" section of our "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Reserves

We compute reserves for life-contingent contract benefits, mostly for term life and whole life policies, on the basis of assumptions as to future investment yields, mortality, morbidity, terminations and expenses. These assumptions generally vary by such characteristics as type of coverage, issue age, year of issue, and policy duration.

Contractholder funds arise from the issuance of policies and contracts that include an investment component, including most fixed annuities and interest-sensitive life policies. Deposits received are recorded as interest-bearing liabilities. Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, death benefits, mortality charges, net Separate Accounts transfers and administrative expenses.

Separate Accounts liabilities, for example under variable annuity contracts and variable life policies, represent the contractholders' claims to the related assets and are carried at the fair value of the assets.

The establishment of reserve and contractholder fund liabilities in recognition of our future benefit obligations under life and annuity policies and other products is discussed in Notes 2 and 8 to the 2001 Consolidated Financial Statements and in the

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"Reserves for Life Contingent Contract Benefits" and "Reserves for Contractholder Funds" sections of our "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Competition

To further our competitive position in the rapidly growing and changing market for retirement and protection products, we focus on consumer-centric product development, our relationships with well-known mutual fund managers and our strong distributor relationships.

Our Retail segment competes principally on the basis of:

- the scope of its distribution systems;
- the breadth of its product offerings;
- the recognition of the Allstate brand name;
- its financial strength;
- its product features and price; and
- the level of customer service that it provides.

In addition, with respect to variable life and variable annuity products, our Retail segment competes on the basis of the variety of choices of funds and the management and performance of those funds within the Separate Accounts.

The life insurance and annuity market continues to be highly fragmented and competitive. As of December 31, 2001, there were approximately 800 groups of life insurance companies in the United States, most of which offered one or more products similar to those offered by the Allstate Life Group and many of which used similar marketing techniques. Based on information contained in statements filed with state insurance departments, in 2000 approximately 46.0% of the life insurance and annuity statutory premiums and deposits were written by 15 insurance company groups, including the Allstate Life Group. According to the same sources, as of December 31, 2000, the Allstate Life Group ranked 11th based on ordinary life insurance in force and 22nd based on statutory admitted assets. Banks and savings and loan associations in some jurisdictions compete with us in the sale of life insurance products. In addition, because some life insurance and investment products include a savings or investment component, our competitors also include securities firms, investment advisors, mutual funds, banks and other financial institutions.

Our Retail segment is facing increased competition. This is due, in part, to demutualization and consolidation activity in the financial services industry, which among other things provides our competitors with improved access to capital markets and increased economies of scale. We expect this competitive environment to continue.

STRUCTURED FINANCIAL PRODUCTS SEGMENT

Strategy

One of our key strategies is to expand our Structured Financial Products segment to increase operating income and to further diversify the Allstate Life Group's risk profile. To achieve this, our Structured Financial Products segment distributes products that complement our consumer offerings and leverage the Allstate brand name and our investment and risk management strengths. Our strategy for the Structured Financial Products segment is to follow a prudent and controlled plan emphasizing growth in its spread-based operations using a disciplined investment and risk management approach. This includes maintaining strict underwriting standards, controlling product design and optionality, and following disciplined pricing and asset/liability management standards.

Products

Our Structured Financial Products segment offers a variety of spread-based products and fee-based products to sponsors of qualified defined contribution retirement plans, to other institutional buyers, and to buyers seeking specialized long-term immediate annuities. Products that are designed to generate income based on a spread between investment returns on the supporting assets and the guaranteed returns provided to customers on the funds deposited with us are called spread-based products. Products that are designed to generate income based on various customer fees or charges are called fee-based products. Spread-based products provide a guaranteed rate of return to the customer. Some fee-based products provide customers with a limited guarantee.

The principal spread-based products offered by our Structured Financial Products segment include:

- General account guaranteed investment contracts (GICs)
- Funding agreements (including funding agreements backing medium-term note programs and funding agreements sold to money managers)
- Structured settlement annuities
- Immediate annuities

The principal fee-based products offered by our Structured Financial Products segment are synthetic GICs.

Spread-Based Products

Among its spread-based products, our Structured Financial Products segment offers fund accumulation-type products consisting of general account GICs and funding agreements. General account GICs are group annuity contracts, with a stated maturity, that pay a guaranteed rate of return. GICs are marketed to sponsors and managers of tax-qualified retirement plans such as 401(k) plans. The guaranteed rate of return on GICs can be a

fixed rate or a floating rate based on an external market index.

Funding agreements are insurance contracts that pay a guaranteed rate of return. Funding agreements are not tax-qualified insurance contracts and are issued to special purpose entities and a wide range of corporations, mutual funds and other institutional investors. Funding agreements usually have stated maturities. Some funding agreements with stated maturities may be renewed by mutual agreement. The guaranteed rate of return can be a fixed rate or a floating rate based on an external market index. A portion of our Structured Financial Products segment's funding agreements also has put and call features.

Our Structured Financial Products segment distributes GICs and funding agreements primarily to retirement plan sponsors and other institutional buyers. We market GICs primarily to pension plan sponsors as an investment within their tax-qualified defined contribution retirement plans. We market funding agreements both in the United States and in various international markets to special purpose entities and a variety of institutional money management firms that may also include retirement plan funds. Approximately 80% of funding agreement sales is to special purpose entities that then issue medium-term notes with terms similar to those of the funding agreement for sale to investors who want to purchase debt obligations. The strength of the GIC and funding agreement markets is dependent on capital market conditions. As a result, sales through this channel can vary widely from one fiscal quarter to another.

Structured settlement annuities, another type of spread-based product, are generally used in place of lump sum awards in court cases, or in settlement of property and liability claims that, in most cases, arise from personal injury lawsuits. These annuities are customized long-term immediate annuities used to

provide ongoing periodic payments to a claimant instead of a lump sum settlement. The two most common types of structured settlement annuities are straight life, which makes payments for the life of the annuitant; or period-certain, which makes payments for a specific period. Our Structured Financial Products segment markets structured settlement annuities to buyers responsible for funding these settlements.

Immediate annuities are also a principal type of spread-based product marketed by our Structured Financial Products segment. Immediate annuities generally provide a series of payments over time in exchange for a single initial payment. The series of payments generally begins no later than one annuity period after the date on which the annuity was purchased. Our Structured Financial Products segment distributes individual immediate annuities with a maturity greater than seven years through independent agents.

Fee-Based Products

Our Structured Financial Products segment's fee-based products consist primarily of synthetic GIC contracts, which are off-balance sheet obligations of the Company that provide limited guarantees related to specific investment portfolios owned by qualified retirement plans. These contracts are purchased as a substitute for general account GICs and provide guarantees under limited circumstances of payments related to plan participant withdrawals. We derive earnings on these products from expense, risk and profit charges, which are assessed on the basis of assets under management. Fee-based products provide relatively stable revenues and have lower capital requirements than do spread-based products.

Distribution

Our Structured Financial Products segment distributes its products either directly to institutional buyers or indirectly through financial intermediaries, consultants and brokers. General account and synthetic GICs are marketed directly to plan sponsors, or to specialty investment managers who represent plan sponsors. Funding Agreements are marketed either directly, or through specialized brokers, or through investment banks to a variety of institutional money management firms including retirement plan funds. Structured settlement annuities are marketed through a small group of specialty brokers. Approximately 20% of our Structured Financial Products segment's structured settlement annuities originate with cases referred from the Parent Group's personal property and casualty business. Immediate annuities are marketed to affluent, relationship-oriented customers through independent agents.

Our Structured Financial Products segment has an experienced sales staff that develops and maintains relationships with target customers, financial intermediaries, consultants and brokers. Its consistent market presence has created strong and valuable relationships with a large segment of the customer base.

The following table summarizes our Structured Financial Products segment's primary distribution methods, primary products and the target customers for these products.

Distribution Method	Primary Products	Targeted Customers
Direct or through specialty investment managers who represent plan sponsors	General account and synthetic GICs	Qualified defined contribution retirement plan sponsors
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Distribution Method	Primary Products	Targeted Customers
Direct or through specialized brokers or investment banks	Funding agreements (including funding agreements backing medium-term note programs and funding agreements sold to money managers)	Special purpose entities, institutional money management firms and other institutional buyers (domestic and international)
Specialty brokers	Structured settlement annuities	Buyers seeking specialized long term immediate annuities (typically entities required to fund, or recipients of, large claim or litigation settlements)
Independent agents	Immediate annuities	Affluent relationship oriented customers

Underwriting, Pricing, and Risk Management

Risk management is a particularly important aspect of the business of our Structured Financial Products segment because of the significant guarantees provided as part of its spread-based product offerings. To facilitate risk management and comply with legal requirements, the assets supporting these spread-based products are segregated and managed in a manner distinct from the rest of the general account of Allstate Life or the applicable subsidiary. Our Structured Financial Products segment's risk management strategy is based on:

- managing interest rate exposure by closely matching the relative sensitivity of asset and liability values to interest rate changes when feasible—in other words, controlling the "duration match" of assets and liabilities, often by using financial derivatives;
- using sophisticated systems and processes to project expected cash flows for assets and liabilities and to measure the sensitivity of asset and liability cash flows to interest rate changes;
- writing contracts that primarily have a predictable maturity structure and do not have credit event triggers, cross-default acceleration clauses or premature surrender or redemption provisions;
- monitoring any withdrawal activity in each contract to detect deviations from expected cash flows; and
- establishing working groups with representatives from our Retail segment and other units within the Parent Group to facilitate interaction among investment, sales, risk, financial and pricing management.

Underwriting is most significant for structured settlement annuities, immediate annuities, general account GICs and synthetic GICs. Structured settlement annuities and immediate annuities are underwritten using recent mortality experience and an assumption of continued improvement in annuitant longevity. General account GICs and synthetic GICs are underwritten as part of developing pricing proposals for new contracts. Our Structured Financial Products segment's underwriters evaluate the likely variance from expected cash flows due to plan participants reallocating assets from the "stable value" option of their defined contribution plan to other investment options and for benefit payments and withdrawals and plan sponsors' corporate events (e.g., layoffs, early retirement, mergers, spin-offs, sales of divisions, plan terminations, or bankruptcy) which could cause the Company to make payments under the terms of the contracts. Proposals are made only for contracts where risk of cash flow variance is projected within strict guidelines and, thus, the withdrawal risk is minimized. In addition, underwriters ensure that pension plan documents and contract provisions contain protections against financial disintermediation.

Duration matching and financial derivatives are discussed in more detail in Notes 2 and 6 to the 2001 Consolidated Financial Statements and in the "Critical Accounting Policies", "Investments", "Market Risk" and "Forward-Looking Statements and Risk Factors" sections of our "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Reserves

Our Structured Financial Products segment establishes and reports liabilities for contractholders' funds and future policy benefits to meet the obligations on its policies and contracts. Its liability for general account GICs, period-certain structured settlement and immediate annuities and funding agreements is equal to the cumulative account balances for these products. Cumulative account balances include deposits plus credited interest less expense charges, surrenders and withdrawals. Future policy benefits for straight-life structured settlement annuities and immediate annuities are calculated based on a set of actuarial assumptions that we establish and maintain throughout the lives of the contracts. The primary assumptions include investment yields and mortality.

The establishment of reserve and contractholder fund liabilities in recognition of our future benefit obligations under life and annuity policies and other products is discussed in Notes 2 and 8 to the 2001 Consolidated Financial Statements and in the "Reserves for Life Contingent Contract Benefits" and "Reserves for Contractholder Funds" sections of our "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Competition

Our Structured Financial Products segment operates in a variety of highly competitive institutional markets. Although a large number of companies offer general

account GICs, funding agreements and structured settlement annuities, a relatively small number of companies dominate the market.

- The top 15 providers in 2000 of structured financial products, including the Allstate Life Group, issued approximately 80% of total general account GICs and funding agreements issued by U.S. life insurance companies.
- In 2000, ten insurers, including the Allstate Life Group, issued approximately 80% of the total structured settlement annuities.

In addition, many companies market immediate annuities, however, sales of immediate annuities are not significantly concentrated. Our competitors include a variety of well-recognized insurance companies, many of which are larger than the Allstate Life Group.

Our Structured Financial Products segment has built a significant market share in several important markets and we believe it is able to compete successfully in its markets as a result of a number of factors. These factors include:

- strong financial ratings;
- investment management expertise;
- a strong distribution network;
- competitive product design;
- the highly recognized Allstate brand name; and
- affiliation with our Parent Group and the Parent Group's large, established agency force.

Competition in this market is restricted almost exclusively to insurance companies with superior or excellent financial ratings. The requirement for strong financial ratings reduces pressure on margins by limiting the number of potential competitors and by lowering our cost of funds. For more information regarding our ratings, see the "Capital Resources and Liquidity—Financial ratings and strength" section of our "Management's Discussion and Analysis of Financial Condition and Results of Operations."

OTHER INFORMATION ABOUT THE COMPANY

Geographic Markets

Our Retail segment distributes its protection and retirement products throughout the United States. Through the Allstate Life Group, it is authorized to market its products in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands.

Our Structured Financial Products segment distributes its products in the United States and internationally. However, our international distribution is generally limited to

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funding agreements sold to special purpose entities that issue medium-term notes that are distributed through dealer groups of investment banks principally to various institutional money managers and in some limited cases to individuals. In the United States, we sell funding agreements to a special purpose entity that issues medium-term notes that are distributed to qualified institutional buyers.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and deposits for the Allstate Life Group for the year ended December 31, 2001. Statutory premiums and deposits includes premiums and annuity considerations determined in conformity with statutory accounting practices prescribed or permitted by the insurance regulatory authorities of the states in which Allstate Life and its insurance subsidiaries are domiciled, and all other funds received from customers on deposit-type products which are treated as liabilities. Approximately 97.8% of the statutory premiums and deposits generated in Delaware represent deposits received in connection with funding agreements sold to a special purpose entity domiciled in Delaware by our Structured Financial Products segment. Statutory premiums and deposits arising from the activities of our Retail segment account for most of the remaining statutory premiums and deposits generated in these four states.

Delaware	11.4%
California	9.5%
New York	5.7%
Florida	5.4%

No other jurisdiction accounted for more than five percent of the statutory premiums and deposits.

Investment Operations

In managing our general account assets, we follow an investment strategy that combines the goals of safety, stability, liquidity, growth and total return while complying with legal and regulatory investment guidelines. We seek to balance preservation of principal with after-tax yield while maintaining portfolio diversification. The composition of our portfolio is the result of various interrelated investment considerations including the goals of Allstate Life and its subsidiaries and asset/liability management issues such as cash flow and duration matching. To achieve an economic balance between assets and liabilities, the investment portfolios are designed to correspond to the type of insurance products.

For a detailed discussion regarding our investments, see the "Retail Investment Results", "Structured Financial Products Investment Results", "Investments" and "Market Risk" sections of our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 2 and 5 to the 2001 Consolidated Financial Statements.

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Employees and Other Shared Services

The Allstate Life Group has no employees. Instead, we primarily use employees of Allstate Insurance Company, our direct parent. We also make use of other services and facilities provided by Allstate Insurance Company and other members of the Parent Group. These services and facilities include space rental, utilities, building maintenance, human resources, investment management, finance, information technology and legal services. We reimburse our affiliates for these services and facilities under a variety of agreements. For more information on these arrangements, see Item 7. Certain Relationships and Related Transactions below.

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Item 2. Financial Information.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES 5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

	2001	2000	1999	1998	1997
	(in millions)				
Consolidated Operating Results					
Revenues	\$ 4,493	\$ 4,430	\$ 3,992	\$ 3,954	\$ 3,770
Operating income	527	510	404	383	362
Realized capital gains and losses, after-tax	(150)	(40)	100	158	126
Net income	368	470	504	541	488
Consolidated Financial Position					
Investments	\$ 44,297	\$ 38,620	\$ 32,879	\$ 31,749	\$ 29,721
Total assets	62,622	58,191	50,447	44,926	40,090
Reserves for life-contingent contract benefits and contractholder funds	40,933	35,676	31,143	28,734	27,469
Shareholder's equity	5,397	5,125	4,365	4,598	4,097

Operating income excludes realized capital gains and losses, after-tax, and gain from disposition of operations, after-tax. This presentation allows for a more complete analysis of results of operations. The net effects of realized capital gains and losses, after-tax have been excluded from operating income due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance of insurers. Realized capital gains and losses, after-tax is presumed net of the effects of deferred policy acquisition cost ("DAC") to the extent that such effects resulted from the recognition of realized capital gains and losses. Operating income should not be considered a substitute for any measure of performance under accounting principles generally accepted in the United States of America ("GAAP"). The Company's method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion highlights significant factors influencing the consolidated results of operations and financial position of Allstate Life Insurance Company ("Allstate Life" or "ALIC") and its wholly owned subsidiaries (together with Allstate Life, the "Company" or the "Allstate Life Group"). Allstate Life is wholly owned by Allstate Insurance Company ("AIC" or "Allstate"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation", or the "Parent Group"). It should be read in conjunction with the consolidated financial statements and related notes as of December 31, 2001. Further analysis of the Company's segments is provided in the Retail and the Structured Financial Products sections of Management's Discussion and Analysis ("MD&A"). The segments are defined based upon the components of the Company for which financial information is used internally to evaluate segment performance and determine allocation of resources.

CRITICAL ACCOUNTING POLICIES

In response to the Securities and Exchange Commission's ("SEC") release "Cautionary Advice Regarding Disclosure about Critical Accounting Policies", the Company identified critical accounting policies by considering policies that involve the most complex or subjective judgments or assessments. The Company has identified three policies as critical accounting policies because they involve a higher degree of judgment and complexity. A brief summary of each critical accounting policy follows. For a more complete discussion of the judgments and other factors affecting the measurement of these items, see the referenced sections of MD&A.

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- *Investments and derivative instruments*—All fixed income securities are carried at fair value and may be sold prior to their contractual maturity ("available for sale"). The difference between the amortized cost of fixed income securities and fair value, net of deferred income taxes, certain life and annuity deferred policy acquisition costs, and certain reserves for life-contingent contract benefits, is reflected as a component of Shareholder's equity. Common and non-redeemable preferred stocks and real estate investment trusts are carried at fair value with the difference between cost and fair value, less deferred income taxes, reflected as a component of Shareholder's equity. Investments in limited partnership interests in which the Company does not have a controlling interest are accounted for in accordance with the equity method of accounting or the cost method in those instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies. Mortgage loans are carried at outstanding principal balance, net of unamortized premium or discount and valuation allowances.

The Company closely monitors its fixed income, equity and mortgage loan portfolios for declines in value that are other than temporary. Securities are placed on non-accrual status when they are in default or when timing or receipt of principal or interest payments are in doubt. Provisions for losses are recognized for declines in the value of fixed income securities, equities and mortgage loans that are deemed to be other than temporary. Such write-downs are included in Realized capital gains and losses.

Derivative instruments include swaps, futures, options, interest rate caps and floors, warrants, synthetic guaranteed investment contracts, certain forward contracts for purchases of to-be-announced ("TBA") mortgage securities, certain investment risk transfer reinsurance agreements and certain bond forward purchase commitments. Derivatives which are required to be separated from the host instrument and accounted for as derivative financial instruments ("subject to bifurcation") are embedded in convertible fixed income securities, equity indexed life and annuity contracts, and certain variable contracts.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset or liability, or an unrecognized firm commitment attributable to a particular risk. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the methodology used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk, or in the case of a cash flow hedge, the exposure to changes in the hedged transaction's variability in cash flows attributable to the hedged risk. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Any ineffectiveness in fair value hedges and cash flow hedges is reported in Realized capital gains and losses. At December 31, 2001, these amounts were immaterial.

Derivatives are accounted for on a fair value basis and reported as Other investments, Other assets, Other liabilities and accrued expenses or Contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The changes in the fair value of derivatives embedded in assets and subject to bifurcation are reported in Realized capital gains and losses. The changes in the fair value of derivatives embedded in liabilities and subject to bifurcation are reported in Realized capital gains and losses or Interest credited to contractholders' funds.

Changes in the fair value of investments and derivative instruments can result from changes in economic and market conditions. Judgment is applied in the determination of fair value when independent market quotations are not available and when determining other than temporary declines

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in value. For further discussion of these policies, see the Investments, Quantitative and Qualitative disclosures about Market Risk and Forward-looking Statements and Risk Factors sections of MD&A.

Deferred policy acquisition costs ("DAC")—The Company establishes a deferred asset for costs that vary with and are primarily related to acquiring life and investment business, principally agents' and brokers' remuneration, certain underwriting costs and direct mail solicitation expenses, which are deferred and amortized to income.

For traditional life insurance and immediate annuities with life contingencies, these costs are amortized in proportion to the estimated future revenues on such business.

For interest-sensitive life and investment contracts, the costs are amortized in relation to the present value of estimated gross profits on such business over the estimated terms of the contract periods. Gross profits are determined at the date of contract issue and comprise estimated future investment margins, mortality margins, surrender charges and expenses. Assumptions underlying the gross profits are periodically updated to reflect actual experience, and changes in the amount or timing of estimated gross profits will result in adjustments in the cumulative amortization of these costs. To the extent that unrealized capital gains or losses on fixed income securities carried at fair value would result in an adjustment of estimated gross profits had those gains or losses actually been realized, the related unamortized DAC is recorded net of tax as a reduction of the unrealized capital gains or losses included in shareholder's equity. For further discussion of these policies, see the Quantitative and Qualitative disclosures about Market Risk and Forward-looking Statements and Risk Factors sections of MD&A.

Life insurance reserves and contractholder funds—Reserves for life-contingent contract benefits, which relate to traditional life insurance and immediate annuities with life contingencies are computed on the basis of long-term actuarial assumptions as to future investment yields, mortality, morbidity, terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. To the extent that unrealized capital gains on fixed income securities would result in a premium deficiency had those gains actually been realized, the related increase in reserve is recorded net of tax as a reduction of the Unrealized capital gains or losses included in Shareholder's equity.

Contractholder funds arise from the issuance of policies and contracts that include an investment component, including fixed annuities, interest-sensitive life policies and other investment contracts. Deposits received are recorded as interest-bearing liabilities. Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, death benefits, mortality charges, net Separate Accounts transfers and administrative expenses.

If future experience differs from the assumptions, a necessary change in these reserves may have a material impact on the results of operations. For further discussion of these policies, see the Quantitative and Qualitative disclosures about Market Risk and Forward-looking Statements and Risk Factors sections of MD&A.

The Company also discloses its significant accounting policies in Note 2 to the consolidated financial statements.

Overview

In 2001, the Company expanded its presentation of business segments from a single business segment to two business segments, Retail and Structured Financial Products, in response to changes in the way financial information is used internally to evaluate performance and allocate resources. See Note 15 of the consolidated financial statements for a description of the business segments and selected financial information as of December 31, 2001 and 2000, and for the periods ended December 31, 2001, 2000 and 1999.

The Retail segment offers a diversified group of products to meet consumers' lifetime needs in the areas of protection and retirement solutions through a variety of distribution channels. Principal products offered by the segment include:

Protection	Retirement
Life Insurance Traditional Term life Whole life Credit life Interest-sensitive life Universal life Variable life* Variable universal life* Single premium life	Investment Contracts Fixed annuities (including market value adjusted annuities and equity-indexed annuities) Immediate annuities Variable annuities*
Other Insurance Long-term care Accidental death Hospital indemnity Credit disability *—Separate Accounts products	

Four distribution channels market the Retail products: (1) the Allstate Agency channel, (2) the independent agent broker/dealers channel, including master brokerage agencies, (3) the financial services firms channel and (4) the direct marketing channel.

The Structured Financial Products segment offers a variety of spread-based and fee-based products to qualified investment buyers. Spread-based products are designed to generate income based on the difference ("spread") between investment returns on the supporting assets and the guaranteed returns provided to customers. Fee-based products are designed to generate income based on various fees or charges assessed against the account values. While spread-based products provide guaranteed rates of return to customers, fee-based products provide only a limited guarantee to customers. Spread-based products include guaranteed investment contracts ("GICs") and funding agreements ("FAs"). Synthetic GICs are the primary fee-based product offered by the segment. These

products are distributed through specialized brokers or investment bankers. The segment also offers investment products such as single premium structured settlement annuities through brokers who specialize in settlement of injury and other liability cases and single premium immediate annuities through independent agents.

The Company earns revenues principally from: (a) premiums on insurance products with significant mortality or morbidity risk; (b) contract charges and fees from investment contracts; (c) net investment income earned on its investments, excluding those in the Separate Accounts; and (d) realized capital gains and losses recognized on its investments, except those in the Separate Accounts. The Company's primary costs and expenses consist of contract benefits, interest credited to contractholders' funds, amortization of DAC and operating costs and expenses.

The process for developing product pricing involves analyzing several key dynamic factors, including: market conditions, competitive environment, mortality and morbidity assumptions, investment returns, surrender and withdrawal assumptions and operating costs and expenses of the business. The Company's profitability depends on the adequacy of investment margins (the spread between interest credited to contractholders' account balances and the interest earned on investments, excluding those in Separate Accounts), the management of market and credit risks associated with investments, the Company's ability to maintain premiums and contract charges at a level adequate to cover mortality and morbidity benefits, the adequacy of contract charges on variable contracts to cover the costs of various product features, the persistency of policies to ensure recovery of acquisition expenses, and the management of operating costs

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and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect the Company's profitability.

On January 2, 2001, the Company acquired blocks of business from American Maturity Life Insurance Company ("American Maturity") via coinsurance contracts. Pursuant to the terms of the coinsurance contracts, the Company assumed: variable annuities, market value adjusted annuities, equity-indexed annuities, fixed annuities, and immediate annuities. The Company received assets consisting primarily of cash, investments and accrued investment income with a fair value in an amount equal to the corresponding assumed reserves for life-contingent contract benefits and contractholder funds resulting in no goodwill being recorded.

On February 2, 2001, the Company acquired Provident National Assurance Company ("PNAC"), a broadly licensed inactive company that maintains authority to conduct life insurance and variable annuity business in most states, from UnumProvident Corporation. The Company paid \$14 million for PNAC, after PNAC's inforce business was purchased by an entity not affiliated with either the Company or PNAC. The transaction was accounted for as a purchase and the excess of the purchase price over the net assets acquired of \$5 million was recorded as goodwill. PNAC's name was subsequently changed to Allstate Assurance Company, which was redomiciled in the State of Illinois.

On June 29, 2001, the Company disposed of its operations in Indonesia through a sale and purchase agreement with The Prudential Assurance Company Limited ("Prudential"), where Prudential acquired the Company's holdings in Pt Asuransi Jiwa Allstate, Indonesia. The Company recognized a loss on the dispositions of \$4 million (\$3 million after-tax) and a \$4 million tax benefit attributable to the inception-to-date losses of the subsidiary, not previously recognized. The tax benefit was reported as a reduction to the Company's income tax expense on the consolidated statements of operations.

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Consolidated Revenues

	For the years ended December 31,		
	2001	2000	1999
	(in millions)		
Retail premiums and contract charges	\$ 1,510	\$ 1,449	\$ 1,306
Structured Financial Products premiums and contract charges	357	418	255
Net investment income	2,839	2,589	2,239
Realized capital gains and losses	(213)	(26)	192
Total consolidated revenues	\$ 4,493	\$ 4,430	\$ 3,992

Consolidated revenues increased 1.4% during 2001 compared to 2000 resulting from increased net investment income, partially offset by an increase in realized capital losses. Net investment income increased 9.7% primarily due to higher investment balances. Increased premiums and contract charges in the Retail segment were offset by decreases in premiums and contract charges in the Structured Financial Products segment.

Consolidated revenues increased 11.0% in 2000 compared to 1999 due to increased premiums and contract charges in both the Retail and Structured Financial Products segments, partially offset by realized capital losses compared to realized capital gains in 1999. Net investment income increased during 2000 as compared to 1999 due to higher investment balances and yields.

Consolidated Net Income

	For the years ended December 31,		
	2001	2000	1999
	(in millions)		
Net income			
Retail	\$ 327	\$ 391	\$ 435
Structured Financial Products	41	79	69

Consolidated net income decreased 21.7% for 2001 compared to 2000 as increased realized capital losses in both segments and lower operating results in the Retail segment more than offset improved operating results in the Structured Financial Products segment.

Consolidated net income in 2000 decreased 6.7% from 1999, as improved operating results for the Retail and Structured Financial Products segments were more than offset by the effect of realized capital losses.

RETAIL 2001 HIGHLIGHTS

- Statutory premiums and deposits for the Retail segment decreased 22.7% to \$6.9 billion in 2001 due to the impact of economic and market conditions during the year
- Separate Accounts assets for this segment decreased 8.1% due to declines in account balances related to market conditions during the year, partially offset by net new deposits
- Net investment income for this segment increased 9.6% due primarily to increased investment balances

The Company utilizes an alternative method of presenting its operating results in the following discussion by segment that differs from the presentation of the financial information in the consolidated financial statements. This presentation allows for a more complete analysis of results of operations. The net effects of realized capital gains and losses, after-tax, have been excluded from operating income due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance of insurers. Realized capital gains and losses, after-tax is presented net of the effects of DAC to the extent that such effects resulted from the recognition of realized capital gains and losses. Operating income should not be considered a substitute for any measure of performance under accounting principles generally accepted in the United States of America ("GAAP"). The Company's method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

Summarized financial data for the Retail segment as of and for the years ended December 31, are presented in the following table:

	2001	2000	1999
	(in millions)		
Statutory premiums and deposits(1)	\$ 6,905	\$ 8,929	\$ 6,143
Investments	\$ 26,398	\$ 23,331	\$ 20,640
Separate Accounts assets	13,211	14,380	12,937
Investments, including Separate Accounts assets	\$ 39,609	\$ 37,711	\$ 33,577
GAAP Premiums	\$ 713	\$ 668	\$ 598
Contract charges	797	781	708
Net investment income	1,705	1,556	1,342
	3,215	3,005	2,648
Contract benefits	706	606	598
Interest credited to contractholders' funds	1,165	1,075	869
Amortization of deferred policy acquisition costs	343	377	329
Operating costs and expenses	371	299	313
	2,585	2,357	2,109
Operating income before tax	630	648	539
Income tax expense	206	221	185
Operating income(2)	424	427	354
Loss on disposition of operations, after-tax	(3)	—	—
Realized capital gains and losses, after-tax(3)	(103)	(36)	81
Cumulative effect of change in accounting principle, after-tax	9	—	—
Net income	\$ 327	\$ 391	\$ 435

(1) Statutory premiums and deposits, which includes premiums and deposits for all products, is used to analyze sales trends.

(2) For a complete definition of operating income, see the operating income discussion beginning on page 27

(3) Reconciliation of Realized capital gains and losses

	For the Years Ended December 31,		
	2001	2000	1999
	(in millions)		
Realized capital gains and losses	\$ (140)	\$ (20)	\$ 162
Reclassification of Amortization of DAC	(17)	(37)	(36)
Reclassification of Income tax benefit (expense)	54	21	(45)
Realized capital gains and losses, after-tax	\$ (103)	\$ (36)	\$ 81

Statutory premiums and deposits

Statutory premiums and deposits is a measure used by management to analyze sales trends. Statutory premiums and deposits includes premiums and annuity considerations determined in conformity with statutory accounting practices prescribed or permitted by the insurance regulatory authorities of the states in which Allstate Life and its insurance subsidiaries are domiciled, and all other funds received from customers on deposit-type products which are treated as liabilities. The statutory accounting practices differ in certain, material aspects from GAAP. See Note 13 to the consolidated financial statements for further information. The following table summarizes statutory premiums and deposits by product line:

	2001	2000	1999
	(in millions)		
Life products			
Interest-sensitive	\$ 813	\$ 807	\$ 768
Traditional life	408	387	360
Other	310	340	265
Total life products	1,531	1,534	1,393
Investment products			
Investment contracts			
Fixed annuities	2,589	3,315	2,103
Variable Separate Accounts	2,785	4,080	2,647
Total investment products	5,374	7,395	4,750
Total statutory premiums and deposits	\$ 6,905	\$ 8,929	\$ 6,143

Total Retail statutory premiums and deposits decreased 22.7% to \$6.91 billion in 2001 from \$8.93 billion in 2000, following a 45.4% increase in 2000 from \$6.14 billion in 1999.

In 2001, Retail statutory premiums and deposits decreased due to declines in variable and fixed investment product sales. The decline in variable annuity sales is a reflection of the overall decline in the variable annuity market caused by economic and market conditions during the year. The fixed annuity decline is a reflection of management decisions to curtail sales in selected distribution channels in order to meet targeted returns.

In 2000, Retail statutory premiums and deposits increased due to increases in variable annuity, fixed annuity and life product premiums. Variable investment product sales increased primarily due to \$1.98 billion of sales from an alliance with Putnam Investments, LLC that began in May of 1999. Fixed annuities grew in 2000 due to additional sales through independent agencies.

The Company's sales for this segment during 2001 and 2000 continued to move toward products with greater sales volumes and lower profit margins. Through the use of multiple distribution channels and a wide range of product offerings, the Company is well positioned to meet changing customer needs.

The following table summarizes statutory premiums and deposits by distribution channel:

	2001	2000	1999
	(in millions)		
Allstate agencies	\$ 1,253	\$ 1,024	\$ 951
Independent agents	1,706	2,856	1,469
Financial services firms	3,674	4,742	3,470
Direct marketing	272	307	253

Total statutory premiums and deposits

\$	6,905	\$	8,929	\$	6,143
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GAAP premiums and contract charges

GAAP premiums and contract charges represent premium generated from traditional life products which have significant mortality or morbidity risk, and contract charges generated from interest-sensitive life products and investment contracts which classify deposits as contractholder funds. Contract charges are assessed against the contractholder account balance for maintenance, administration, cost of insurance and early surrender. The following table summarizes GAAP premiums and contract charges:

	2001	2000	1999
	(in millions)		
Premiums			
Traditional life	\$ 419	\$ 383	\$ 335
Other	294	285	263
	<u>713</u>	<u>668</u>	<u>598</u>
Contract charges			
Interest-sensitive life	562	540	518
Variable Separate Accounts	220	226	177
Investment contracts	15	15	13
	<u>797</u>	<u>781</u>	<u>708</u>
Total GAAP Premiums and Contract Charges	<u>\$ 1,510</u>	<u>\$ 1,449</u>	<u>\$ 1,306</u>

In 2001, Retail premiums increased 6.7% compared to 2000. Sales of traditional life products increased 9.4% while sales of other products increased 3.2%. The increase in traditional life is from new term insurance sales and renewal premiums being partially offset by declines in whole life business. The increase in other premiums is a result of modest increases in the accident and health premiums earned through the direct marketing channel.

In 2000, total Retail premiums increased 11.7% compared to 1999. Traditional life premiums increased due to an increase in term life products with higher face amounts, and correspondingly higher premiums, and an increase in renewal policies in force.

Contract charges on Retail products increased 2.1% during 2001 from 2000 due to new sales, partly offset by declines in variable annuity account balances due to market conditions. Contract charges on variable annuity products are generally calculated as a percentage of each account value and therefore are impacted by market volatility.

Total Retail contract charges increased 10.3% during 2000 as compared to 1999 due to higher interest-sensitive life and variable annuity contract charges. Interest-sensitive life contract charges increased primarily due to higher mortality charges as policyholders age. Variable annuity contract

charges increased primarily due to increases in account value in force. Variable annuity account values increased in 2000 due to sales, partially offset by decreased market performance, withdrawals and contract fees.

The following table summarizes premiums and contract charges by distribution channel:

	2001	2000	1999
	(in millions)		
Premiums			
Allstate agencies	\$ 238	\$ 235	\$ 217
Independent agents	68	49	24
Financial services firms	(2)	(4)	—
Direct marketing	409	388	357
	<u>713</u>	<u>668</u>	<u>598</u>
Contract charges			
Allstate agencies	349	342	345
Independent agents	244	223	190
Financial services firms	199	211	173
Direct marketing	5	5	—
	<u>797</u>	<u>781</u>	<u>708</u>

Operating income

Operating income is a measure used by the Company's management to evaluate the profitability of each segment. Operating income is defined as income before the cumulative effect of changes in accounting principle, after-tax, excluding the after-tax effects of realized capital gains and losses. In this management measure, the effects of realized capital gains and losses have been excluded due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance and profitability of insurers. These operating results should not be considered as a substitute for any GAAP measure of performance. A reconciliation of operating income to net income is provided in the table on page 24. The Company's method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

	2001	2000	1999
	(in millions)		
Investment margin	\$ 547	\$ 475	\$ 423
Mortality margin	427	471	433
Maintenance charges	294	298	253
Surrender charges	76	80	72
Operating costs and expenses	(714)	(676)	(642)
Income tax expense on operations	(206)	(221)	(185)
Operating income	\$ 424	\$ 427	\$ 354

In 2001, operating income decreased 1.0% due to increases in the investment margin more than offset by decreases in the mortality margin and higher operating costs and expenses. In 2000, operating income increased 20.6% due to increases in the investment margin and mortality margin, which were partly offset by increased operating costs and expenses.

Investment margin, which represents the excess of investment income earned over interest credited to policyholders and contractholders, increased 15.2% in 2001 compared to 2000. The increased investment margin is a result of growth in invested assets of 11.5% compared to 2000. The growth in invested assets reflects the net growth in inforce business during the year from new sales less contract benefits and surrenders and withdrawals. A decline in fixed annuity invested asset yields during the year was offset by actions taken by management to reduce crediting rates, when available, to be consistent with the general decline in market interest rates. The differences between average investment yields and interest-crediting rates are shown in the table below.

Investment margin increased 12.3% in 2000 when compared to 1999. The increase in the investment margin is a result of growth in the amount of business inforce from new sales and an increase in the investment spread on interest-sensitive life products. Increased asset yields on the interest-sensitive life portfolio were not passed onto policyholders as crediting rates were still competitive in the marketplace.

The following table summarizes the weighted average investment yield and weighted average interest crediting rates during 2001, 2000 and 1999:

	Weighted average investment yield			Weighted average interest crediting rate		
	2001	2000	1999	2001	2000	1999
Interest-sensitive life products	7.7%	7.7%	7.5%	5.2%	5.4%	5.5%
Fixed annuity products	7.1	7.6	7.3	4.9	5.5	5.2

Mortality margin, which represents premiums and cost of insurance charges in excess of related policy benefits, decreased 9.3% during 2001 compared to 2000 due to a higher incidence of mortality and morbidity, including \$12 million from the effects of the tragedy of the September 11 attack on the World Trade Center in New York City and the Pentagon in Washington D.C., and the plane crash in Pennsylvania. The 2001 mortality margin also includes an increase in death benefits on variable annuity contracts over 2000. See the Quantitative and Qualitative Disclosures About Market Risk section for a detailed description of the equity risk related to these death benefits. Mortality and morbidity loss experience can cause benefit payments to fluctuate from period to period while underwriting and pricing guidelines utilize a long term view of the trends in mortality and morbidity when determining premium rates and cost of insurance charges. As a result, some volatility is expected in the mortality margin. Mortality margin increased 8.8% during 2000 when compared to 1999 due to a favorable level of losses compared to the prior year and new business producing higher revenues from premiums and contract charges.

Operating costs and expenses increased 5.6% during 2001 compared to 2000 due to higher marketing, technology and distribution expenses incurred on new growth initiatives, partly offset by lower DAC amortization. In 2000, operating costs and expenses increased 5.3% compared to 1999 due to higher marketing, distribution and technology expenses.

RETAIL OUTLOOK

- Consistent with the marketplace, the segment's sales continue to move towards lower profit margin products, such as term life and variable annuities. These lower profit margin products require a higher volume of sales to increase the segment's operating results. The segment achieved this increased volume in 2000 and expects product growth again in 2002, as the economy improves, and additional products are offered and updated.
- Allstate is encouraging exclusive Allstate agents to become Personal Financial Representatives ("PFRs"). PFRs are licensed to sell products such as variable annuities and variable life

insurance. As additional agents become licensed, the mix of products sold through this channel could change.

- The segment's ability to manage its investment margin is dependent upon the level of interest rates and the quality of its investment portfolio. Changes in interest rates and the level of defaults may affect investment income. The Company also has the ability to impact the investment margin by changing the crediting rates on flexible rate contracts, but these changes could be limited by market conditions and minimum rate guarantees on certain contracts.
- The Company's contract charge revenue is dependent upon the value of the accounts supporting its variable annuity and variable life products. Most account values for these products are invested, at the discretion of the contractholder, in equity mutual funds. Therefore, returns on these products are significantly influenced by market performance, thus impacting contract charge revenue.
- In order to compete with major insurance company competitors, as well as non-traditional competitors such as banks, financial service firms and securities firms, the Company will have to distribute its products within its pricing parameters while increasing the amount of business in force to improve its economies of scale.

RETAIL INVESTMENT RESULTS

Net Investment Income

Net investment income increased 9.6% in 2001 compared to 2000, after increasing 16.0% in 2000 when compared to 1999. In 2001, the increase was due to an increased portfolio balance, partially offset by lower portfolio yields. The portfolio balance, excluding assets invested in Separate Accounts and unrealized capital gains on fixed income securities, increased 11.5% in 2001 due to new statutory premiums and deposits less contract benefits and withdrawals during the year. In 2000, the increase was due to an increased portfolio balance and increased investment yields. The portfolio balance, excluding assets invested in Separate Accounts and unrealized capital gains on fixed income securities, increased 12.5% in 2000 due to statutory premiums and deposits received during the year.

Realized Capital Gains and Losses

After-tax realized capital losses were \$103 million in 2001 compared to after-tax realized capital losses of \$36 million in 2000, and after-tax realized capital gains of \$81 million in 1999. After-tax realized capital gains and losses are presented net of the effects of DAC amortization and additional future policy benefits, to the extent that such effects resulted from the recognition of realized capital gains and losses.

The following table describes the factors impacting the realized capital gains and losses results:

	2001	2000	1999
	(in millions)		
Investment write-downs	\$ (57)	\$ (33)	\$ (4)
Portfolio trading	(5)	20	109
Valuation of derivative securities	(29)	—	—
Subtotal	(91)	(13)	105
Reclassification of amortization of DAC	(12)	(23)	(24)
Total realized capital gains and losses, after-tax	\$ (103)	\$ (36)	\$ 81

Realized capital gains and losses from the valuation of certain derivative instruments in 2001 reflected the impact of new accounting policies adopted during the year related to Statements of

Financial Accounting Standards ("SFAS") Nos. 133 and 138. Period-to-period fluctuations in realized capital gains and losses are largely the result of timing of sales decisions reflecting management's decisions on positioning the portfolio, as well as assessments of individual securities and overall market conditions.

Investment Outlook

- The Company expects to experience lower investment yields due, in part, to the reinvestment of proceeds from prepayments, calls and maturities, and the investment of cash flows from operations, in securities yielding less than the average portfolio rate.
- The Company expects realized capital losses to continue if the credit environment remains challenging.

STRUCTURED FINANCIAL PRODUCTS 2001 HIGHLIGHTS

- Statutory premiums and deposits increased 8.0% in the Structured Financial Products segment due in large part to increased sales of funding agreements to special purpose entities issuing medium-term notes
- Investments, excluding Separate Accounts, increased 17.1% due to additional deposits from funding agreements and structured settlement annuities

• Net investment income in this segment increased 9.8% due to increased investment balances

The Company utilizes an alternative method of presenting its operating results in the following discussion by segment that differs from the presentation of the financial information in the consolidated financial statements. This presentation allows for a more complete analysis of results of operations. The net effects of realized capital gains and losses, after-tax, have been excluded from operating income due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance of insurers. Realized capital gains and losses, after-tax is presented net of the effects of DAC to the extent that such effects resulted from the recognition of realized capital gains and losses. Operating income should not be considered a substitute for any measure of performance under GAAP. The Company's method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

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Summarized financial data for the Structured Financial Products segment as of and for the years ended December 31, are presented in the following table:

	2001	2000	1999
	(in millions)		
Statutory premiums and deposits(1)	\$ 3,320	\$ 3,075	\$ 2,258
Investments	\$ 17,899	\$ 15,289	\$ 12,239
Separate Accounts assets	376	918	920
Investments, including Separate Accounts assets	\$ 18,275	\$ 16,207	\$ 13,159
GAAP Premiums	\$ 333	\$ 401	\$ 240
Contract charges	24	17	15
Net investment income	1,134	1,033	897
	1,491	1,451	1,152
Contract benefits	779	833	653
Interest credited to contractholders' funds	505	444	391
Amortization of deferred policy acquisition costs	5	4	2
Operating costs and expenses	45	44	31
	1,334	1,325	1,077
Operating income before tax	157	126	75
Income tax expense	54	43	25
Operating income(2)	103	83	50
Realized capital gains and losses, after-tax(3)	(47)	(4)	19
Cumulative effect of change in accounting principle, after-tax	(15)	—	—
Net income	\$ 41	\$ 79	\$ 69

(1) Statutory premiums and deposits, which includes premiums and deposits for all products, is used to analyze sales trends.

(2) For a complete definition of operating income, see the operating income discussion beginning on page 33.

(3) Reconciliation of Realized capital gains and losses

	For the Years Ended December 31,		
	2001	2000	1999
	(in millions)		
Realized capital gains and losses	\$ (73)	\$ (6)	\$ 30
Reclassification of Income tax benefit (expense)	26	2	(11)
Realized capital gains and losses, after-tax	\$ (47)	\$ (4)	19

Statutory premiums and deposits

Statutory premiums and deposits is a measure used by management to analyze sales trends. Statutory premiums and deposits includes premiums and annuity considerations determined in conformity with statutory accounting practices prescribed or permitted by the insurance regulatory authorities of the states in which

statutory accounting practices differ in certain, material aspects from GAAP. The following table summarizes statutory premiums and deposits by product line:

	2001	2000	1999
	(in millions)		
Life products			
Interest-sensitive	\$ 11	\$ 70	\$ 235
Investment contracts			
Funding agreements	2,527	1,863	834
Structured settlement annuities	624	594	349
Guaranteed investment contracts	140	440	749
Other	18	108	91
Total statutory premiums and deposits	\$ 3,320	\$ 3,075	\$ 2,258

Total Structured Financial Products statutory premiums and deposits increased 8.0% to \$3.32 billion in 2001 from \$3.08 billion in 2000, following a 36.2% increase in 2000 from \$2.26 billion in 1999.

In 2001, Structured Financial Products statutory premiums and deposits increased due to the sale of \$2.53 billion of funding agreements, including \$2.00 billion sold to special purpose entities ("SPEs") issuing medium-term notes. This increase and the increased sales of structured settlement annuities more than offset the decrease in sales of GICs, interest-sensitive life contracts and other products. Period to period fluctuations in sales of these products, including funding agreements, are largely due to management's assessments of market opportunities.

The SPEs, Allstate Life Funding, LLC and Allstate Financial Global Funding, LLC, are used exclusively for the issuance of funding agreements supporting medium-term note programs. The assets and liabilities of Allstate Life Funding, LLC are included in the consolidated statements of financial position. The Company classifies the medium-term notes issued by Allstate Life Funding, LLC as contractholder funds, using similar accounting treatment as its other investment products. The assets and liabilities of Allstate Financial Global Funding, LLC are not consolidated on the consolidated statements of financial position due to the existence of a sufficient equity ownership interest by unrelated third parties in this entity. The Company classifies the funding agreements issued to Allstate Financial Global Funding, LLC as contractholder funds. The Corporation's management does not have an ownership interest in the SPEs.

In 2000, Structured Financial Products statutory premiums and deposits increased due to the sale of \$1.86 billion of funding agreements, including \$1.30 billion sold to SPEs issuing medium-term notes and to strong sales activity in structured settlement annuities.

GAAP premiums and contract charges

GAAP premiums and contract charges represent premium generated from immediate annuities with life contingencies including certain structured settlement annuities which have significant mortality or morbidity risk and contract charges generated from contractholder funds. Contract charges are assessed against the contractholder account balance for maintenance, administration, cost of insurance and early withdrawal.

Premiums of \$333 million from structured settlement annuities with life contingencies decreased 17.0% for 2001 compared to 2000. Total sales of structured settlement annuities increased over 2000 levels, but under GAAP accounting requirements, only those with life contingencies are recognized in premiums. Those without life contingencies are directly recorded as liabilities and therefore generate contract charges. Market conditions and consumer preferences drive the mix of immediate annuities

sold with or without life contingencies, which causes fluctuations in the overall level of premiums. Premiums of \$401 million increased 67.1% in 2000 when compared to 1999.

Contract charges of \$24 million increased 41.2% in 2001 as compared to 2000 resulting primarily from increased contract charges from structured settlement annuities without life contingencies. In 2000, contract charges increased 13.3% to \$17 million from \$15 million in 1999. The increase was driven by increased contract charges on other annuity products no longer offered by the segment.

Operating income

Operating income is a measure used by the Company's management to evaluate the profitability of each segment. Operating income is defined as income before the cumulative effect of changes in accounting principle, after-tax, excluding the after-tax effects of realized capital gains and losses. In this management measure, the effects of realized capital gains and losses have been excluded due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance and profitability of insurers. These operating results should not be considered as a substitute for any GAAP measure of performance. A reconciliation of operating income to net income is provided in the table on page 31. The Company's method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

	(in millions)		
Investment margin	\$ 163	\$ 142	\$ 102
Mortality margin	21	17	(8)
Maintenance charges	23	15	14
Costs and expenses	(50)	(48)	(33)
Income tax expense on operations	(54)	(43)	(25)
Operating income	\$ 103	\$ 83	\$ 50

In 2001, operating income increased 24.1% as a result of increased investment and mortality margins partly offset by higher operating costs and expenses and income tax expense on operations. In 2000, operating income increased 66.0% due to increases in the investment margin and the mortality margin, which were partly offset by higher operating costs and expenses.

Investment margin, which represents the excess of investment income earned over interest credited to contractholders, increased 14.8% during 2001 compared to 2000. The increased investment margin is a result of growth in invested assets of 19.2% when compared to 2000. The growth in invested assets reflects the net growth in inforce business during the year from new sales less contract maturities and withdrawals. The differences between average investment yields and interest-crediting rates were comparable in 2001 and the prior year as shown in the table below.

In 2000, investment margin increased 39.2% compared to 1999 due to a 17.4% growth in investment balances from new sales, primarily of funding agreements backing medium-term notes. The difference between average investment yields and interest-crediting rates in 2000 remained relatively constant with the 1999 rates.

The following table summarizes the weighted average investment yield and weighted average interest crediting rates during 2001, 2000 and 1999:

	Weighted average investment yield			Weighted average interest crediting rate		
	2001	2000	1999	2001	2000	1999
Structured Financial Products contracts	7.5%	8.0%	8.0%	6.6%	7.2%	7.3%

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Mortality margin, which represents premiums and cost of insurance charges in excess of related policy benefits, increased 23.5% during 2001 as compared to 2000 due to favorable mortality results on the immediate annuities. Most life insurance contracts are negatively affected by increases in death rates as policyholders receive their full death benefits while premiums are collected over a shorter period of time than priced for based on their life expectancy from the actuarial mortality tables. The immediate annuities sold with a life contingency through the Structured Financial Products segment act as a hedge or offset to this risk. An increase in the death rate reduces the number of contract payments to be made under these contracts, while the premium, priced and collected up-front, is determined using the expected number of payments based on their life expectancy from the actuarial mortality tables. Mortality loss experience can cause benefits to fluctuate from period to period while underwriting and pricing guidelines utilize a long term view of the trends in mortality when determining premium rates. Therefore, the segment expects some short term fluctuations in mortality margin. Mortality margin increased 312.5% during 2000 when compared to 1999. The increases, which positively impact operating income, were due to higher revenues from contract charges and a favorable level of losses, which for these products indicate a higher death rate.

Costs and expenses were comparable in 2001 and 2000. Increased costs and expenses during 2000 are due primarily to additional investments in technology.

Structured Financial Products Outlook

The segment's sales of funding agreements are pursued when financial gains can be realized. If assets with the appropriate maturity and risk adjusted returns to support pricing targets are not available, product sales will not be executed. For this reason, funding agreement sales volume could vary significantly in the future as dictated by market conditions. The financial strength ratings of the Company are also an integral factor in the Company's ability to compete in the marketplace for these products. Rating agency considerations, which the Company takes into account in managing this business, are principally asset quality, asset/liability management, overall business portfolio mix and volume of holdings. Moody's Investor Service has published a quantitative guideline for this latter factor for experienced issuers of 20% to 30% of general account liabilities. As of December 31, 2001, the Company had funding agreements totaling approximately 20.6% of general account liabilities.

STRUCTURED FINANCIAL PRODUCTS INVESTMENT RESULTS

Net Investment Income

Net investment income increased 9.8% in 2001 compared to 2000, after increasing 15.2% for 2000 when compared to 1999. In 2001, the increase was due to an increased portfolio balance, partially offset by lower portfolio yields. The segment's portfolio balance, excluding assets invested in Separate Accounts and unrealized capital gains on fixed income securities, increased 19.2% in 2001 due to increased statutory premiums and deposits received during the year. In 2000, the increase was due to an increased portfolio balance. The segment's portfolio balance, excluding assets invested in Separate Accounts and unrealized capital gains on fixed income securities, increased 17.4% in 2001 due to increased statutory premiums and deposits received during the year.

Realized Capital Gains and Losses

After-tax realized capital losses were \$47 million in 2001 as compared to after-tax realized capital losses of \$4 million in 2000, and after-tax realized capital gains of \$19 million in 1999.

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The following table describes the factors impacting the realized capital gains and losses results:

	2001	2000	1999
	(in millions)		
Investment write-downs	\$ (41)	\$ (7)	\$ (10)
Portfolio trading	3	3	29
Valuation of derivative securities	(9)	—	—
Total realized capital gains and losses, after-tax	\$ (47)	\$ (4)	\$ 19

Realized capital gains and losses from the valuation of certain derivative instruments in 2001 reflected the impact of new accounting policies adopted during 2001 related to SFAS Nos. 133 and 138. Period to period fluctuations in realized capital gains and losses are the result of timing of sales decisions reflecting management's decision on positioning the portfolio, as well as assessments of individual securities and overall market conditions.

Investment Outlook

- The Company expects to experience lower investment yields due, in part, to the reinvestment of proceeds from prepayments, calls and maturities, and the investment of cash flows from operations, in securities yielding less than the average portfolio rate.
- The Company expects realized capital losses to continue if the credit environment remains challenging.

INVESTMENTS

An important ingredient of the Company's financial results is the return on invested assets. The Company's investment portfolios are segmented between the Retail and Structured Financial Products segments. The investment portfolios are managed based upon the nature of each respective business and its corresponding liability structure.

The investment strategy for the Company is based upon a strategic asset allocation framework that takes into account the need to manage on a risk adjusted spread basis for the underwriting liability product portfolio and to maximize return on retained capital. Generally, a combination of recognized market modeling, analytical models and proprietary models is used to achieve a desired optimal asset mix in the management of the portfolio. The strategic asset allocation model portfolio is the primary basis for setting annual asset allocation targets with respect to interest sensitive, illiquid and credit asset limitations with respect to overall below investment grade exposure and diversification requirements. On a tactical basis, decisions are made on an option adjusted relative value basis staying within the constraints of the strategic asset allocation framework. The Company believes it maximizes asset spread by selecting assets that perform on a long-term basis and by using trading to minimize the effect of downgrades and defaults. Total return measurement is used on a selective basis where the asset risks are significant (i.e., high yield fixed income securities, convertible bonds). The Company expects that employing this strategy in a declining interest rate market will slow the rate of decline in investment income. This strategy is also expected to provide sustainable investment-related operating income over time.

The composition of the investment portfolio is presented in the table below (see Notes 2 and 5 to the consolidated financial statements for investment accounting policies and additional information):

	Years Ended December 31,			
	2001		2000	
		Percent to total		Percent to total
	(in millions)			
Fixed income securities(1)	\$ 37,226	84.0%	\$ 32,281	83.6%
Mortgage loans	5,450	12.3	4,351	11.2
Equity securities	201	0.5	473	1.2
Short-term	672	1.5	836	2.2
Policy loans	673	1.5	644	1.7
Other	75	0.2	35	0.1
Total	\$ 44,297	100.0%	\$ 38,620	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost for these securities was \$35.72 billion and \$31.05 billion at December 31, 2001 and 2000, respectively.

Total investments increased to \$44.30 billion at December 31, 2001 from \$38.62 billion at December 31, 2000. The increase was primarily due to amounts invested from positive cash flows generated from new sales.

The fair value of the Company's exchange traded marketable securities is based on independent market quotations. The fair value of the Company's non-exchange traded marketable investment securities is based on either independent third party pricing sources or widely accepted pricing valuation models which utilize internally developed ratings and independent third party data as inputs. Periodic changes in the fair values are reported as a component of other comprehensive income and are reclassified to net income only when supported by the consummation of a transaction with an unrelated third party.

The following table shows the Company's investment portfolio, and the sources of its fair value, at December 31, 2001:

	Fair Value	Percent to total
	(in millions)	
Value based on independent market quotations	\$ 28,911	65.3%
Value based on models and other valuation methods	9,121	20.6
Mortgage loans, policy loans and certain limited partnership investments, all held at cost	6,265	14.1
Total	\$ 44,297	100.0%

The fair value of the Company's exchange traded derivative contracts is based on independent market quotations. The fair value of non-exchange traded derivative contracts is based on either independent third party pricing sources or widely accepted pricing valuation models which utilize independent third party data as inputs. Periodic changes in the fair values are reported as a component of either operating income, net income, other comprehensive income, assets or liabilities depending on the nature of the derivative and the program to which it relates.

The following table shows the Company's derivative contracts, and the sources of their fair value, at December 31, 2001:

	Fair Value
	(in millions)
Value based on independent market quotations	\$ 32
Value based on models and other valuation methods	102
Total	\$ 134

Fixed income securities

The Company's fixed income securities portfolio consists of publicly traded corporate bonds, privately placed securities, mortgage-backed securities, asset-backed securities, U.S. government bonds, municipal bonds, foreign government bonds and redeemable preferred stock. The Company generally holds its fixed income securities to maturity, but has classified all of these securities as available for sale to allow maximum flexibility in portfolio management. At December 31, 2001, unrealized net capital gains on the fixed income securities portfolio totaled \$1.51 billion compared to \$1.23 billion as of December 31, 2000. The increase in the unrealized capital gain position is primarily attributable to interest rate fluctuations from year to year. As of December 31, 2001, substantially all of the fixed income securities portfolio was invested in taxable securities.

The Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC") evaluates the fixed income securities investments of insurers for regulatory reporting purposes and assigns securities to one of six investment categories called "NAIC designations." The NAIC designations parallel the credit ratings of the Nationally Recognized Statistical Rating Organizations for marketable securities. NAIC designations 1 and 2 include securities considered investment grade (rated "Baa3" or higher by Moody's, or rate "BBB-" or higher by Standard & Poor's) by such rating organizations. NAIC designations 3 through 6 include securities considered below investment grade (rated "Ba1" or lower by Moody's, or rated "BB+" or lower by Standard & Poor's).

At December 31, 2001, 92.5% of the Company's fixed income securities portfolio was rated investment grade, which is defined by the Company as a security having an NAIC rating of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, or a comparable Company internal rating.

The following table summarizes the quality mix of the fixed income securities portfolio:

NAIC ratings	Moody's equivalent description	Fair value	Percent to total
		(in millions)	
1	Aaa/Aa/A	\$ 23,392	62.8%
2	Baa	11,071	29.7
3	Ba	1,619	4.4
4	B	893	2.4
5	Caa or lower	153	0.4
6	In or near default	98	0.3
		\$ 37,226	100.0%

Included among the securities that are rated below investment grade are both public and privately placed high-yield bonds and securities that were purchased at investment grade but have since been downgraded. The Company mitigates the credit risk of investing in below investment grade fixed income securities by

diversification of the portfolio. Based on these limits, a minimum of 91% of the Company's fixed income security portfolio will be investment grade.

As of December 31, 2001, the fixed income securities portfolio contained \$11.36 billion of privately placed corporate obligations, compared with \$9.62 billion at December 31, 2000. The benefits of privately placed securities as compared to public securities are generally higher yields, improved cash flow predictability through pro-rata sinking funds on many bonds, and a combination of covenant and call protection features designed to better protect the holder against losses resulting from credit deterioration, reinvestment risk and fluctuations in interest rates. A relative disadvantage of privately placed securities as compared to public securities is relatively reduced liquidity. At December 31, 2001, 85.8% of the privately placed securities were rated as investment grade by either the NAIC or the Company's internal ratings. The Company determines the fair value of privately placed fixed income securities based on discounted cash flows using current interest rates for similar securities.

At December 31, 2001 and 2000, \$8.16 billion and \$7.06 billion, respectively, of the fixed income securities portfolio was invested in mortgage-backed securities ("MBS"). The MBS portfolio consists primarily of securities that were issued by, or have underlying collateral that is guaranteed by, U.S. government agencies or sponsored entities. Therefore the MBS portfolio has relatively low credit risk.

The MBS portfolio is subject to interest rate risk since the price volatility and ultimate realized yield are affected by the rate of repayment of the underlying mortgages. The Company attempts to limit interest rate risk on these securities by investing a portion of the portfolio in securities that provide prepayment protection. At December 31, 2001, approximately 28.2% of the MBS portfolio was invested in planned amortization class bonds.

The fixed income securities portfolio contained \$2.41 billion and \$2.46 billion of asset-backed securities ("ABS") at December 31, 2001 and 2000, respectively. The ABS portfolio is subject to credit and interest rate risk. Credit risk is mitigated by monitoring the performance of the collateral. Approximately 39.8% of the ABS portfolio is rated in the highest rating category by one or more credit rating agencies. The ABS portfolio is subject to interest rate risk since the price volatility and ultimate realized yield are affected by the rate of repayment of the underlying assets. Approximately 32.6% of the Company's ABS portfolio is invested in securitized credit card receivables. The remainder of the portfolio is backed by securitized home equity, manufactured housing and auto loans.

The Company closely monitors its fixed income securities portfolio for declines in value that are other than temporary. Securities are placed on non-accrual status when they are in default or when the receipt of interest payments is in doubt.

The Company monitors the quality of its fixed income portfolio, in part, by categorizing certain investments as problem, restructured or potential problem. Problem fixed income securities are securities in default with respect to principal and/or interest and/or securities issued by companies that have gone into bankruptcy subsequent to the Company's acquisition of the security. Restructured fixed income securities have modified terms and conditions that were not at current market rates or terms at the time of the restructuring. Potential problem fixed income securities are current with respect to contractual principal and/or interest, but because of other facts and circumstances, management has serious concerns regarding the borrower's ability to pay future interest and principal, which causes management to believe these securities may be classified as problem or restructured in the future. Provisions for losses are recognized for declines in the value of fixed income securities that are deemed other than temporary. Such write-downs are included in realized capital gains and losses.

The following table summarizes problem, restructured and potential problem fixed income securities at December 31, 2001 and 2000:

	2001			2000		
	Amortized Cost	Fair Value	Percent of Total Fixed Income Portfolio	Amortized Cost	Fair Value	Percent of Total Fixed Income Portfolio
	(in millions)					
Problem	\$ 141	\$ 129	0.4%	\$ 25	\$ 25	0.1%
Restructured	12	12	0.0	5	5	0.0
Potential problem	145	140	0.4	60	55	0.2
Total net carrying value	\$ 298	\$ 281	0.8%	\$ 90	\$ 85	0.3%
Cumulative write-downs recognized	\$ 164			\$ 107		

While the Company has a larger balance of securities categorized as problem, restructured or potential problem at year-end 2001 as compared to year-end 2000, primarily due to economic and market conditions during the year, the total amount of securities in these categories remains a relatively low percentage of the total fixed income portfolio.

Mortgage loans

The Company's \$5.45 billion investment in mortgage loans at December 31, 2001 and \$4.35 billion at December 31, 2000 is comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage the Company's mortgage loan risk.

The Company closely monitors its commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risk, are reviewed by financial and investment management at least

quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status. The underlying collateral values are based upon discounted property cash flow projections, which are updated as conditions change, or at least annually.

A mortgage loan is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The components of impaired loans at December 31 are as follows:

	2001	2000
	(in millions)	
Impaired loans		
With valuation allowances	\$ 21	\$ 16
Less: valuation allowances	(5)	(2)
Without valuation allowances	5	13
	<u>21</u>	<u>13</u>
Net carrying value of impaired loans	<u>\$ 21</u>	<u>\$ 27</u>

The net carrying value of impaired loans at December 31, 2001 and 2000 comprised foreclosed and delinquent loans of \$12 million and \$20 million, respectively, measured at the fair value of the collateral, and restructured loans of \$9 million and \$7 million, respectively, measured at the present value of the loan's expected future cash flows discounted at the loan's effective interest rate. Impaired loans without valuation allowances include collateral dependent loans where the fair value of the collateral is greater than the recorded investment in the loans.

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Interest income is recognized on a cash basis for impaired loans carried at the fair value of the collateral, beginning at the time of impairment. For other impaired loans, interest is accrued based on the net carrying value. The Company recognized interest income of \$1 million, \$1 million and \$2 million on impaired loans during 2001, 2000 and 1999, respectively, of which \$1 million, \$1 million and \$2 million was received in cash during 2001, 2000 and 1999, respectively. The average balance of impaired loans was \$27 million, \$33 million and \$37 million during 2001, 2000 and 1999, respectively.

Valuation allowances for mortgage loans at December 31, 2001, 2000 and 1999, were \$5 million, \$5 million and \$8 million, respectively. There were no direct writedowns of mortgage loan gross carrying amounts for the years ended December 31, 2001, 2000 and 1999. For the years ended December 31, 2001, 2000 and 1999, net reductions to mortgage loan valuation allowances were \$300 thousand, \$3 million, \$2 million, respectively.

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The states with the largest portion of the commercial mortgage loan portfolio are listed below. Except for the following, holdings in no other state exceeded 5% of the portfolio at December 31:

	2001	2000
	(% of commercial mortgage portfolio carrying value)	
California	16.9%	20.2%
Illinois	7.6	7.9
Florida	7.0	7.5
Texas	7.0	5.3
New Jersey	6.4	5.0
New York	5.3	6.8
Pennsylvania	5.3	5.5

The types of properties collateralizing the commercial mortgage loans at December 31, are as follows:

	2001	2000
	(% of commercial mortgage portfolio carrying value)	
Office buildings	34.3%	36.1%
Warehouse	20.3	16.2
Retail	20.0	23.1
Apartment complex	18.4	17.5
Industrial	1.9	1.8
Other	5.1	5.3
	<u>100.0%</u>	<u>100.0%</u>

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The contractual maturities of the commercial mortgage loan portfolio as of December 31, 2001, for loans that were not in foreclosure are as follows:

	Number of loans	Carrying value	Percent
	(in millions)		
2002	65	\$ 292	5.4%
2003	79	324	5.9
2004	55	321	5.9
2005	100	595	10.9
2006	128	736	13.5
Thereafter	621	3,182	58.4
Total	1,048	\$ 5,450	100.0%

In 2001, \$169 million of commercial mortgage loans were contractually due. Of these, 63.5% were paid as due, 25.9% were refinanced at prevailing market terms, 5.5% were foreclosed or are in the process of foreclosure, and 5.1% were in the process of refinancing or restructuring discussions.

In light of recent events, commercial mortgages might be adversely affected due to the inability to obtain insurance coverage to restore the related real estate or other property, thereby creating the potential for increased default risk. As interest rates on mortgage loans continue to decrease, the Company also faces the risk of prepayments and refinancing of existing mortgage loans. As these mortgages are prepaid and new ones are issued at lower rates, the Company's investment income can also be adversely impacted.

Equity securities

The Company's equity securities portfolio was \$201 million comprised of partnership investments and investments in mutual funds at December 31, 2001 compared to \$473 million in 2000. The decrease is attributable to general market declines and sales of securities in 2001. Provisions for losses are recognized for declines in the value of equity securities that are deemed other than temporary and included in realized capital gains and losses.

The equity securities portfolio includes partnership investments where the Company has virtually no influence over the operating and financial policies of the partnership. These investments are accounted for using the cost method. Partnership investments where the Company has more than a minor amount of influence over the operating and financial policies of the partnership and an ownership interest less than or equal to 50% are accounted for using the equity method of accounting. The Company has not provided any guarantees to any partners or any other parties related to these investments. The majority of the Company's partnerships invest in either real estate or private equities.

Short-Term investments

The Company's short-term investment portfolio was \$672 million and \$836 million at December 31, 2001 and 2000, respectively. The Company invests available cash balances primarily in taxable short-term securities having a final maturity date or redemption date of one year or less.

Securities Lending

The Company also participates in securities lending programs primarily as an investment yield enhancement with third parties, which mostly include large brokerage firms. The Company obtains collateral in an amount that approximates 102% of the fair value of the loaned securities and monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. At December 31, 2001, fixed income securities with a carrying value of \$964 million had

been loaned under these agreements. This compares to \$828 million at December 31, 2000. In return for these securities, the Company receives cash that is subsequently invested and included in Short-term investments and an offsetting liability is recorded in Other Liabilities.

DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs increased \$71 million or 2.4% to \$3.00 billion at December 31, 2001 from \$2.93 billion at December 31, 2000. In 2001, \$637 million of costs were deferred and \$365 million was amortized into income. Certain costs which vary with and are primarily related to acquiring business, principally agents' and brokers' remuneration, certain underwriting costs and direct mail solicitation expenses, are deferred and amortized into income over a period of time. Deferred policy acquisition costs are periodically reviewed as to recoverability and written down where necessary. For additional information, see Note 7 to the consolidated financial statements.

The present value of future profits inherent in acquired blocks of insurance is classified as a component of deferred policy acquisition costs. The present value of future profits is amortized over the estimated life of the blocks of insurance using current crediting rates.

To the extent unrealized gains or losses on fixed income securities carried at fair value would result in an adjustment of estimated gross profits had those gains or losses actually been realized, the related unamortized deferred policy acquisition costs are recorded net of tax as a reduction of the unrealized capital gains or losses included in shareholder's equity. At December 31, 2001, \$215 million was recorded as a reduction of unrealized capital gains or losses.

SEPARATE ACCOUNTS

Separate Accounts assets and liabilities decreased 11.2% to \$13.59 billion at December 31, 2001 from December 31, 2000. The decreases were primarily attributable to unrealized losses in the Separate Accounts' investment portfolios, partially offset by sales of variable annuity contracts. During 2001, sales of variable annuity contracts were adversely impacted by market volatility. In addition, approximately \$550 million attributable to a separate account GIC product portfolio was terminated during the time period. In its place an ALIC synthetic GIC product was issued with a national amount equal to such portfolio.

The assets and liabilities related to variable annuities, variable life contracts and certain guaranteed investment contracts are legally segregated and reflected as Separate Accounts. 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. Investment income and realized capital gains and losses of the Separate Accounts accrue directly to the contractholders and therefore, are not included in the Company's consolidated statements of operations.

Certain variable annuity contracts have provisions wherein the Company contractually guarantees either a minimum return or account value upon death or annuitization.

REINSURANCE RECOVERABLE

Reinsurance recoverable increased 54.7% to \$950 million at December 31, 2001 from \$614 million at December 31, 2000. The increase in 2001 is due to the acquisition of an inactive licensed insurance company that continues to cede business externally, normal growth in the business reinsured and a redesign in a business relationship to reinsurance. The Company purchases reinsurance to limit aggregate and single losses on large risks while continuing to have primary liability as a direct insurer for risks reinsured. Estimating amounts of reinsurance recoverable is impacted by the uncertainties involved in the establishment of loss reserves. Failure of reinsurers to honor their obligations could result in additional net losses.

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The Company purchases reinsurance after evaluating the financial condition of the reinsurer, as well as the terms and price of coverage. The Company reinsures certain of its risks to other reinsurers under yearly renewable term, coinsurance, and modified coinsurance agreements. Yearly renewable term and coinsurance agreements result in the passing of a portion of the risk to the reinsurer. Generally, the reinsurer receives a proportionate amount of the premiums less commissions, and is liable for a corresponding proportionate amount of all benefit payments. Modified coinsurance is similar to coinsurance except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company, and settlements are made on a net basis between the companies.

The Company cedes 90%, 80% or 60% of the mortality risk on certain term life policies, depending upon the issue year and product, to a pool of eleven reinsurers that are not affiliated with the Company or the Corporation. Beginning in 1998, the Company cedes mortality risk on new business in excess of \$2 million per life for individual coverage. For business sold prior to 1998, the Company ceded mortality risk in excess of \$1 million per life for individual coverage.

As of December 31, 2001, \$139 billion or 38.6% of life insurance in force was ceded to other companies that are not affiliated with the Company or the Corporation.

RESERVE FOR LIFE CONTINGENT CONTRACT BENEFITS

The Company establishes and carries as liabilities, actuarially determined reserves that are calculated to meet its future obligations for life-contingent contract benefits. The calculation of reserves for life-contingent contract benefits includes assumptions for mortality, future investment yields, terminations and expenses at the time the policy is issued. These assumptions include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. The assumptions for mortality generally utilized in calculating reserves for life-contingent contracts include the United States population with projected calendar year improvements and age setbacks for impaired lives for structured settlement annuities; the 1983 group annuity mortality table for other immediate annuities; and actual experience plus loading for traditional life insurance. Interest rate assumptions vary from 5.5% to 11.7% for structured settlement annuities; 2.0% to 11.5% for other immediate annuities; and 4.0% to 11.3% for traditional life insurance. Other estimation techniques used in the calculation of these reserves include the present value of contractually fixed future benefits for structured settlement annuities, the present value of expected future benefits based on historical experience for other immediate annuities and the net level premium reserve method using withdrawal experience rates for traditional life insurance. Premium deficiency reserves are established, if necessary, and have been recorded for certain immediate annuities with life contingencies, to the extent the unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized.

The Company's reserves for life contingent contract benefits are expected to be sufficient to meet the Company's policy obligations at their maturities or in the event of an insured's death. Reserves include claims incurred but not reported and claims reported but not yet paid. Reserves for assumed and ceded reinsurance are computed on bases essentially comparable to direct insurance reserves.

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CONTRACTHOLDER FUNDS

	As of December 31, 2001
	(in millions)
Beginning balance	\$ 27,676
Add:	
Deposits	7,860
Credited interest	1,670
Less:	
Surrenders and withdrawals	3,211
Death benefits	415
Transfers to/from Separate Accounts	1,014
Other adjustments	265

Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, death benefits, mortality charges, net Separate Accounts transfers and administrative expenses. Interest rates credited range from 3.4% to 8.0% for interest-sensitive life contracts; 3.2% to 10.0% for immediate annuities; 0.0% to 12.0% for deferred annuities (which include equity-indexed annuities that are hedged); 4.9% to 8.5% for GICs; 2.0% to 5.9% for FAs; and 2.0% to 5.7% for other investment contracts. Withdrawal and surrender charge protection includes (i) for interest-sensitive life, either a percentage of account balance or dollar amount grading off generally over 20 years; and, (ii) for deferred annuities not subject to a market value adjustment, either a declining or a level percentage charge generally over nine years or less. Approximately 25.9% of deferred annuities are subject to a market value adjustment.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk that the Company will incur losses due to adverse changes in equity, interest, commodity, or currency exchange rates and prices. The Company's primary market risk exposures are to changes in interest rates and equity prices, although the Company also has minimal exposure to changes in foreign currency exchange rates.

The active management of market risk is integral to the Company's results of operations. The Company may use the following approaches to manage its exposure to market risk within defined tolerance ranges: 1) rebalance its existing asset or liability portfolios, 2) change the character of investments purchased in the future or 3) use derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of these derivative financial instruments, see Note 6 to the consolidated financial statements.

Corporate Oversight

The Company's primary business operations provide substantial investable funds. In formulating and implementing policies for investing funds, the Company seeks to earn returns that enhance its ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth for the Company. Accordingly, the Company's investment decisions and objectives are a function of its underlying risks and product profiles.

The Company administers and oversees the investment risk management processes primarily through the Boards of Directors and Investment Committees and the Credit and Risk Management Committee ("CRMC"). The Boards of Directors and Investment Committees provide executive

oversight of investment activities. The CRMC is a senior investment management committee consisting of the Chief Investment Officer, the Investment Risk Manager, and other investment officers who are responsible for the day-to-day management of investment risk. The CRMC meets at least monthly to provide detailed oversight of all facets of investment risk, including market risk.

The Company has investment guidelines that define the overall framework for managing market and other investment risks, including the accountabilities and controls over these activities. In addition, the Company follows investment policies that have been approved by the respective Boards of Directors and that delineate the investment limits and strategies that are appropriate given the liquidity, surplus, product, and regulatory requirements.

The Company manages its exposure to market risk through the use of asset allocation limits, duration limits and value-at-risk limits, through the use of simulation and, as appropriate, through the use of stress tests. Asset allocation limits place restrictions on the aggregate fair value that may be invested within an asset class. The Company has duration limits on its investment portfolios, and, as appropriate, on individual components of these portfolios. These duration limits place restrictions on the amount of interest rate risk that may be taken. Value-at-risk limits restrict the potential loss in fair value that could arise from adverse movements in the fixed income, equity and currency markets over a time interval based on historical volatilities and correlations among market risk factors. Simulation and stress tests measure downside risk to fair value and earnings over longer time intervals and/or for adverse market scenarios.

The day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established in the investment policies. The Company has implemented a comprehensive daily measurement process, administered by the Investment Risk Manager, for monitoring compliance with limits established by the investment policies.

Interest Rate Risk

Interest rate risk is the risk that the Company will incur economic losses due to adverse changes in interest rates. This risk arises from many of the Company's primary activities, as the Company invests substantial funds in interest-sensitive assets and carries significant interest-sensitive liabilities.

In a falling interest rate environment, the risk of pre-payment of some fixed income securities increases, causing funds to be reinvested at lower yields. The Company limits this risk by weighting the investments in the fixed income portfolio with non-callable securities. The Company seeks to invest in mortgage-backed securities that are structured to minimize cash volatility and securities that provide for make-whole type pre-payment fees. Falling interest rates can also negatively impact the demand for the Company's products while increasing demand for products offered by other institutions. For example, bank certificates of deposit that do not impose surrender charges, and equity investments which may have higher average returns, could become more attractive than the Company's existing products to new and existing customers. Conversely, in a rising interest rate environment, maintaining an acceptable investment interest rate spread on inforce interest-sensitive liabilities may prompt withdrawal by contractholders. The Company manages this risk by adjusting crediting rates on certain products, at least on an annual basis, with due regard to the yield of its investment portfolio and pricing assumptions and by prudently managing interest rate risk of assets and liabilities.

As is typical in the industry, the Company's products contain minimum rate guarantees regarding credited interest. For interest-sensitive products the minimum credited interest rates range from approximately 3% to 6%, with an approximate weighted average of 3.4%.

The Company manages the interest rate risk inherent in its assets relative to the interest rate risk inherent in its liabilities. One of the measures the Company uses to quantify this exposure is duration. Duration measures the sensitivity of the fair value of assets and liabilities to changes in interest rates. For example, if interest rates increase 1%, the fair value of an asset with a duration of 5 is expected to decrease in value by approximately 5%. At December 31, 2001, the difference between the Company's liability and asset duration was approximately 0.1, versus a gap of 0.0 at December 31, 2000. This 0.1 duration gap indicates that the fair value of the Company's liabilities is slightly more sensitive to interest rate movements than its assets.

The Company seeks to invest premiums and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable margins across a wide variety of interest rate and economic scenarios. In order to achieve this objective and limit its exposure to interest rate risk, the Company adheres to a philosophy of managing the duration of assets and related liabilities. The Company uses interest rate swaps, futures, forwards, caps and floors to reduce the interest rate risk resulting from duration mismatches between assets and liabilities. In addition, the Company uses financial futures and other derivative instruments to hedge the interest rate risk related to anticipatory purchases and sales of investments and product sales to customers.

To calculate duration, the Company projects asset and liability cash flows and discounts them to a net present value basis using a risk-free market rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative levels of interest rates, and determining the percentage change in fair value from the base case. The cash flows used in the model reflect the expected maturity and repricing characteristics of the Company's derivative financial instruments, all other financial instruments (as described in Note 6 to the consolidated financial statements), and certain non-financial instruments including interest-sensitive annuity liabilities. The projections include assumptions (based upon historical market experience and Company specific experience) reflecting the impact of changing interest rates on the prepayment, lapse, leverage and/or option features of financial instruments, where applicable. The assumptions utilized relate primarily to mortgage-backed securities, collateralized mortgage obligations, callable corporate and municipal obligations, and fixed rate single and flexible premium deferred annuities.

Based upon the information and assumptions the Company uses in its duration calculation, and interest rates in effect at December 31, 2001, management estimates that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would decrease the net fair value of its assets and liabilities identified above by approximately \$167 million, versus \$129 million at December 31, 2000. However, there are \$4.30 billion of assets supporting life insurance products that are not financial instruments and have not been included in the above analysis. This amount has increased from \$3.80 billion in assets reported at December 31, 2000. According to the duration calculations, in the event of a 100 basis point immediate increase in interest rates, these assets would decrease in value by \$173 million, versus a decrease of \$149 million reported for December 31, 2000. The selection of a 100 basis point immediate parallel increase in interest rates should not be construed as a prediction by the Company's management of future market events, but only as an illustration of the potential impact of such an event.

To the extent that actual results differ from the assumptions used, the Company's duration and rate shock measures could be significantly impacted. Additionally, the Company's calculation assumes that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the impact of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

Equity Price Risk

Equity price risk is the risk that the Company will incur economic losses due to adverse changes in a particular stock or stock index. At December 31, 2001, the Company had approximately \$3.8 million in common stocks and \$754 million in other equity investments (including primarily convertible securities that are reflected as a component of Fixed income securities on the Consolidated Statement of Financial Position). These amounts were \$299 million and \$638 million, respectively, at December 31, 2000.

At December 31, 2001, the Company's portfolio of equity instruments had a beta of approximately 0.68. Beta represents a widely accepted methodology to describe, in mathematical terms, an investment's market risk characteristics relative to the Standard and Poor's 500 Composite Price Index ("S&P 500"). For example, if the S&P 500 decreases by 10%, management estimates that the fair value of its equity portfolio will decrease by approximately 6.8%. Likewise, if the S&P 500 increases by 10%, management estimates that the fair value of its equity portfolio will increase by approximately 6.8%. At December 31, 2000, the Company's equity portfolio had a beta of 0.75.

Based upon the information and assumptions the Company uses in its beta calculation and in effect at December 31, 2001, management estimates that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of the Company's equity portfolio identified above by approximately \$51 million, versus \$70 million at December 31, 2000. The selection of a 10% immediate decrease in the S&P 500 should not be construed as a prediction by the Company's management of future market events, but only as an illustration of the potential impact of such an event.

Beta was determined by regressing the monthly stock price movements of the equity portfolio against movements in the S&P 500 over a three-year historical period. Since beta is historically based, projecting future price volatility using this method involves an inherent assumption that historical volatility and correlation relationships will remain stable. Therefore, the results noted above may not reflect the Company's actual experience if future volatility and correlation relationships differ from such historical relationships.

At December 31, 2001, the Company had Separate Accounts assets with account values totaling \$13.59 billion. This is a decrease from the \$15.30 billion of variable contracts' funds at December 31, 2000. The Company earns contract charges as a percentage of account values. In the event of an immediate decline of 10% in the account values due to equity market declines, the Company would earn approximately \$21 million less in annualized fee income.

Generally at the time of purchase, the contractholders of a variable annuity contract receive a minimum death benefit guarantee and, for certain contracts, may elect to purchase an enhanced, minimum death benefit guarantee or a minimum income benefit guarantee. The Company charges a fee for these guarantees that is generally calculated as a percentage of the account value. Both guarantees subject the Company to additional equity risk as the beneficiary or contractholder may receive a benefit for an amount greater than the fund balance under contractually defined circumstances and terms. Guaranteed amounts for death benefits may be payable upon death, while guaranteed minimum income benefits may be payable on or after the ten-year anniversary of the contract if the contractholder elects to receive a defined stream of payments ("annuitize").

Substantially all of the Company's variable annuity contracts in force contain some type of death benefit guarantee. In general, the types of guarantees offered include a return of premium, the highest anniversary value or a guaranteed compound earnings rate on the initial deposit over the contract period. At December 31, 2001 the guaranteed value in excess of the account value, payable if all contractholders were to die is estimated to be \$2.36 billion, net of reinsurance. However, the estimated present value of expected future payments for guaranteed death benefits, net of estimated fee revenue, is approximately \$31 million at December 31, 2001. In the event of an immediate decline of 10% in

contractholders' account values at December 31, 2001 due to equity market declines, payments for guaranteed death benefits may increase by \$19 million during the next year, based on expected mortality rates, net of reinsurance recoveries. The selection of a 10% immediate decrease should not be construed as a prediction by management of future market events, but only as an example to illustrate the potential impact to earnings and cash flow of equity market declines as a result of this guarantee. Also, the actual mortality rates experienced by the Company in the future may not be consistent with the rates expected by the Company.

Minimum income benefit guarantees offered by the Company include the right to annuitize based on the highest account value at any contract anniversary date or a guaranteed compound earnings rate based on the initial account value over the specified contract period. The Company began offering these guarantees in certain of its variable contracts in 1998, therefore, the benefits will be available for election by the contractholders beginning in 2008. The guaranteed value in excess of contractholders' account values at December 31, 2001, was approximately \$388 million, net of reinsurance. The estimated present value of expected future payments for minimum income benefit guarantees, net of estimated fee revenues, is approximately \$(12) million at December 31, 2001. In the event of an immediate decline of 10% in contractholders' account values at December 31, 2001 due to equity market declines, there would be no near term impact to the Company's earnings or cash flow. The selection of a 10% immediate decrease should not be construed as a prediction by management of future market events, but only as an example to illustrate the potential impact to earnings and cash flow of equity market declines as a result of this guarantee. The guaranteed value in excess of current account value represents the amount that would be payable if all contractholders could elect to annuitize and chose to make that election at December 31, 2001. As previously stated, these benefits are not available for election until 2008 at the earliest.

Growth in variable contracts in the future, stemming from both new sales as well as market value appreciation, will increase the Company's amount of overall exposure to equity price risk embedded in these contracts. An increase in the equity markets above December 31, 2001 levels will increase the contractholder returns on these products, thereby decreasing the risk of utilizing these guarantees on the inforce business. A decrease in the equity markets that causes a decrease in the variable contracts' fund balances will increase the equity risk profile of the inforce business.

In addition to the above, at December 31, 2001 and December 31, 2000, the Company had approximately \$1.40 billion and \$1.38 billion, respectively, in equity-indexed annuity liabilities that provide customers with contractually guaranteed participation in a portion of the price appreciation of the S&P 500. The Company hedges the risk associated with the price appreciation component of equity-indexed annuity liabilities through the purchase and sale of equity-indexed options, futures, swap futures, and futures options and eurodollar futures, maintaining risk within specified value-at-risk limits.

The Company also is exposed to equity risk in DAC. DAC represents certain costs that are primarily related to acquiring business. These costs are expensed as premiums on the related business are earned or are expensed in relation to the estimated gross profits of the related business. Projected fee income and guaranteed benefits payable are components of the estimated gross profits for these contracts sold through Separate Accounts. For a more detailed discussion of DAC, see Note 2 to the consolidated financial statements.

Foreign Currency Exchange Rate Risk

Foreign currency risk is the risk that the Company will incur economic losses due to adverse changes in foreign currency exchange rates. This risk arises from the Company's foreign equity investments. The Company also has certain fixed income securities and liabilities that are denominated in foreign currencies and uses derivatives to hedge the foreign currency risk of these securities and liabilities (both principal and interest payments). To manage the Company's counterparty exposure risk

with respect to foreign currency derivatives, such derivatives used in conjunction with medium-term note programs are covered by Collateral Support Annexes with the derivative counterparties. Such annexes require the posting of collateral above certain exposure thresholds, which limits the amount of overall counterparty exposure either party has to the other.

At December 31, 2001, the Company had approximately \$4.5 million in foreign currency denominated equity securities and no investment in foreign subsidiaries. These amounts were \$63.9 million and \$8.6 million, respectively, at December 31, 2000. The decrease in net investment in foreign subsidiaries is due to the sale of the last remaining foreign subsidiary. At December 31, 2001, the Company had \$1.31 billion of medium-term note liabilities denominated in foreign currencies versus \$571.7 million at December 31, 2000.

Based upon the information and assumptions in effect at December 31, 2001, management estimates that, holding everything else constant, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which the Company is exposed would decrease the net fair value of its foreign currency denominated instruments by approximately \$0.45 million, versus \$7.3 million at December 31, 2000. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as a prediction by the Company's management of future market events, but only as an illustration of the potential impact of such an event. The Company's currency exposure is diversified across approximately 11 countries, down from 27 at December 31, 2000. The largest individual exposures at December 31, 2001 are to France (49%) and the UK (22%). The largest individual exposures were the UK (16%) and Japan (15%) at December 31, 2000. The Company's primary regional exposure is to Western Europe with approximately 99% at December 31, 2001 versus 63% at December 31, 2000.

The modeling technique the Company uses to report its currency exposure does not take into account correlation among foreign currency exchange rates or correlation among various markets (i.e., the foreign exchange, equity and fixed income markets). Even though the Company believes it to be unlikely that all of the foreign currency exchange rates to which it is exposed would simultaneously decrease by 10%, the Company finds it meaningful to "stress test" its portfolio under this and other hypothetical extreme adverse market scenarios. The Company's actual experience may differ from the results noted above if future experience does not correspond with the correlation assumptions that the Company has used, or if events occur that were not included in the methodology, such as significant liquidity or market events.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources

The Company's capital resources consist of shareholder's equity. The following table summarizes the Company's capital resources at the end of the last three years:

	2001	2000	1999
	(in millions)		
Redeemable preferred stock	\$ 90	\$ 209	\$ 183
Common stock and retained income	4,670	4,357	3,972
Accumulated other comprehensive income	637	559	210
Total shareholder's equity	\$ 5,397	\$ 5,125	\$ 4,365

Shareholder's equity

Shareholder's equity increased at December 31, 2001 due to Net income and increased unrealized capital gains. AIC made a capital contribution to Allstate Life of all of the issued and outstanding

Allstate Life Preferred Stock, Series B, resulting in an increase in additional paid-in capital of \$117 million. Shareholder's equity increased in 2000 due to Net income, an increase in unrealized capital gains and the issuance of additional shares of redeemable preferred stock—Series A. (See Note 12 to the consolidated financial statements for further discussion of preferred stock.) Shareholder's equity decreased in 1999 as Net income was offset by a decline in unrealized capital gains.

Debt

The Company had no outstanding debt at December 31, 2001, 2000 or 1999, respectively. The Company has entered into an inter-company loan agreement with the Corporation. The amount of inter-company loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to \$1.00 billion. No amounts were outstanding for the Company under the inter-company loan agreement at December 31, 2001, 2000 or 1999. The Corporation uses commercial paper borrowings and bank lines of credit to fund inter-company borrowings.

Financial ratings and strength

Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies and, generally, may be expected to have an effect on an insurance company's sales. On an ongoing basis, rating agencies review the financial performance and condition of insurers. A downgrade, while not expected, could have a material adverse effect on the Company's business, financial condition and results of operations. Allstate Life's current financial strength ratings are listed below:

Rating Agency	Rating	Rating Structure
Moody's Investors Service, Inc.	Aa2 ("Excellent")	Second highest of nine ratings categories and mid-range within the category based on modifiers (e.g., Aa1, Aa2 and Aa3 are "Excellent")
Standard & Poor's Ratings Services	AA+ ("Very Strong")	Second highest of nine ratings categories and highest within the category based on modifiers (e.g., AA+, AA and AA- are "Very Strong")
A.M. Best Company, Inc.	A+ ("Superior")	Highest of nine ratings categories and second highest within the category based on modifiers (e.g., A++ and A+ are "Superior" while A and A- are "Excellent")

In February 2002, Standard & Poor's affirmed its December 31, 2001 ratings. Standard & Poor's revised its outlook for Allstate Life and its rated subsidiaries and affiliates to "negative" from "stable." This revision is part of an ongoing life insurance industry review recently initiated by Standard & Poor's. Moody's and A.M. Best reaffirmed all of Allstate Life's and its rated subsidiaries' ratings and outlooks.

The NAIC has a standard for assessing the solvency of insurance companies, which is referred to as risk-based capital ("RBC"). The standard is based on a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. The RBC formula, which regulators use to assess the sufficiency of an insurer's capital, measures the risk characteristics of a company's assets, liabilities and certain off-balance sheet items. RBC is calculated

by applying factors to various asset, premium and liability items. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with less underlying risk. At December 31, 2001, RBC for each of the Company's domestic insurance companies was significantly above levels that would require regulatory actions.

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. The NAIC analyzes data provided by insurance companies using prescribed financial data ratios each with defined "usual ranges." Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. Allstate Life and its insurance subsidiaries are currently not under regulatory scrutiny based on these ratios.

Liquidity

The principal sources of funds for the Company include the following activities:

Sources of funds

- Statutory premiums and deposits
- Reinsurance recoveries
- Receipts of principal, interest and dividends on investments
- Funds from investment repurchase agreements, securities lending, dollar roll and lines of credit agreements
- Inter-company loans
- Dividends from subsidiaries

The principal uses of funds for the Company include the following activities:

Uses of funds

- Payment of contract benefits, maturities, surrenders and withdrawals
- Reinsurance cessions and payments
- Operating expenses
- Purchase of investments
- Repayment of investment repurchase agreements, securities lending, dollar roll and lines of credit agreements
- Repayment of inter-company loans
- Dividends to AIC

The following table summarizes cash flows for the years ended December 31:

	2001	2000	1999
	(in millions)		
Cash flow provided by (used in):			
Operating activities	\$ 1,753	\$ 1,299	\$ 1,045
Investing activities	(4,699)	(3,577)	(2,902)
Financing activities	3,018	2,268	1,818
Net increase (decrease) in cash	\$ 72	\$ (10)	\$ (39)

The Company's operations typically generate substantial positive cash flows from operations as most premiums are received in advance of the time when benefit payments are required. These positive operating cash flows are expected to continue to meet the liquidity requirements of the Company.

Dividends to Allstate Life from its domestic insurance subsidiaries and dividends Allstate Life can pay to AIC are subject to restriction under the insurance company holding act of the insurance company's state of domicile. The payment of dividends by Allstate Life is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. Based on 2001 statutory net income, the maximum amount of dividends Allstate Life will be able to pay without prior Illinois Department of Insurance approval at a given point in time during 2002 is \$273 million, less dividends paid during the preceding twelve months measured at that point in time. At December 31, 2001, Allstate Life has paid a total of \$172 million during the preceding twelve months. On March 28, 2002, Allstate Life paid a dividend of \$44 million to AIC.

Allstate Life's insurance subsidiaries are domiciled in Illinois, New York, Arizona and Nebraska. Except for those domiciled in New York and one in Nebraska, Allstate Life has 100% intercompany reinsurance agreements in place with its domestic insurance subsidiaries. Only assets supporting capital and Separate Accounts remain in these subsidiaries. The maximum amount of dividends Allstate Life's domestic insurance subsidiaries will be able to pay without prior approval of their respective departments of insurance in 2002 is \$45 million. In the twelve-month period beginning January 1, 2001, Allstate Life's domestic insurance subsidiaries paid dividends of \$45 million, which represented an extraordinary dividend from a subsidiary no longer writing new business.

The maturity structure of the Company's fixed income securities, which represent 84.0% of total investments at December 31, 2001, is managed to meet the anticipated cash flow requirements of the underlying liabilities. 57.2% of the fixed income securities are invested in liquid asset classes including publicly traded corporate bonds, MBSs and ABSs. Additionally, the Company actively participates in repurchase and dollar roll transactions to meet temporary liquidity requirements and to support advance purchases of investments. These transactions are subject to borrowing limits and collateral requirements in certain situations, which are monitored by the Company and reviewed regularly.

A portion of the Company's diversified product portfolio, primarily fixed annuity and interest-sensitive life insurance products, is subject to discretionary surrender and withdrawal by contractholders. Total surrender and withdrawal amounts were \$2.95 billion, \$3.67 billion and \$2.75 billion in 2001, 2000 and 1999, respectively. As the Company's interest-sensitive life policies and annuity contracts in force grow and age, the dollar amount of surrenders and withdrawals could increase. While the overall amount of surrenders may increase in the future, a significant increase in the level of surrenders relative to total contractholder account balances is not anticipated.

Management performs actuarial tests on the impact to cash flows of surrenders and other actions under various interest rate scenarios. Based on these tests, management believes that future cash flows are expected to be sufficient to meet future benefit obligations to the Company's contractholders under various interest rate scenarios.

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The following table summarizes liabilities for interest-sensitive products by their contractual withdrawal provisions at December 31, 2001. Approximately 12.6% of these liabilities is subject to discretionary withdrawal without adjustment.

	2001
	(\$ in millions)
Not subject to discretionary withdrawal	\$ 7,839
Subject to discretionary withdrawal with adjustments:	
Specified surrender charges(1)	11,532
Market value	8,728
Subject to discretionary withdrawal without adjustments	4,031
Total	\$ 32,130

(1) Includes \$5.1 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

The Company is also exposed to interest rate risk on certain insurance liabilities. Decreases in interest rates can lead contractholders to surrender their contracts.

As of December 31, 2001, the Company had \$2.1 billion of putable Funding Agreements of varying lengths of putable periods ranging from seven to three hundred sixty five days. At December 31, 2001, the average put period was 226 days.

Established external sources of short-term liquidity include lines of credit, dollar rolls and repurchase agreements, which in the aggregate, could provide over \$1.90 billion of additional liquidity at December 31, 2001. Allstate Life and its subsidiaries also have access to approximately \$48.0 billion of potential liquidity from their portfolios of marketable investment securities and the ability to issue new insurance contracts. A significant portion of the investment portfolio has favorable liquidity characteristics but with variation by asset class, including for example \$11.36 billion of privately placed corporate obligations and \$5.45 billion of mortgage loans. The ability to transfer funds between insurance subsidiaries is subject to various regulatory requirements.

The events and circumstances that could constrain the Corporation's liquidity, and therefore the Company's liquidity, include a catastrophe resulting in extraordinary losses, a downgrade in the Corporation's current long-term debt rating of A1 and A+ (from Moody's and Standard & Poor's, respectively) to non-investment grade status of below Baa3/BBB-, a downgrade in AIC's financial strength rating from Aa2,AA and A+ (from Moody's, Standard & Poor's and A.M. Best, respectively) to below Baa/BBB/B, or a downgrade in Allstate Life's financial strength rating from Aa2/AA+/A+ (from Moody's, Standard & Poor's and A.M. Best, respectively) to below Aa3/AA-/A-. The rating agencies also consider the interdependence of the Corporation's individually rated entities, and therefore a rating change in one entity could potentially affect the ratings of other related entities. The Corporation considers the occurrence of any of these events to be remote. In addition, there are no known trends, demands, commitments, events or uncertainties that could significantly constrain the Corporation's liquidity which management considers reasonably likely to occur.

During the second quarter of 2001, the Corporation replaced its primary credit facility and currently maintains three credit facilities totaling \$1.20 billion as a potential source of funds to meet short-term liquidity requirements. The Company is a party to the following two credit facilities: a \$575 million five-year revolving line of credit expiring in 2006 and a \$575 million 364-day revolving line of credit expiring in the second quarter of 2002. The rights to borrow on the five-year and 364-day lines of credit are subject to requirements that are customary for facilities of this size, type and purpose. For example, the Corporation's ratio of total debt to total capital (as defined in the agreements) cannot exceed a designated level. This requirement is currently being met and management expects to

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continue to meet it in the future. The Company has direct access to the two \$575 million dollar lines of credit. There were no borrowings under either of these lines of credit during 2001. The Corporation guarantees payment of all amounts due under the agreements. The total amount outstanding at any point in time of the Corporation and its subsidiaries, including the Company, under the combination of the Corporation's commercial paper program and the three credit facilities is limited to \$1.20 billion.

The following table summarizes the contractual obligations of the Company as of December 31, 2001 and the payments due by period:

	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
	(in millions)				
Securities Lending, Dollar Rolls, and Repurchase	\$ 1,450	\$ 1,450	\$ —	\$ —	\$ —

Agreements(1)					
GIC's/Funding Agreements (non-putable)(2)	5,758	812	2,438	1,284	1,224
Funding Agreements (putable/callable)(2)	2,120	1,597	523	—	—
Operating Leases(3)	2	1	1	—	—
	<u> </u>				
Total Contractual Cash Obligations	\$ 9,330	\$ 3,860	\$ 2,962	\$ 1,284	\$ 1,224
	<u> </u>				

- (1) Securities lending, dollar rolls and repurchase transactions are typically fully collateralized with marketable securities. The Company's principal operating subsidiaries manage their short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish liabilities as they come due in the normal course of business.
- (2) The putable/callable Funding Agreement program as well as the non-putable Funding Agreement and GIC programs, are very closely asset/liability duration matched by the Company. Accordingly, upon surrender or maturity of the related contracts the Company maintains assets with a sufficient market value to extinguish the liabilities in the normal course of business.
- (3) The liquidity requirements of long-term debt, operating leases, unconditional purchase and other obligations are managed within the structure of the Company's intermediate to long-term liquidity management program.

The following is a distribution in U.S. Dollars of funding agreements (non-putable) by currency at December 31, 2001:

Currency	2001
	(in millions)
Australian Dollar	\$ 152
Swiss Franc	358
Euro	28
British Pound	646
United States Dollar	2,295
	<u> </u>
	\$ 3,479
	<u> </u>

All foreign currency denominated funding agreements have been swapped to U.S. Dollars.

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The following table summarizes the contractual commitments of the Company as of December 31, 2001 and the payments due by period.

	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
	(in millions)				
Guarantees(1)	\$ 5,208	\$ 305	\$ 1,276	\$ 633	\$ 2,994
Other Commitments—Conditional(2)	153	153	—	—	—
Other Commitments—Unconditional(2)	49	—	—	9	40
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Commitments	\$ 5,410	\$ 458	\$ 1,276	\$ 642	\$ 3,034
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (1) Approximately \$4.83 billion (or 92.7%) of this balance relates to Synthetic GICs. Synthetic GICs are a fee based insurance product purchased by pension trusts to obtain book value treatment for their defined contribution plans. The coverage provides for a benefit payment in the event the plan experiences heavy withdrawal activity due to allowable participant initiated events. The product has been offered since 1996 without experiencing a call on the guarantee. Coverage is provided to approximately 125 companies with contracts ranging from in size from \$1 million to \$528 million. The Company's underwriting activities closely monitor each arrangement. At December 31, 2001, the market value of the plan assets was valued on average at 102% of the book value of the guarantee. This ratio typically ranges from 99% to 101%.
- (2) Represents investment commitments such as private placements and mortgage loans.

The Company's use of off-balance sheet arrangements is limited to one SPE used to issue global medium-term notes ("GMTNs") to institutional investors. Management of the Corporation has not invested in the SPE. At December 31, 2001, the SPE used to issue GMTNs had assets and liabilities of \$1.62 billion, respectively, and in excess of \$48 million of unrelated third party equity. The funding agreements issued by the Company to the SPE are reported on the consolidated statements of financial position as a component of contractholder funds.

The Company has inter-company agreements in place that relate to insurance, reinsurance, loans, capitalization and the performance of various services (generally at cost). All material inter-company transactions have appropriately been eliminated in consolidation. Inter-company transactions among insurance subsidiaries and affiliates have been approved by the applicable state's of domicile department of insurance as required under applicable laws.

REGULATION AND LEGAL PROCEEDINGS

The Company's business is subject to the effects of a changing social, economic and regulatory environment. State and federal regulatory initiatives have varied and have included employee benefit regulations, removal of barriers preventing banks from engaging in the securities and insurance businesses, tax law changes affecting the taxation of insurance companies, the tax treatment of insurance products and its impact on the relative desirability of various personal investment vehicles and the overall expansion of regulation. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

The Company is defending various lawsuits involving sales practices such as breach of contract, licensing and other business conduct. One statewide class action alleges that Allstate Life and an affiliate violated Florida insurance statutes in the sale of credit insurance. The judge has granted a partial summary judgment against Allstate Life and the affiliate, however, damages have not yet been determined. The Company is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial and/or indeterminate amounts (including punitive and treble damages) and the outcomes of which are unpredictable. This litigation is based on a variety of issues. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

State Insurance Regulation

State insurance authorities have broad administrative powers with respect to all aspects of the life insurance business including:

- Licensing to transact business
- Licensing agents
- Admittance of assets to support statutory surplus
- Approving policy forms
- Regulating unfair trade and claims practices
- Establishing reserve requirements and solvency standards
- Regulating the type, amounts and valuations of investments permitted and other matters

State insurance laws require Allstate Life and its subsidiaries to file financial statements with insurance departments in all states in which the Company does business. The operations of the Company and the accounts are subject to examination by those departments at any time. The Company prepares statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In addition, the Company is required to file annually, audited statutory-basis financial statements with the NAIC and state insurance departments.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

Federal Regulation and Securities Operations

The Company's variable annuity and variable life insurance products are considered securities within the meaning of federal and state securities laws and generally are registered under the Securities Act of 1933 and are subject to regulation by the SEC, the National Association of Securities Dealers ("NASD") and state securities regulations. The Company's Separate Accounts are registered as investment companies under the Investment Company Act of 1940.

Allstate Life also has several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934 and are subject to regulation by the SEC, including but not limited to the SEC's net capital rules. These broker-dealers are members of, and are subject to regulation by, the NASD. These organizations conduct examinations of and have adopted rules governing their member broker-dealers. These rules cover many aspects of the securities business, including sales methods and trading practices. The regulations cover the suitability of investments for individual customers, use and safekeeping of customers' funds and securities, capital adequacy, record keeping, financial reporting and the conduct of directors, officers and related personnel.

In addition, Allstate Life has several subsidiaries that are registered as investment advisers under the Investment Advisers Act of 1940, and, therefore, are subject to regulation by the SEC.

Guaranty Funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. A company's assessment is typically proportional to its business written in a particular state. The Company's guaranty fund assessments have been immaterial.

PENDING ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and other Intangible Assets", which eliminates the requirement to amortize goodwill, and requires that goodwill and separately identified intangible assets with indefinite lives be tested for impairment on an annual basis (or more frequently if impairment indicators arise) on a fair value as opposed to an undiscounted basis. SFAS No. 142 is effective January 1, 2002. A transitional goodwill impairment test is required to be completed within the first six months of adoption with any resulting goodwill impairment charge recognized as a cumulative effect of a change in accounting principle in the consolidated statements of operations and other comprehensive income. As of December 31, 2001, the Company's unamortized goodwill balance was \$13 million and goodwill amortization expense recognized during 2001 was \$627 thousand. Transitional goodwill impairment testing is being conducted and the impacts are not expected to be material to the consolidated results of operations or financial position of the Company.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. SFAS No. 144 also amends Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 requires that long-lived assets held for sale be recorded at the lower of carrying value or fair value less cost to sell. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be disposed of other than by sale are considered held and used until disposed. The adoption of SFAS No. 144 on January 1, 2002 is not expected have a material impact on either the consolidated financial position or results of operations of the Company.

In December 2001, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position ("SOP") 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others", which is effective for interim and annual financial

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statements issued for the fiscal year beginning after December 15, 2001. The SOP conforms accounting and financial reporting practices for certain lending and financing activities, eliminating various specialized accounting practices that developed from the issuance of AICPA finance company, bank, and credit union audit guides. The SOP also explicitly incorporates lending and financing activities of insurance companies within its scope. The Company's adoption of SOP 01-6 is not expected to have a material effect on the consolidated results of operations or financial position.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This document contains "forward-looking statements" that anticipate results based on management's plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "expects," "will," "anticipates," "estimates," "intends," "believes," "likely," and other words with similar meanings. These statements may address, among other things, the Company's strategy for growth, product development, regulatory approvals, market position, expenses, financial results and reserves. Forward-looking statements are based on management's current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate. However, management believes that our forward-looking statements are based on reasonable, current expectations and assumptions. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

If the expectations or assumptions underlying the forward-looking statements prove inaccurate or if risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. In addition to the normal risks of business, the Company is subject to significant risk factors, including those listed below which apply to it as an insurance business and a provider of other financial services.

- There is uncertainty involved in estimating the availability of reinsurance and the collectibility of reinsurance and recoverables. This uncertainty arises from a number of factors, including whether losses meet the qualifying conditions of the reinsurance contracts and if the reinsurers have the financial capacity and willingness to pay.
- Currently, the Corporation is examining the potential exposure, if any, of its insurance operations from acts of terrorism. The Corporation is also examining how best to address this exposure, if any, considering the interests of policyholders, shareholders, the lending community, regulators and others. The Company does not have exclusions for terrorist events included in its life insurance policies. In the event that a terrorist act occurs, the Company may be adversely impacted, depending on the nature of the event. With respect to the Company's investment portfolio, in the event that commercial insurance coverage for terrorism becomes unavailable or very expensive, there could be significant adverse impacts on some portion of the Company's portfolio, particularly in sectors such as airlines and real estate. For example, commercial mortgages or certain debt obligations might be adversely affected due to the inability to obtain coverage to restore the related real estate or other property, thereby creating the potential for increased default risk.
- Changes in market interest rates can have adverse effects on the Company's investment portfolio, investment income, product sales, results of operations and retention of existing business. Increasing market interest rates have an adverse impact on the value of the investment portfolio, for example, by decreasing unrealized capital gains on fixed income securities. Declining market interest rates could have an adverse impact on the Company's investment income as the Company reinvests proceeds from positive cash flows from operations and from maturing and called investments into new investments that could be yielding less than the

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portfolio's average rate. Changes in interest rates could also reduce the profitability from spread-based products, particularly fixed annuities and structured financial products, as the difference between the amount that the Company is required to pay on such products and the rate of return earned on the general account investments could be reduced. Changes in market interest rates as compared to rates offered on some of the Company's products could make those products less attractive if competitive investment margins are not maintained, leading to lower sales and/or changes in the level of surrenders and withdrawals on these products. Additionally, unanticipated surrenders could cause acceleration of amortization of DAC and thereby increase expenses and reduce current period profitability. The Company seeks to limit its exposure to this risk on its products by offering a diverse group of products, periodically reviewing and revising crediting rates and providing for surrender charges in the event of early withdrawal.

- The impact of decreasing Separate Accounts balances resulting from volatile market conditions, underlying fund performance, and sales management practices could cause contract charges realized by the Company to decrease and lead to an increase of the exposure to pay guaranteed minimum income and death benefits.
- In order to meet the anticipated cash flow requirements of its obligations to policyholders, from time to time the Company adjusts the effective duration of investments, liabilities for contractholder funds and reserves for life-contingent contract benefits. Those adjustments may have an impact on the value of the investment portfolio, investment income, interest credited to contractholder funds and the investment margin.
- The Company amortizes DAC related to contractholder funds in proportion to gross profits over the estimated lives of the contract periods. Periodically, the Company updates the assumptions underlying the gross profits, which include estimated future fees, investment margins and operating costs and expenses, in order to reflect actual experience. Updates to these assumptions result in adjustments to the cumulative amortization of DAC. These adjustments may have a material effect on results of operations.
- It is possible that the assumptions and projections used by the Company in establishing prices for the guaranteed minimum death benefits and guaranteed minimum income benefits on variable annuities, particularly assumptions and projections about investment performance, do not accurately anticipate the level of costs that the Company will ultimately incur in providing these benefits.
- Management believes the reserves for life-contingent contract benefits are adequate to cover ultimate policy benefits, despite the underlying risks and uncertainties associated with their determination when payments will not be made until well into the future. Reserves are based on many assumptions and estimates, including estimated premiums to be received over the assumed life of the policy, the timing of events covered by the insurance policy, the amount of contract benefits to be paid and the investment returns on the assets purchased with the premiums received. The Company periodically reviews and revises its estimates. If future experience differs from assumptions, it may have a material impact on results of operations.
- Under current U.S. tax law and regulations, deferred and immediate annuities and life insurance, including interest-sensitive products, receive favorable policyholder tax treatment. Any legislative or regulatory changes that adversely alter this treatment are likely to negatively affect the demand for these products. In addition, recent changes in the federal estate tax laws will affect the demand for the types of life insurance used in estate planning.
- The Company distributes some of its products under agreements with other members of the financial services industry that are not affiliated with the Company. Termination of one or more of these agreements due to, for example, changes in control of any of these entities, could have a detrimental effect on the Company's sales. This risk may be exacerbated due to the enactment

of the Gramm-Leach-Bliley Act of 1999, which eliminated many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

- The Corporation maintains three credit facilities totaling \$1.20 billion as a potential source of funds to meet short-term liquidity requirements. The Company has access to the following two credit facilities: a \$575 million five-year revolving line of credit expiring in 2006 and a \$575 million 364-day revolving line of credit expiring in 2002. The rights to borrow on the five-year and 364-day lines of credit are subject to the requirement that the Corporation's ratio of total debt to total capital (as defined in the agreements) not exceed a designated level. The ability of the Corporation to meet the requirement is dependent upon its financial condition.
- The Company's liquidity could be constrained by a catastrophe which results in extraordinary losses, a downgrade of the Corporation's current long-term debt rating of A1 and A+ (from Moody's and Standard & Poor's, respectively) to non-investment grade status of below Baa3/BBB-, a downgrade in AIC's financial strength rating from Aa2, AA and A+ (from Moody's Standard & Poor's and A.M. Best, respectively) to below Baa/BBB/B, or a downgrade in the Company's financial strength rating from Aa2, AA+ and A+ (from Moody's Standard & Poor's and A.M. Best, respectively) to below Aa3/AA-/A-.
- The events of September 11 and the resulting disruption in the financial markets revealed weaknesses in the physical and operational infrastructure that underlies the U.S. and worldwide financial systems. Those weaknesses did not impair the Company's liquidity in the wake of September 11. However, if an event of similar or greater magnitude occurred in the future and if the weaknesses in the physical and operational infrastructure of the U.S. and worldwide financial systems are not remedied, the Company could encounter significant difficulties in transferring funds, buying and selling securities and engaging in other financial transactions that support its liquidity.
- Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies and, generally, may be expected to have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers. A downgrade of either the Company or Allstate, while not expected, could have a material adverse effect on the Company's sales, including the competitiveness of the Company's product offerings, its ability to market products, and its financial condition and results of operations.
- State insurance regulatory authorities require insurance companies to maintain specified levels of statutory capital and surplus. In addition, competitive pressures generally require Allstate Life and its subsidiaries to maintain financial strength ratings. These restrictions affect Allstate Life's insurance subsidiaries' ability to pay shareholder dividends to Allstate Life and use their capital in other ways.

- A portion of the unrealized capital gains or losses included as a component of shareholder's equity relating to non-exchange traded marketable investment securities accounted for at fair value is internally developed using widely accepted valuation models and independent third party data as model inputs. A decrease in these values would negatively impact the Corporation's and the Company's debt-to-capital ratio.
- Changes in the fair value of certain non-exchange traded derivative contracts where fair value is internally developed using widely accepted valuation models and independent third party data as model inputs are included in operating income, net income or as a component of shareholder's equity. A decrease in the fair value of these non-exchange traded derivative contracts would negatively impact the Company's operating income, net income and shareholder's equity, assets and liabilities.

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- Following enactment of the Gramm-Leach-Bliley Act of 1999, federal legislation that allows mergers that combine commercial banks, insurers and securities firms, state insurance regulators have been collectively participating in a reexamination of the regulatory framework that currently governs the U. S. insurance business in an effort to determine the proper role of state insurance regulation in the U. S. financial services industry. We cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what affect any such measures would have on the Company.
 - The Gramm-Leach-Bliley Act of 1999 permits mergers that combine commercial banks, insurers and securities firms under one holding company. Until passage of the Gramm-Leach-Bliley Act, the Glass Steagall Act of 1933 had limited the ability of banks to engage in securities-related businesses and the Bank Holding Company Act of 1956 had restricted banks from being affiliated with insurers. With the passage of the Gramm-Leach-Bliley Act, bank holding companies may acquire insurers and insurance holding companies may acquire banks. In addition grandfathered unitary thrift holding companies, including the Corporation, may engage in activities that are not financial in nature. The ability of banks to affiliate with insurers may materially adversely affect all of the Company's product lines by substantially increasing the number, size and financial strength of potential competitors.
 - Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial and/or indeterminate amounts (including punitive and treble damages) and the outcomes of which are unpredictable. This litigation is based on a variety of issues including insurance and claim settlement practices.
 - In some states, mutual insurance companies can convert to a hybrid structure known as a mutual holding company. This process converts insurance companies owned by their policyholders to stock insurance companies owned (through one or more intermediate holding companies) partially by their policyholders and partially by stockholders. Also some states permit the conversion of mutual insurance companies into stock insurance companies (demutualization). The ability of mutual insurance companies to convert to mutual holding companies or to demutualize may materially adversely affect all of our product lines by substantially increasing competition for capital in the financial services industry.

Item 3. Properties.

Our home office is part of the Parent Group's home office complex in Northbrook, Illinois. The complex consists of several buildings with an aggregate of approximately 2.35 million square feet of office space on a 250-acre site.

In addition we operate from various administrative, data processing, claims handling and support facilities in North America.

All of the facilities from which we operate are owned or leased by our parent, Allstate Insurance Company. Expenses associated with these facilities are allocated to us on both a direct and an indirect basis, depending on the nature and use of each particular facility. We believe that these facilities are suitable and adequate for our current operations.

The locations from which the Parent Group exclusive agencies operate in the U.S. are normally leased by the agencies.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

Omitted.

Item 5. Directors and Executive Officers of the Registrant.

Below is a list of our directors and executive officers, including their current ages, their positions, and the dates of their first election as officers or directors. No family relationships exist among them. They are elected for one-year terms. Officers may be removed from office at any time, with or without cause.

With the exception of Ms. Dyer and Messrs. Carl, McCarthy, and Bird, these directors and officers have held the listed positions for at least the last five years or have served Allstate Life Insurance Company or Allstate Insurance Company in various executive or administrative capacities for at least five years. Mr. Carl intends to retire by the end of the second quarter of 2002.

David A. Bird. Director of Allstate Life Insurance Company. Age 45. First elected in 2002. Mr. Bird joined the Parent Group in 1999 in connection with The Allstate Corporation's acquisition of American Heritage Life Investment Corporation, where he had been Executive Vice President and Chief Marketing Officer.

John L. Carl. Director of Allstate Life Insurance Company. Vice President and Chief Financial Officer of The Allstate Corporation. Senior Vice President and Chief Financial Officer of Allstate Insurance Company. Age: 54. First elected in 1999. Prior to joining the Parent Group in 1999, Mr. Carl was Executive

Vice President and Chief Financial Officer of Amoco Corporation from 1991 to 1999.

Patricia A. Coffey. Vice President (Information Technology) of Allstate Life Insurance Company. Age: 43. First elected in 1999.

Richard I. Cohen. Director of Allstate Life Insurance Company. Senior Vice President of Allstate Insurance Company. Age: 57. First elected in 1999.

Margaret G. Dyer. Director and Senior Vice President (Marketing) of Allstate Life Insurance Company. Age: 49. First elected in 1999. Prior to joining the Allstate Life Group in 1999, Ms. Dyer was Vice President of Marketing for Citigroup Inc. from 1997 to 1999 and Senior Vice President of Marketing for Sara Lee Corporation from 1995 to 1997.

Marla Friedman Glabe. Director and Senior Vice President (Operations) of Allstate Life Insurance Company. Age: 49. First elected in 1991.

Dennis Gomez. Vice President (Human Resources) of Allstate Life Insurance Company. Age: 53. First elected in 2000.

Edward M. Liddy. Director of Allstate Life Insurance Company. Chairman, President and Chief Executive Officer of The Allstate Corporation and Allstate Insurance Company. Age: 56. First elected in 1994.

John C. Lounds. Director and Senior Vice President (Products) of Allstate Life Insurance Company. Age: 52. First elected in 1994.

J. Kevin McCarthy. Director and Senior Vice President (Distribution) of Allstate Life Insurance Company. Age: 48. First elected in 2000. Prior to joining the Allstate Life Group in 2000, Mr. McCarthy was Executive Vice President and Chief Marketing Officer for Provident Mutual Life Insurance Company from 1996 to 1999.

Robert W. Pike. Director of Allstate Life Insurance Company. Vice President and Secretary of The Allstate Corporation and Executive Vice President and Secretary of Allstate Insurance Company. Age: 60. First elected in 1992.

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Steven E. Shebik. Director and Senior Vice President (Finance and Planning) of Allstate Life Insurance Company. Age: 45. First elected in 2001.

Kevin R. Slawin. Director and Senior Vice President (Institutional Markets) of Allstate Life Insurance Company. Age: 44. First elected in 1996.

Casey J. Sylla. Director and Chief Investment Officer of Allstate Life Insurance Company. Senior Vice President and Chief Investment Officer of Allstate Insurance Company. Age: 58. First elected in 1995.

Michael J. Velotta. Director, Senior Vice President, General Counsel and Secretary of Allstate Life Insurance Company. Vice President, Assistant General Counsel and Assistant Secretary of Allstate Insurance Company. Age: 55. First elected in 1992.

Thomas J. Wilson, II. Director and Chairman of the Board and President of Allstate Life Insurance Company. Senior Vice President of Allstate Insurance Company. Age: 44. First elected in 1995.

Item 6. Executive Compensation.

Omitted.

Item 7. Certain Relationships and Related Transactions.

Several of Allstate Life's directors also serve as officers and directors of other companies that are members of the Parent Group but are not members of the Allstate Life Group. With respect to those directors who serve as officers or directors of The Allstate Corporation or Allstate Insurance Company, their primary positions with those companies are noted, above, in the response to Item 5.

Allstate Life is party to a variety of arrangements with other members of the Parent Group that are not members of the Allstate Life Group. The principal arrangements are the following:

- Under service and expense agreements, Allstate Insurance Company provides various services to and pays various expenses for Allstate Life and some of its subsidiaries. In return, Allstate Life and those subsidiaries reimburse Allstate Insurance Company for its costs. Under these agreements, Allstate Insurance Company provides services and facilities such as salaries and benefits; space rental; overhead expenses which may include items such as electricity, heat and water; building maintenance services; furniture and other office equipment, supplies and special equipment such as reference libraries, electronic data processing equipment and the like. The amount charged to Allstate Life and subsidiaries under these agreements may not exceed the cost to Allstate Insurance Company. Allstate Life has no employees. Services are provided by employees of Allstate Insurance Company under the service and expense agreements.
- Under investment management agreements, Allstate Investments, LLC provides investment management services to Allstate Life and its subsidiaries.
- Allstate Life is party to an intercompany loan agreement with The Allstate Corporation. The maximum amount of loans that may be outstanding to Allstate Life under that agreement is limited to \$1.00 billion. However, no loans were outstanding under that agreement for Allstate Life at the end of 2000 or the end of 2001.
- Under a Tax Sharing Agreement, the federal tax liabilities, credits, refunds, benefits and similar items related to the consolidated federal income tax returns filed by The Allstate Corporation for taxable years ended on or after December 31, 1995 are allocated to various members of the Parent

- Allstate Bank provides cash management services to Allstate Life under a Cash Management Services Master Agreement.
- Allstate Life provides reinsurance to both Allstate Insurance Company and to Columbia Universal Life Insurance Company. On an automatic coinsurance basis, it reinsures all credit hospitalization and disability insurance issued directly by Allstate Insurance Company under a master policy. On a coinsurance basis, Allstate Life reinsures all of Columbia Universal's annuity and supplementary contract business. In addition, Allstate Life reinsures 100% of Columbia Universal's life (excluding annuities and supplementary contracts) and accident and health business on a modified coinsurance basis.
- Allstate Life retrocedes to Allstate Reinsurance Ltd. approximately 50% of specified business from Glenbrook Life and Annuity Company from time to time and pays 50% of Allstate Reinsurance's expenses related to reinsurance operations in Bermuda.
- Allstate Life and one of its subsidiaries issues structured settlement annuities to fund settlements in matters involving Allstate Insurance Company. Allstate Life and some of its subsidiaries have also indemnified Allstate Insurance Company for liabilities associated with surety bonds issued to guarantee the payment of structured settlement annuity benefits.
- Allstate Life receives underwriting and distribution services from Allstate Distributors, L.L.C., a broker/dealer company owned equally by Allstate Life and Putnam Investments, LLC, for variable annuity contracts sold pursuant to a joint venture agreement between Allstate Life and Putnam. In addition, Allstate Life provides administrative, legal and financial management services to Allstate Distributors, L.L.C.

For additional information on these arrangements, see Note 4 to the 2001 Consolidated Financial Statements and the "Capital Resources and Liquidity" section in our "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 8. Legal Proceedings.

The Allstate Life Group is defending various lawsuits involving sales practices such as breach of contract, licensing and other business conduct. One statewide class action alleges that the Company violated Florida insurance statutes in the sale of credit insurance. The judge has granted a partial summary judgment against the Company, however damages have not yet been determined. The Company is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Various other legal and regulatory actions are currently pending that involve the Allstate Life Group and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial and/or indeterminate amounts (including punitive and treble damages) and the outcomes of which are unpredictable. This litigation is based on a variety of issues including insurance and claim settlement practices. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.

There is no public trading market for the common stock of Allstate Life; all of its common stock is owned by Allstate Insurance Company, a wholly-owned subsidiary of The Allstate Corporation.

From January 1, 2000 through March 31, 2002, Allstate Life paid the following amounts to Allstate Insurance Company in the aggregate on the dates specified as dividends on its common stock:

Payment Date	Aggregate Amount
April 3, 2000	\$ 27,306,000
October 2, 2000	\$ 27,306,000
December 28, 2000	\$ 16,628,000
March 30, 2001	\$ 29,250,000
September 28, 2001	\$ 37,820,250
December 28, 2001	\$ 91,856,750
March 28, 2002	\$ 43,750,000

For more information, see the "Capital Resources and Liquidity—Liquidity" section of our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to the 2001 Consolidated Financial Statements.

Item 10. Recent Sales of Unregistered Securities.

Within the past three years, the only securities sold by Allstate Life that were not registered under the Securities Act of 1933 have been shares of common stock or shares of preferred stock issued to companies that are wholly-owned members of the Parent Group. These securities were issued in transactions that were exempt from registration under the Securities Act of 1933 because they did not involve a public offering.

Item 11. Description of Securities to be Registered.

Allstate Life Insurance Company is an insurance company organized under Illinois law. The following is qualified in its entirety by reference to the relevant provisions of Illinois law and Allstate Life Insurance Company's articles of incorporation and bylaws, which govern the rights of stockholders.

Authorized Capital Stock

The authorized capital stock is 3,023,800 shares. Those shares consist of:

- 23,800 shares of common stock, par value of \$227.00 per share, all of which are issued and outstanding and owned by Allstate Insurance Company, and
- 3,000,000 shares of non-voting preferred stock, par value of \$100.00 per share, of which 1,035,610 shares of Preferred Stock, Series A are issued and outstanding and owned by The Northbrook Corporation, a wholly owned member of the Parent Group.

All of the issued and outstanding capital stock is owned, directly or indirectly, by Allstate Insurance Company.

Common Stock

The common stockholder may receive dividends as and when declared by the board of directors. Dividends may be paid in cash, stock or property. Dividends may be declared only out of earned, as distinguished from contributed, surplus. All outstanding shares of common stock are fully paid and non-assessable. The common stockholder is notified of any stockholder's meeting in accordance with applicable law. If the Company liquidates, dissolves, or winds-up its business, common stockholders will share equally in the assets remaining after creditors (including state guaranty funds and associations and insurance policyholders) and preferred stockholders are paid.

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Preferred Stock

Only common stock is being registered on this Form 10. However, the following description of preferred stock is included because, in some situations, the rights of the preferred stock have priority over the rights of the common stock.

The board of directors can, without approval of the stockholders, issue one or more series of preferred stock. The board can determine the relative rights and preferences of each series and the number of shares in each series provided that no series of preferred stock may have voting rights in the affairs of the Company or be convertible to common stock of the Company.

If the Company liquidates, dissolves, or winds-up its business, the Preferred Stock, Series A has priority over the common stock in the distribution of assets for the par value plus any arrearage in dividends. Any share of the Preferred Stock, Series A issued and outstanding for at least five years may be redeemed by the Company for the par value plus any arrearage in dividends. The Preferred Stock, Series A is entitled to dividends, as and when declared by the board of directors, at a rate reasonably equivalent to a current short term interest rate determined by the board by reference to a widely accepted floating index of short-term interest rates.

Item 12. Indemnification of Directors and Officers.

Article VI, Section 1 of the bylaws of Allstate Life provides that Allstate Life will indemnify all of its directors, former directors, officers and former officers, to the fullest extent permitted under law, who were or are a party or are threatened to be made a party to any proceeding by reason of the fact that such persons were or are directors or officers of Allstate Life, against liabilities, expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by them. The indemnity shall not be deemed exclusive of any other rights to which directors or officers may be entitled by law or under any articles of incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise. In addition, the indemnity shall inure to the benefit of the legal representatives of directors and officers or of their estates, whether such representatives are court appointed or otherwise designated, and to the benefit of the heirs of such directors and officers. The indemnity shall extend to and include claims for such payments arising out of any proceeding commenced or based on actions of such directors and officers taken prior to the effectiveness of this indemnity; provided that payment of such claims had not been agreed to or denied by Allstate Life before such date. Article IV of the bylaws of The Allstate Corporation provides similar rights of indemnification to all directors, former directors, officers and former officers of Allstate Life, as a subsidiary of The Allstate Corporation.

The directors and officers of Allstate Life have been provided liability insurance for certain losses arising from claims or charges made against them while acting in their capacities as directors or officers of Allstate Life.

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Item 13. Financial Statements and Supplementary Data.

**ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

Year Ended December 31,

2001	2000	1999
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(in millions)

Revenues			
Premiums (net of reinsurance ceded of \$323, \$302 and \$241)	\$ 1,046	\$ 1,069	\$ 838
Contract charges	821	798	723
Net investment income	2,839	2,589	2,239
Realized capital gains and losses	(213)	(26)	192
	<u>4,493</u>	<u>4,430</u>	<u>3,992</u>
Costs and expenses			
Contract benefits (net of reinsurance recoverable of \$277, \$243 and \$161)	1,485	1,439	1,251
Interest credited to contractholders' funds	1,670	1,519	1,260
Amortization of deferred policy acquisition costs	365	418	367
Operating costs and expenses	416	343	344
	<u>3,936</u>	<u>3,719</u>	<u>3,222</u>
Loss on disposition of operations	(4)	—	—
Income from operations before income tax expense and cumulative effect of change in accounting principle	553	711	770
Income tax expense	179	241	266
	<u>374</u>	<u>470</u>	<u>504</u>
Cumulative effect of change in accounting for derivatives and embedded derivative financial instruments, after-tax	(6)	—	—
Net income	<u>368</u>	<u>470</u>	<u>504</u>
Other comprehensive income (loss), after tax			
Changes in:			
Unrealized net capital gains and losses	76	351	(646)
Unrealized foreign currency translation adjustments	2	(2)	1
	<u>78</u>	<u>349</u>	<u>(645)</u>
Other comprehensive income (loss), after-tax	78	349	(645)
Comprehensive income (loss)	<u>\$ 446</u>	<u>\$ 819</u>	<u>\$ (141)</u>

See notes to consolidated financial statements.

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ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2001	2000
	(in millions, except par value data)	
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$35,718 and \$31,052)	\$ 37,226	\$ 32,281
Mortgage loans	5,450	4,351
Equity securities, at fair value (cost \$196 and \$425)	201	473
Short-term	672	836
Policy loans	673	644
Other	75	35
	<u>44,297</u>	<u>38,620</u>
Total investments	44,297	38,620
Cash	130	58
Deferred policy acquisition costs	2,997	2,926
Reinsurance recoverables, net	950	614
Accrued investment income	479	494
Other assets	182	181
Separate Accounts	13,587	15,298
	<u>62,622</u>	<u>58,191</u>
Total assets	<u>\$ 62,622</u>	<u>\$ 58,191</u>

Liabilities		
Contractholder funds	\$ 32,301	\$ 27,676
Reserve for life-contingent contract benefits	8,632	8,000
Unearned premiums	9	48
Payable to affiliates, net	74	52
Other liabilities and accrued expenses	2,053	1,487
Deferred income taxes	569	505
Separate Accounts	13,587	15,298
	<hr/>	<hr/>
Total liabilities	57,225	53,066
	<hr/>	<hr/>
Commitments and Contingent Liabilities (Note 10)		
Shareholder's Equity		
Redeemable preferred stock—series A, \$100 par value, 1,500,000 shares authorized, 1,035,610 and 920,210 shares issued and outstanding	104	92
Redeemable preferred stock—series A subscriptions receivable	(14)	
Redeemable preferred stock—series B, \$100 par value, 1,500,000 shares authorized, 0 and 1,170,000 shares issued and outstanding	—	117
Common stock, \$227 par value, 23,800 shares authorized and outstanding	5	5
Additional capital paid-in	717	600
Retained income	3,948	3,752
Accumulated other comprehensive income:		
Unrealized net capital gains and losses	636	560
Unrealized foreign currency translation adjustments	1	(1)
	<hr/>	<hr/>
Total accumulated other comprehensive income	637	559
	<hr/>	<hr/>
Total shareholder's equity	5,397	5,125
	<hr/>	<hr/>
Total liabilities and shareholder's equity	\$ 62,622	\$ 58,191
	<hr/>	<hr/>

See notes to consolidated financial statements.

**ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY**

	Year Ended December 31,		
	2001	2000	1999
	(in millions)		
Redeemable preferred stock—series A			
Balance, beginning of year	\$ 92	\$ 66	\$ 58
Issuance of stock	15	26	8
Redemption of stock	(3)	—	—
	<hr/>	<hr/>	<hr/>
Balance, end of year	104	92	66
	<hr/>	<hr/>	<hr/>
Redeemable preferred stock—series A subscriptions receivable	(14)	—	—
	<hr/>	<hr/>	<hr/>
Redeemable preferred stock—series B			
Balance, beginning of year	117	117	117
Redemption of stock	(117)	—	—
	<hr/>	<hr/>	<hr/>
Balance, end of year	—	117	117
	<hr/>	<hr/>	<hr/>
Common stock			
Balance, beginning of year	5	5	5
Issuance of stock	—	—	—
	<hr/>	<hr/>	<hr/>
Balance, end of year	5	5	5
	<hr/>	<hr/>	<hr/>

Additional capital paid in

Balance, beginning of year	600	600	600
Capital contribution	117	—	—
Balance, end of year	717	600	600

Retained income

Balance, beginning of year	3,752	3,367	2,963
Net income	368	470	504
Dividends	(172)	(85)	(100)
Balance, end of year	3,948	3,752	3,367

Accumulated other comprehensive income

Balance, beginning of year	559	210	855
Change in unrealized net capital gains and net losses on derivative financial instruments	76	351	(646)
Change in unrealized foreign currency translation adjustments	2	(2)	1
Balance, end of year	637	559	210

Total shareholder's equity

\$ 5,397	\$ 5,125	\$ 4,365
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See notes to consolidated financial statements.

**ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2001	2000	1999
	(in millions)		
Cash flows from operating activities			
Net income	\$ 368	\$ 470	\$ 504
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and other non-cash items	(261)	(232)	(147)
Realized capital gains and losses	213	26	(192)
Loss on disposition of operations	4	—	—
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	6	—	—
Interest credited to contractholder funds	1,670	1,439	1,251
Changes in:			
Contract benefit and other insurance reserves	38	91	(49)
Unearned premiums	(39)	(10)	(30)
Deferred policy acquisition costs	(272)	(349)	(261)
Reinsurance recoverables	(145)	(139)	(41)
Income taxes payable	26	128	58
Other operating assets and liabilities	145	(125)	(48)
Net cash provided by operating activities	1,753	1,299	1,045

Cash flows from investing activities

Proceeds from sales			
Fixed income securities	6,844	6,923	4,680
Real estate	10	—	—
Equity securities	540	985	992
Investment collections			
Fixed income securities	3,434	2,041	2,907
Mortgage loans	359	390	392
Investments purchases			
Fixed income securities	(14,465)	(12,319)	(10,071)
Equity securities	(318)	(894)	(862)
Mortgage loans	(1,456)	(938)	(908)

Acquisitions, net of cash received	67	—	—
Change in short-term investments, net	330	281	4
Change in other investments, net	(44)	(46)	(36)
Net cash used in investing activities	(4,699)	(3,577)	(2,902)
Cash flows from financing activities			
Proceeds from issuance of redeemable preferred stock	1	26	8
Redemption of redeemable preferred stock	(120)	—	—
Capital contribution	117	—	—
Contractholder fund deposits	7,860	7,875	5,594
Contractholder fund withdrawals	(4,668)	(5,548)	(3,684)
Dividends paid	(172)	(85)	(100)
Net cash provided by financing activities	3,018	2,268	1,818
Net increase (decrease) in cash	72	(10)	(39)
Cash at beginning of the year	58	68	107
Cash at end of year	\$ 130	\$ 58	\$ 68

See notes to consolidated financial statements.

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ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Basis of presentation

The accompanying consolidated financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (collectively referred to as the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation"). These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated.

On May 31, 2000, the Company paid a dividend of all the common shares of Allstate Insurance Company of Canada ("AICC") stock to AIC. Prior to the dividend, AICC had been consolidated in the Company's financial statements and related disclosures. In conjunction with the dividend, the Company has restated its prior year financial results to exclude AICC.

To conform with the 2001 presentation, certain amounts in the prior years' financial statements and notes have been reclassified.

Nature of operations

The Company markets its products through two business segments, Retail and Structured Financial Products.

The Retail segment offers a diversified group of products to meet consumers' lifetime needs in the areas of protection and retirement solutions through a variety of distribution channels. Principal products offered by the segment include:

Protection	Retirement
Life Insurance	Investment Contracts
Traditional	Fixed annuities
Term life	Market value adjusted annuities
Whole life	Equity-indexed annuities
Credit Life	Immediate annuities
Interest-sensitive life	Variable annuities*
Universal life	
Single premium life	
Variable life*	
Variable universal life*	
Single premium variable life	
Other	
Long-term care	
Accidental death	
Hospital indemnity	

Four distribution channels market the Retail products: (1) the Allstate Agency channel, (2) the independent agents broker/dealers channel, including master brokerage agencies, (3) the financial services firms channel and (4) the direct marketing channel. Although the Company currently benefits from agreements with financial services firms who market and distribute its retail products, change in

control of these non-affiliated entities with which the Company has alliances could negatively impact sales.

The Structured Financial Products segment offers a variety of spread-based and fee-based products to qualified investment buyers. Spread-based products are designed to generate income based on the difference ("spread") between investment returns on the supporting assets and the guaranteed returns provided to customers. Fee-based products are designed to generate income based on various fees or charges assessed against the account values. While spread-based products provide guaranteed rates of return to customers, some fee-based products provide only a limited guarantee to customers. Spread-based products include guaranteed investment contracts ("GICs") and funding agreements ("FAs"). Synthetic GICs are the primary fee-based product offered by the segment. These products are distributed through specialized brokers or investment bankers. The segment also offers single premium annuity products such as structured settlement annuities through brokers who specialize in settlement of injury and other liability cases and single premium immediate annuities ("SPIAs") through independent agents.

In 2001, annuity premiums and deposits represented approximately 81.5% of the Company's total statutory premiums and deposits, which include all deposits recorded as liabilities in the statutory-basis financial statements.

The Company monitors economic and regulatory developments, which have the potential to impact its business. Federal legislation has allowed banks and other financial organizations to have greater participation in securities and insurance businesses. This legislation presents an increased level of competition for sales of the Company's products. Furthermore, the market for deferred annuities and interest-sensitive life insurance is enhanced by the tax incentives available under current law. Any legislative changes that lessen these incentives are likely to negatively impact the demand for these products. The demand for life insurance products that are used to address a customer's estate planning needs may be impacted to the extent any legislative changes occur to the current estate tax laws.

Additionally, traditional demutualizations of mutual insurance companies and enacted and pending state legislation to permit mutual insurance companies to convert to a hybrid structure known as a mutual holding company could have a number of significant effects on the Company by (1) increasing industry competition through consolidation caused by mergers and acquisitions related to the new corporate form of business; and (2) increasing competition in the capital markets.

The Company is authorized to sell its products in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands. The Company is also authorized to sell certain insurance products in various foreign countries. The top geographic locations in the United States for statutory premiums and deposits earned by the Company were Delaware, California, New York, Florida, Nebraska, Pennsylvania and Texas for the year ended December 31, 2001. No other jurisdiction accounted for more than 5% of statutory premiums and deposits for the Company.

2. Summary of Significant Accounting Policies

Investments

Fixed income securities include bonds, mortgage-backed and asset-backed securities, and redeemable preferred stocks. All fixed income securities are carried at fair value and may be sold prior to their contractual maturity ("available for sale"). Fair values for exchange traded fixed income securities are based upon quoted market prices or dealer quotes. The fair value of non-exchange traded fixed income securities is based on either independent third party pricing sources or widely accepted pricing valuation models which utilize internally developed ratings and independent third party data as inputs. The difference between amortized cost and fair value, net of deferred income taxes, certain

deferred policy acquisition costs, and certain reserves for life-contingent contract benefits, is reflected as a component of Accumulated other comprehensive income.

Mortgage loans are carried at outstanding principal balance, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Valuation allowances for impaired loans reduce the carrying value to the fair value of the collateral or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Valuation allowances on loans not considered to be impaired are established based on consideration of the underlying collateral, borrower financial strength, current and expected market conditions, and other factors.

Equity securities include common and non-redeemable preferred stocks, real estate investment trusts and limited partnership interests. Common and non-redeemable preferred stocks and real estate investment trusts are carried at fair value with the difference between cost and fair value of equity securities, less deferred income taxes, reflected as a component of Accumulated other comprehensive income. The fair value of equity securities is based principally on quoted market prices. Investments in limited partnerships in which the Company does not have a controlling interest, are accounted for in accordance with the equity method of accounting. In instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, the Company applies the cost method of accounting.

Short-term investments are carried at cost or amortized cost that approximates fair value, and generally includes collateral received in connection with certain securities lending activities. For securities lending transactions, the Company records an offsetting liability in Other liabilities and accrued expenses for

the Company's obligation to repay the collateral.

Policy loans are carried at unpaid principal balances. Other investments consist primarily of real estate investments, which are accounted for by the equity method if held for investment, or depreciated cost, net of valuation allowances, if the Company has an active plan to sell.

Investment income consists primarily of interest and dividends, net investment income from partnership interests and income from certain derivative transactions. Interest is recognized on an accrual basis and dividends are recorded at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method, based on estimated principal repayments. Accrual of income is suspended for fixed income securities and mortgage loans that are in default or when the receipt of interest payments is in doubt.

Realized capital gains and losses are determined on a specific identification basis. They include gains and losses from portfolio trading, write-downs in value due to other than temporary declines in fair value, and changes in the value of certain derivative instruments.

The Company monitors its fixed income and equity portfolios for ratings changes or other events which may result in declines in value that are other than temporary. Factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the duration and extent to which the fair value has been less than cost; and 3) the financial condition and near-term prospects of the issuer.

Derivative and embedded derivative financial instruments

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", as of January 1, 2001. The impact of SFAS No. 133 and SFAS No. 138

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(the "statements") to the Company was a loss of \$6 million, after-tax, and is reflected as a cumulative effect of a change in accounting principle on the Consolidated Statements of Operations. The Company also recorded a cumulative after-tax decrease of \$1 million in Accumulated other comprehensive income. The FASB is continuing to provide clarification and interpretation for the application of the statements. Any future clarifying or interpretative guidance will be applied by the Company as prescribed by the FASB.

The statements require that all derivatives be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through Net income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through Net income or recognized in Accumulated other comprehensive income until the hedged item is recognized in Net income. The Company has elected to adopt the provisions of the statements with respect to embedded derivative financial instruments to all such instruments held at January 1, 2001.

Derivative financial instruments include swaps, futures, options, interest rate caps and floors, warrants, synthetic guaranteed investment contracts, certain forward contracts for purchases of to-be-announced ("TBA") mortgage securities, certain investment risk transfer reinsurance agreements and certain credit default swaps. Derivatives which are required to be separated from the host instrument and accounted for as derivative financial instruments ("subject to bifurcation") are embedded in convertible fixed income securities, equity indexed life and annuity contracts, and certain variable contracts sold (see Note 6).

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset, liability, a forecasted transaction or an unrecognized firm commitment attributable to a particular risk. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged, the methodology used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk, or in the case of a cash flow hedge, the exposure to changes in the hedged transaction's variability in cash flows attributable to the hedged risk and the method that will be used to measure hedge ineffectiveness. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges is reported in Realized capital gains and losses, which was a \$6 million net gain as of December 31, 2001.

Derivatives are accounted for on a fair value basis, and reported as Other investments, Other assets, Other liabilities and accrued expenses or Contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The change in the fair value of derivatives embedded in assets and subject to bifurcation are reported in Realized capital gains and losses. The change in the fair value of derivatives embedded in liabilities and subject to bifurcation are reported in Realized capital gains and losses or Interest credited to contractholders' funds.

Fair value hedges The Company designates certain of its interest rate and foreign currency swap contracts, interest rate futures contracts, and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item.

For hedging instruments utilized in fair value hedges, the change in the fair value of the derivatives is reported together in Net investment income with the change in the fair value of the hedged items,

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when the hedged items are investment assets or a portion thereof. The change in the fair value of hedging instruments utilized in fair value hedges, when the hedged items are Contractholder funds liabilities or a portion thereof, are reported together in Interest credited to contractholders' funds with the change in the fair value of the hedged item. Accrued periodic settlements on swaps are reported in Net investment income or Interest credited to contractholders' funds. The carrying value of the hedged asset or liability is adjusted for the change in the fair value of the hedged risk.

Cash flow hedges The Company designates certain of its interest rate and foreign currency swap contracts, and interest rate futures contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk. The Company's cash flow exposure may be associated with either an existing asset or liability, or a forecasted transaction. Forecasted transactions must be probable of occurrence with their significant terms and specific characteristics identified.

For hedging instruments utilized in cash flow hedges, the change in the fair value of the derivatives is reported in Accumulated other comprehensive income. Amounts are reclassified to Net investment income or Realized capital gains and losses as the hedged transaction affects net income. The amount in Accumulated other comprehensive income for a hedged transaction is limited to the lesser of the cumulative gain or loss on the derivative less the amount reclassified to Net income; or the cumulative gain or loss on the derivative needed to offset the cumulative change in the expected future cash flows on the hedged transaction from inception of the hedge less the derivative gain or loss previously reclassified from Accumulated other comprehensive income to Net income. If the Company expects at any time that the loss reported in Accumulated other comprehensive income would lead to a net loss on the combination of the hedging instrument and the hedged transaction which may not be recoverable, a loss is recognized immediately in Realized capital gains and losses. If an impairment loss is recognized on an asset or an additional obligation is incurred on a liability involved in a hedge transaction, any offsetting gain in Accumulated other comprehensive income is reclassified and reported together with the impairment loss or recognition of the obligation.

Termination of hedge accounting If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished or the occurrence of a hedged forecasted transaction is no longer probable), the Company may terminate the derivative position. The Company may also terminate derivatives as a result of other events or circumstances. If the derivative financial instrument is not terminated when a fair value hedge is no longer effective, the gains and losses recognized on the derivative are reported in Realized capital gains and losses. For a fair value hedge which is no longer effective or for which the derivative has been terminated, the gain or loss recognized on the risk being hedged and used to adjust the carrying amount of the asset, liability or portion thereof is amortized to Net investment income or Interest credited to contractholders' funds, respectively, beginning in the period that hedge accounting is no longer applied. When a derivative financial instrument utilized in a cash flow hedge of an existing asset or liability is no longer effective or is terminated, the gain or loss recognized on the derivative is reclassified from Accumulated other comprehensive income to Net income as the hedged risk impacts net income, beginning in the period hedge accounting is no longer applied or the derivative instrument is terminated. If the derivative financial instrument is not terminated when a cash flow hedge is no longer effective, the future gains and losses recognized on the derivative are reported in Realized capital gains and losses. When a derivative financial instrument utilized in a cash flow hedge of a forecasted transaction is terminated prior to the occurrence of the forecasted transaction, or if a forecasted transaction is no longer probable of occurring, the gain or loss recognized on the derivative is reclassified from Accumulated other comprehensive income to Realized capital gains and losses.

Non-hedge derivative financial instruments The Company also has certain derivatives that are used in interest rate and equity price risk management strategies for which hedge accounting is not applied.

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These derivatives primarily consist of indexed instruments, certain interest rate futures and swap contracts, interest rate caps and floors and certain forward contracts for TBA mortgage securities. Based upon the income statement reporting category of the risk being offset, gains and losses attributable to the change in fair value and the accrued periodic settlements for these derivatives are matched together with results of the risk being offset. Therefore, the derivatives' gains and losses and accrued periodic settlements may be recognized in Net investment income, Realized capital gains and losses, Operating costs and expenses or Interest credited to contractholders' funds during the period on a current basis.

Prior to January 1, 2001, derivatives designated as accounting hedges were accounted for on a fair value, deferral or accrual basis, depending on the nature of the hedge strategy, the method used to account for the hedged item and the derivative used. Derivatives not accounted for as accounting hedges were accounted for on a fair value basis. Under fair value hedge accounting, the changes in the fair value of derivatives used in accounting hedges were reported in earnings or unrealized gains and losses, depending on the strategy. Under deferral accounting, gains and losses on derivatives were deferred and recognized in earnings in conjunction with earnings on the hedged item. Under accrual accounting, interest income or expense related to the derivative was accrued and recorded as an adjustment to the interest income or expense of the hedged item. Where hedge accounting was not applied, the change in fair value of certain derivatives was recognized in Net investment income, Realized capital gains and losses or Interest credited to contractholders' funds during the period on a current basis.

Security repurchase and resale and securities loaned

Securities purchased under agreements to resell and securities sold under agreements to repurchase, including a mortgage dollar roll program, are treated as financing arrangements and are generally carried at the amounts at which the securities will be subsequently resold or reacquired, including accrued interest, as specified in the respective agreements. The Company's policy is to take possession or control of securities purchased under agreements to resell. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through the right of substitution, maintains the right and ability to redeem the collateral on short notice. The market value of securities to be repurchased or resold is monitored, and additional collateral is obtained, where appropriate, to protect against credit exposure.

Securities loaned are treated as financing arrangements and are recorded at the amount of cash received in Short-term investments and Other liabilities and accrued expenses. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of domestic and foreign securities, respectively. The Company monitors the market value of securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities loaned are with large brokerage firms.

Securities repurchase and resale agreements and securities loaned transactions are used to generate net investment income and to provide liquidity. These instruments are short-term in nature (usually 30 days or less) and are collateralized principally by U.S. Government and mortgage-backed securities. The carrying amounts of these instruments approximate fair value because of their relatively short-term nature.

Recognition of insurance revenue and related benefits and interest credited

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Premiums from these products are recognized as revenue when due. Benefits are recognized in relation to such revenue so as to result in the recognition of profits over the life of the policy and are reflected in contract benefits.

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Immediate annuities with life contingencies, including certain structured settlement annuities, provide insurance protection over a period that extends beyond the period during which premiums are collected. Gross premiums in excess of the net premium on immediate annuities with life contingencies are deferred and recognized over the contract period. Contract benefits are recognized in relation to such revenue so as to result in the recognition of profits over the life of the policy.

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and one or more amounts assessed against the contractholder. Premiums from these contracts are reported as deposits to contractholder funds. Contract charges consist of fees assessed against the contractholder account balance for cost of insurance (mortality risk), contract administration and surrender charges. These revenues are recognized when levied against the contract balance. Contract benefits include life-contingent benefit payments in excess of the reserves held.

Contracts that do not subject the Company to significant risk arising from mortality or morbidity are referred to as investment contracts. Fixed annuities, market value adjusted annuities, equity-indexed annuities, immediate annuities without life contingencies, certain GICs and FAs are considered investment contracts. Deposits received for such contracts are reported as deposits to contractholder funds. Contract charges for investment contracts consist of fees assessed against the contractholder account balance for contract administration and surrenders. These revenues are recognized when levied against the contractholder account balance.

Interest credited to contractholders' funds represents contractual interest accrued or paid for interest-sensitive life contracts and investment contracts. Crediting rates for fixed annuities and interest-sensitive life contracts are adjusted periodically by the Company to reflect current market conditions. Crediting rates for indexed annuities and indexed life products are based on an interest rate index, such as LIBOR or an equity index, such as the S&P 500.

Separate Accounts products include variable annuity, variable life, variable universal life, single premium variable life and certain GICs. The assets supporting these products are legally segregated and available only to settle Separate Accounts contract obligations. Deposits received are reported as Separate Accounts liabilities. Contract charges for these contracts consist of fees assessed against the Separate Accounts fund balances for contract maintenance, administration, mortality, expense and surrenders. Contract benefits incurred for Separate Accounts include, for example, guaranteed minimum death benefits paid on variable annuity contracts.

Deferred policy acquisition costs

Costs which vary with and are primarily related to acquiring life and investment business, principally agents' and brokers' remuneration, certain underwriting costs and direct mail solicitation expenses, are deferred and amortized into income. Deferred policy acquisition costs are periodically reviewed as to recoverability and written down where necessary.

For traditional life insurance and immediate annuities with life contingencies, these costs are amortized in proportion to the estimated revenue on such business. Assumptions relating to estimated revenue, as well as to all other aspects of the deferred policy acquisition costs and reserve calculations, are determined based upon conditions as of the date of policy issue and are generally not revised during the life of the policy. Any deviations from projected business inforce, resulting from actual policy terminations differing from expected levels, and any estimated premium deficiencies change the rate of amortization in the period such events occur. Generally, the amortization period for these contracts approximates the estimated lives of the policies. For internal exchanges of traditional life insurance and immediate annuities with life contingencies, the unamortized balance of costs previously

deferred under the original contracts are charges to income. The new costs associated with the exchange are deferred and amortized to income.

For interest-sensitive life and investment contracts, the costs are amortized in relation to the estimated gross profits on such business over the estimated lives of the contract periods. Gross profits are determined at the date of contract issue and comprise estimated future investment, mortality and expense margins and surrender charges. For 2001, the average long-term rate of assumed future investment yield used in estimating gross profit margins is 8% plus 1.25% for fees. Assumptions underlying the gross profits are periodically updated to reflect actual experience, and changes in the amount or timing of estimated gross profits will result in adjustments to the cumulative amortization of these costs. New costs associated with internal exchanges of investment contracts are deferred and amortized into income. The balance of the original costs deferred and carried over, plus any new costs deferred due to internal exchanges, is limited to the amount of costs that would be deferred from the issuance of new investment contracts. Any excess costs are charged to income at the time of the exchange. The Company periodically compares the present value of future gross profits to costs deferred at the segment level to ensure they are sufficient to amortize deferred policy acquisition costs. As a result, the Company concludes that the balance of deferred policy acquisition costs is reasonable and recoverable at December 31, 2001.

The cost assigned to the right to receive future cash flows from certain business purchased from other insurers is also classified as Deferred policy acquisition costs in the Consolidated statements of financial position. The costs capitalized represent the present value of future profits expected to be earned over the life of the contracts acquired. These costs are amortized as profits emerge over the life of the acquired business, and are periodically evaluated for recoverability. Present value of future profits was \$78 million and \$94 million at December 31, 2001 and 2000, respectively. Amortization expense on present value of future profits was \$16 million, \$11 million and \$4 million for the years ended December 31, 2001, 2000 and 1999, respectively.

To the extent unrealized gains or losses on fixed income securities carried at fair value would result in an adjustment of estimated gross profits had those gains or losses actually been realized, the related unamortized deferred policy acquisition costs are recorded net of tax as a reduction of the unrealized capital gains or losses included in Accumulated other comprehensive income.

All other acquisition expenses are charged to operations as incurred.

Reinsurance recoverable

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance from other insurers (see Note 9). The amounts reported in the Consolidated statements of financial position include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on incurred losses that have not yet been paid. Reinsurance recoverables on unpaid losses are

estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Insurance liabilities, including Reserve for life-contingent contract benefits, are reported gross of Reinsurance recoverables. Prepaid reinsurance premiums are deferred and reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company's primary liability under the policies written and therefore reinsurers and amounts recoverable therefrom are regularly evaluated by the Company.

The Company also has reinsurance agreements that transfer a portion of the investment risk of guaranteed minimum income annuitization options offered in certain variable contracts.

Income taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are insurance reserves and deferred policy acquisition costs. Deferred income taxes also arise from unrealized capital gains and losses on fixed income securities carried at fair value.

Separate Accounts

The Company issues variable annuities, variable life contracts and certain GICs, the assets and liabilities of which are legally segregated and recorded as assets and liabilities of the Separate Accounts. 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. Investment income and realized capital gains and losses of the Separate Accounts accrue directly to the contractholders and therefore, are not included in the Company's consolidated statements of operations. Revenues to the Company from the Separate Accounts consist of contract maintenance and administration fees, and mortality, surrender and expense risk charges.

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death or annuitization, variable annuity and variable life contractholders bear the investment risk that the Separate Accounts' funds may not meet their stated investment objectives.

Contractholder funds

Contractholder funds arise from the issuance of interest-sensitive life policies and investment contracts. Deposits received are recorded as interest-bearing liabilities. Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, death benefits, mortality charges, net Separate Accounts transfers and administrative expenses. Detailed information on crediting rates and surrender and withdrawal protection on contractholder funds are outlined in Note 8.

Reserves for life-contingent contract benefits

The reserve for life-contingent contract benefits, which relates to traditional life insurance and immediate annuities with life contingencies is computed on the basis of long-term actuarial assumptions as to future investment yields, mortality, morbidity, terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. Detailed reserve assumptions and reserve interest rates are outlined in Note 8. To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, the related increase in reserves is recorded net of tax as a reduction of the unrealized net capital gains included in Accumulated other comprehensive income.

Off-balance-sheet financial instruments

Commitments to invest, to purchase private placement securities, to extend mortgage loans, financial guarantees and credit guarantees have off-balance-sheet risk because their contractual amounts are not recorded in the Company's consolidated statements of financial position. The contractual amounts and fair values of these instruments are outlined in Note 6.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Pending accounting standards

In June 2001, the FASB issued SFAS No. 142, "Goodwill and other Intangible Assets", which eliminates the requirement to amortize goodwill, and requires that goodwill and separately identified intangible assets with indefinite lives be evaluated for impairment on an annual basis (or more frequently if impairment indicators arise) on a fair value as opposed to an undiscounted basis. SFAS No. 142 is effective January 1, 2002. A transitional goodwill impairment test is required to be completed within the first six months of adoption with any resulting impairment charge recognized as the cumulative effect of a change in accounting principle in the consolidated statement of operations. As of December 31, 2001, the Company's unamortized goodwill balance was \$13 million and goodwill amortization expense recognized during 2001 was \$627 thousand. Transitional goodwill impairment testing is being conducted.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" and the accounting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The Statement also amends Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to

be temporary. SFAS No. 144 requires that long-lived assets held for sale be recorded at the lower of carrying value or fair value less cost to sell. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be disposed of other than by sale are considered held and used until disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on either the consolidated financial position or results of operations of the Company.

In December 2001, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position ("SOP") 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others", which is effective for interim and annual financial statements issued for the fiscal year beginning after December 15, 2001. The SOP conforms accounting and financial reporting practices for certain lending and financing activities, eliminating various specialized accounting practices that developed from the issuance of AICPA finance company, bank, and credit union audit guides. The SOP also explicitly incorporates lending and financing activities of insurance companies within its scope. The Company's adoption of SOP 01-6 is not expected to have a material effect on the consolidated results of operations or financial position.

3. Acquisitions and Disposition

American Maturity Life Insurance Company

On January 2, 2001, the Company acquired blocks of business from American Maturity Life Insurance Company ("American Maturity") via coinsurance contracts. Pursuant to the terms of the coinsurance contracts, the Company assumed: variable annuities, market value adjusted annuities, equity-indexed annuities, fixed annuities, and immediate annuities. The Company received assets consisting primarily of cash, investments and accrued investment income with a fair value in an amount

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equal to the corresponding assumed reserves for life-contingent contract benefits and contractholder funds resulting in no goodwill being recorded.

Provident National Assurance Company

On February 2, 2001, the Company acquired Provident National Assurance Company ("PNAC"), a broadly licensed inactive company that maintains authority to conduct life insurance and variable annuity products in most states, from UnumProvident Corporation. The transaction was accounted for as a purchase and the excess of the acquisition cost over the fair value of PNAC's net assets acquired of \$5 million was recorded as goodwill. The Company paid consideration of \$14 million as part of the acquisition. PNAC's name was subsequently changed to Allstate Assurance Company, which was redomiciled in the State of Illinois.

Pt Asuransi Jiwa Allstate, Indonesia

On June 29, 2001, the Company disposed of its operations in Indonesia through a sale and purchase agreement with The Prudential Assurance Company Limited ("Prudential"), where Prudential acquired Allstate's holdings in Pt Asuransi Jiwa Allstate, Indonesia. The Company recognized a loss on the dispositions of \$4 million (\$3 million after-tax) and a \$4 million tax benefit attributable to the inception-to-date losses of the subsidiaries, not previously recognized. The tax benefit was reported as a reduction to the Company's income tax expense on the consolidated statements of operations.

4. Related Party Transactions

Business operations

The Company utilizes services performed and business facilities owned or leased and operated by AIC in conducting its business activities. In addition, the Company shares the services of employees with AIC. The Company reimburses AIC for the operating expenses incurred on behalf of the Company. The Company is charged for the cost of these operating expenses based on the level of services provided. Operating expenses, including compensation, retirement and other benefit programs allocated to the Company (see Note 14) were \$208 million, \$195 million, and \$199 million in 2001, 2000 and 1999, respectively. A portion of these expenses relate to the acquisition of business, which is deferred and amortized into income.

Structured settlement annuities

The Company issued \$117 million, \$96 million and \$67 million of structured settlement annuities, a type of immediate annuity, in 2001, 2000 and 1999, respectively, at prices determined based upon interest rates in effect at the time of purchase, to fund structured settlements in matters involving AIC. Of these amounts, \$38 million, \$29 million and \$19 million relate to structured settlement annuities with life contingencies and are included in premium income for 2001, 2000, and 1999, respectively. In most cases, these annuities were issued under a "qualified assignment," which means the Company assumed AIC's obligation to make the future payments.

AIC has issued surety bonds, in return for premiums of \$531 thousand, \$817 thousand and \$476 thousand in 2001, 2000 and 1999, respectively, to guarantee the payment of structured settlement benefits assumed and funded by certain annuity contracts issued by the Company (from both AIC and non-related parties). In previous periods, the Company had entered into a General Indemnity Agreement pursuant to which it has indemnified AIC for any liabilities associated with the surety bonds and gives AIC certain collateral security rights with respect to the annuities and certain other rights in the event of any defaults covered by the surety bonds. For contracts written on or after July 1, 2001, AIC no longer issues surety bonds to guarantee the payment of structured settlement benefits.

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Alternatively, ALIC guarantees the payment of structured settlement benefits on all contracts issued on or after July 1, 2001.

Reserves recorded by the Company for annuities related to the surety bonds were \$5.23 billion and \$4.88 billion at December 31, 2001 and 2000, respectively.

Broker/Dealer Agreement

Beginning May 1, 2000, ALIC receives underwriting and distribution services from Allstate Distributors, LLC ("ADLLC"), a broker/dealer company owned equally by ALIC and Putnam Investments, LLC ("Putnam") for variable annuity contracts sold pursuant to a joint venture agreement between ALIC and Putnam. ALIC incurred \$80 million and \$100 million of commission expenses and other distribution expenses payable to ADLLC during 2001 and 2000. Other distribution expenses include administrative, legal, financial management and sales support which ALIC provides to ADLLC, for which ALIC earned administration fees of \$1 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Other distribution expenses also include marketing expenses for subsidized interest rates associated with ALIC's dollar cost averaging program, for which ADLLC reimbursed ALIC \$7 million and \$6 million for the years ended December 31, 2001 and 2000, respectively.

Reinsurance transactions

The Company has a coinsurance contract with Columbia Universal Life Insurance Company ("Columbia"), an affiliate of the Company, to assume 100% of fixed annuity business in force as of June 30, 2000. In addition, the Company has a modified coinsurance contract with Columbia to assume 100% of traditional life and accident and health business in force on the effective date of July 1, 2000. Both agreements are continuous but may be terminated by either party with 30 days notice, material breach by either party, or by Columbia in the event of the Company's non-payment of reinsurance amounts due. As of May 31, 2001, Columbia ceased issuing new contracts. During 2001 and 2000, the Company assumed \$21 million and \$10 million, respectively, in premiums and contract charges from Columbia.

The Company has a modified coinsurance contract with Allstate Reinsurance, Ltd. ("Allstate Re"), an affiliate of the Company, to cede 50% of certain fixed annuity business issued under a distribution agreement with PNC Bank NA. Under the terms of the contract, a trust has been established to provide protection to the Company for ceded liabilities. This agreement is continuous but may be terminated by either party with 60 days notice. During 2001 and 2000, the Company ceded \$236 thousand and \$228 thousand, respectively, in contract charges to Allstate Re.

The Company has a contract to assume 100% of all credit insurance written by AIC. This agreement is continuous but may be terminated by either party with 60 days notice. The Company assumed \$29 million in premiums from AIC during both 2001 and 2000, respectively.

ALIC enters into certain intercompany reinsurance transactions with its wholly owned subsidiaries. ALIC enters into these transactions in order to maintain underwriting control and spread risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

At December 31, 2001, \$2.18 billion of ALIC's investments are held in a trust for the benefit of Northbrook Life Insurance Company ("NLIC"), a wholly owned subsidiary, to ensure payments are made to NLIC under its reinsurance agreement with ALIC so NLIC can meet policyholder obligations.

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Preferred Stock

Redeemable preferred stock—series A subscriptions receivable relate to the Company's issuance of redeemable preferred shares to The Northbrook Corporation, a wholly owned subsidiary of the Corporation, in return for \$14 million cash, which was received on January 14, 2002.

AIC guarantees the repayment of notes payable and the interest thereon issued to Morgan Stanley DW, Inc. under the terms of a distribution agreement with The Northbrook Corporation.

Income taxes

The Company is a party to a federal income tax allocation agreement with the Corporation (Note 11).

Debt

The Company had no outstanding debt at December 31, 2001, 2000 or 1999, respectively. The Company has entered into an inter-company loan agreement with the Corporation. The amount of inter-company loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to \$1.00 billion. No amounts were outstanding for the inter-company loan agreement at December 31, 2001, 2000 or 1999. The Corporation uses commercial paper borrowings, bank lines of credit and repurchase agreements to fund inter-company borrowings.

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5. Investments

Fair values

The amortized cost, gross unrealized gains and losses, and fair value for fixed income securities are as follows:

Amortized cost	Gross unrealized		Fair value
	Gains	Losses	
(in millions)			

At December 31, 2001

U.S. government and agencies	\$ 2,538	\$ 485	\$ (2)	\$ 3,021
Municipal	1,162	40	—	1,202
Corporate	21,354	959	(239)	22,074
Foreign government	245	12	—	257
Mortgage-backed securities	7,927	259	(22)	8,164
Asset-backed securities	2,395	50	(35)	2,410
Redeemable preferred stock	97	2	(1)	98
	<u>35,718</u>	<u>1,807</u>	<u>(299)</u>	<u>37,226</u>
Total fixed income securities	\$ 35,718	\$ 1,807	\$ (299)	\$ 37,226

At December 31, 2000

U.S. government and agencies	\$ 2,198	\$ 574	\$ (1)	\$ 2,771
Municipal	910	28	(6)	932
Corporate	18,356	751	(446)	18,661
Foreign government	256	87	—	343
Mortgage-backed securities	6,859	206	(8)	7,057
Asset-backed securities	2,422	62	(21)	2,463
Redeemable preferred stock	51	3	—	54
	<u>31,052</u>	<u>1,711</u>	<u>(482)</u>	<u>32,281</u>
Total fixed income securities	\$ 31,052	\$ 1,711	\$ (482)	\$ 32,281

Scheduled maturities

The scheduled maturities for fixed income securities are as follows at December 31, 2001:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	\$ 887	\$ 912
Due after one year through five years	8,012	8,263
Due after five years through ten years	8,780	9,008
Due after ten years	7,717	8,469
	<u>25,396</u>	<u>26,652</u>
Mortgage- and asset-backed securities	10,322	10,574
	<u>35,718</u>	<u>37,226</u>
Total	\$ 35,718	\$ 37,226

Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

Net investment income

	Year ended December 31,		
	2001	2000	1999
	(in millions)		
Fixed income securities	\$ 2,536	\$ 2,245	\$ 1,924
Mortgage loans	366	317	277
Equity securities	23	19	16
Other	4	72	66
	<u>2,929</u>	<u>2,653</u>	<u>2,283</u>
Investment income, before expense	2,929	2,653	2,283
Investment expense	90	64	44
	<u>2,839</u>	<u>2,589</u>	<u>2,239</u>
Net investment income	\$ 2,839	\$ 2,589	\$ 2,239

Net investment income from equity securities includes income from partnership interests of \$15 million, \$13 million and \$15 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Realized capital gains and losses, after tax

Realized capital gains and losses by security type, for the year ended December 31, are as follows:

	(in millions)		
Fixed income securities	\$ (134)	\$ (132)	\$ 13
Equity securities	9	102	89
Other	(88)	4	90
Realized capital gains and losses	(213)	(26)	192
Income taxes	(75)	(9)	68
Realized capital gains and losses, after tax	\$ (138)	\$ (17)	\$ 124

Realized capital gains and losses by transaction type, for the year ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Portfolio trading	\$ (4)	\$ 30	\$ 212
Write-downs in value	(150)	(56)	(20)
Derivative valuation adjustments	(59)	—	—
Realized capital gains and losses	(213)	(26)	192
Income taxes	(75)	(9)	68
Realized capital gains and losses, after tax	\$ (138)	\$ (17)	\$ 124

Excluding calls and prepayments, gross gains of \$223 million, \$151 million and \$119 million and gross losses of \$238 million, \$228 million and \$106 million were realized on sales of fixed income securities during 2001, 2000 and 1999, respectively.

Unrealized net capital gains and losses

Unrealized net capital gains and losses on fixed income securities, equity securities and derivative instruments included in Accumulated other comprehensive income at December 31, 2001 are as follows:

	Amortized cost	Fair value	Gross unrealized		Unrealized net gains
			Gains	Losses	
(in millions)					
Fixed income securities	\$ 35,718	\$ 37,226	\$ 1,807	\$ (299)	\$ 1,508
Equity securities	196	201	10	(5)	5
Derivative instruments	—	8	8	—	8
Total	\$ 35,914	\$ 37,435	\$ 1,825	\$ (304)	1,521
Deferred income taxes, deferred policy acquisition costs and other					(885)
Unrealized net capital gains and losses					\$ 636

At December 31, 2000, equity securities had gross unrealized gains of \$84 million and gross unrealized losses of \$36 million.

Change in unrealized net capital gains and losses

	Year ended December 31,		
	2001	2000	1999
(in millions)			
Fixed income securities	\$ 279	\$ 1,051	\$ (2,045)
Equity securities	(43)	(161)	(82)
Derivative instruments	8	—	—
Total	244	890	(2,127)

Deferred income taxes, deferred policy acquisition costs and other

(168)	(539)	1,481
\$ 76	\$ 351	\$ (646)

Increase (decrease) in unrealized net capital gains and losses

Mortgage loan impairment

A mortgage loan is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The components of impaired loans at December 31 are as follows:

	2001	2000
	(in millions)	
Impaired loans		
With valuation allowances	\$ 21	\$ 16
Less: valuation allowances	(5)	(2)
Without valuation allowances	5	13
Net carrying value of impaired loans	\$ 21	\$ 27

The net carrying value of impaired loans at December 31, 2001 and 2000 comprised foreclosed and delinquent loans of \$12 million and \$20 million, respectively, measured at the fair value of the

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collateral, and restructured loans of \$9 million and \$7 million, respectively, measured at the present value of the loan's expected future cash flows discounted at the loan's effective interest rate. Impaired loans without valuation allowances include collateral dependent loans where the fair value of the collateral is greater than the recorded investment in the loans.

Interest income is recognized on a cash basis for impaired loans carried at the fair value of the collateral, beginning at the time of impairment. For other impaired loans, interest is accrued based on the net carrying value. The Company recognized interest income of \$1 million, \$1 million and \$2 million on impaired loans during 2001, 2000 and 1999, respectively, of which \$1 million, \$1 million and \$2 million was received in cash during 2001, 2000 and 1999, respectively. The average balance of impaired loans was \$27 million, \$33 million and \$37 million during 2001, 2000 and 1999, respectively.

Valuation allowances for mortgage loans at December 31, 2001, 2000 and 1999, were \$5 million, \$5 million and \$8 million, respectively. There were no direct writedowns of mortgage loan gross carrying amounts for the years ended December 31, 2001, 2000 and 1999. For the years ended December 31, 2001, 2000 and 1999, net reductions to mortgage loan valuation allowances were \$300 thousand, \$3 million, \$2 million, respectively.

Investment concentration for commercial mortgage portfolios and other investment information

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The states with the largest portion of the commercial mortgage loan portfolio are listed below. Except for the following, holdings in no other state exceeded 5% of the portfolio at December 31:

	2001	2000
	(% of commercial mortgage portfolio carrying value)	
California	16.9%	20.2%
Illinois	7.6	7.9
Florida	7.0	7.5
Texas	7.0	5.3
New Jersey	6.4	5.0
New York	5.3	6.8
Pennsylvania	5.3	5.5

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The types of properties collateralizing the commercial mortgage loans at December 31, are as follows:

	2001	2000
	(% of commercial mortgage portfolio carrying value)	
Office buildings	34.3%	36.1%
Warehouse	20.3	16.2
Retail	20.0	23.1

Apartment complex	18.4	17.5
Industrial	1.9	1.8
Other	5.1	5.3
	100.0%	100.0%

The contractual maturities of the commercial mortgage loan portfolio as of December 31, 2001, for loans that were not in foreclosure are as follows:

	Number of loans	Carrying value	Percent
	(in millions)		
2002	65	\$ 292	5.4%
2003	79	324	5.9
2004	55	321	5.9
2005	100	595	10.9
2006	128	736	13.5
Thereafter	621	3,182	58.4
	1,048	\$ 5,450	100.0%

In 2001, \$169 million of commercial mortgage loans were contractually due. Of these, 63.5% were paid as due, 25.9% were refinanced at prevailing market terms, 5.5% were foreclosed or are in the process of foreclosure, and 5.1% were in the process of refinancing or restructuring discussions.

Included in fixed income securities are below investment grade assets totaling \$2.76 billion and \$1.99 billion at December 31, 2001 and 2000, respectively. The Company defines its below investment grade assets as those securities rated "Ba" or lower by external rating agencies, having an NAIC rating between 3 and 6, or a comparable internal company rating.

At December 31, 2001, the carrying value of investments, excluding equity securities, that were non-income producing during 2001 was \$20 million.

At December 31, 2001, fixed income securities with a carrying value of \$68 million were on deposit with regulatory authorities as required by law.

Securities Lending

The Company participates in securities lending programs, primarily as an investment yield enhancement, with third parties, which mostly include large brokerage firms. At December 31, 2001 and 2000, fixed income securities with a carrying value of \$964 million and \$821 million, respectively, have been loaned under these agreements. In return, the Company receives cash that is subsequently invested and included in Short-term investments with an offsetting liability recorded in Other Liabilities and accrued expenses to account for the Company's obligation to return the collateral. Interest income

on collateral was \$6 million, \$2 million and \$1 million, as of December 31, 2001, 2000 and 1999, respectively.

6. Financial Instruments

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving derivative financial instruments and other off-balance-sheet financial instruments. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value. The disclosures that follow do not reflect the fair value of the Company as a whole since a number of the Company's significant assets (including Deferred policy acquisition costs and Reinsurance recoverables) and liabilities (including traditional life and interest-sensitive life insurance reserves and Deferred income taxes) are not considered financial instruments and are not carried at fair value. Other assets and liabilities considered financial instruments such as Accrued investment income and Cash are generally of a short-term nature. Their carrying values are deemed to approximate fair value.

Financial assets

The carrying value and fair value of financial assets at December 31, are as follows:

	2001		2000	
	Carrying Value	Fair value	Carrying value	Fair value
	(in millions)			
Fixed income securities	\$ 37,226	\$ 37,226	\$ 32,281	\$ 32,281
Mortgage loans	5,450	5,588	4,351	4,447
Equity securities	201	201	473	473
Short-term investments	672	672	836	836
Policy loans	673	673	644	644
Separate Accounts	13,587	13,587	15,298	15,298

Fair values for exchange traded fixed income securities are based upon quoted market prices or dealer quotes. The fair value of non-exchange traded fixed income securities is based on either independent third party pricing sources or widely accepted pricing valuation models which utilize internally developed ratings and independent third party data as inputs. Mortgage loans are valued based on discounted contractual cash flows. Discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar properties as collateral. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral. Equity securities are valued based principally on quoted market prices. Short-term investments are highly liquid investments with maturities of less than one year whose carrying values are deemed to approximate fair value. The carrying value of policy loans is deemed to approximate fair value. Separate Accounts assets are carried in the consolidated statements of financial position at fair value based on quoted market prices.

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Financial liabilities

The carrying value and fair value of financial liabilities at December 31, are as follows:

	2001		2000	
	Carrying value	Fair value	Carrying value	Fair value
	(in millions)			
Contractholder funds on investment contracts	\$ 26,615	\$ 26,572	\$ 22,299	\$ 21,236
Security repurchase agreements	1,472	1,472	978	978
Separate Accounts	13,587	13,587	15,298	15,298

Contractholder funds include interest-sensitive life insurance contracts and investment contracts. Interest-sensitive life insurance contracts and certain other contractholder liabilities are not considered to be financial instruments subject to fair value disclosure requirements. The fair value of investment contracts is based on the terms of the underlying contracts. Fixed annuities, immediate annuities without life contingencies, GICs and FAs are valued at the account balance less surrender charges. Market value adjusted deferred annuities' fair value is estimated to be the market adjusted surrender value. Equity-indexed deferred annuity contracts' fair value approximates carrying value since the embedded equity options are carried at market value in the consolidated financial statements.

Security repurchase agreements are valued at carrying value due to their short-term nature. Separate Accounts liabilities are carried at the fair value of the underlying assets.

Derivative financial instruments

The Company primarily uses derivative financial instruments to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk) and in conjunction with asset/liability management. The Company does not hold or issue these instruments for trading purposes.

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The following table summarizes the credit exposure, fair value and carrying value of the Company's derivative financial instruments subject to bifurcation at December 31, 2001 as follows:

	2001			
	Credit Exposure(1)	Fair value	Carrying value assets	Carrying value (liabilities)
	(in millions)			
Interest rate contracts				
Interest rate swap agreements	\$ 15	\$ (100)	\$ 15	\$ (115)
Financial futures contracts	1	1	1	—
Interest rate cap and floor agreements	—	1	—	1
Total interest rate contracts	16	(98)	16	(114)
Equity and indexed contracts				
Options, financial futures, and warrants	16	12	16	(4)
Foreign currency contracts				
Foreign currency swap agreements	26	28	26	2
Embedded derivative financial instruments				
Conversion options in fixed income securities	173	173	173	—
Equity-indexed options in life and annuity contracts	—	—	—	—
Forward starting options in annuity contracts	—	—	—	—
Put options in variable contracts	—	—	—	—
Total embedded derivative financial instruments	173	173	173	—

Other derivative financial instruments

Synthetic guaranteed investment contracts	—	—	—	—
Reinsurance of guaranteed minimum income annuitization options in variable contracts	—	12	12	—
Forward contracts for TBA mortgage securities	7	7	7	—
Credit default swaps	—	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total other derivative financial instruments	7	19	19	—
Total derivative financial instruments	\$ 238	\$ 134	\$ 250	\$ (116)
	<hr/>	<hr/>	<hr/>	<hr/>

(1) Credit exposure and carrying value includes the effects of legally enforceable master netting agreements. Fair value and carrying value of the assets and liabilities exclude accrued periodic settlements which are reported in Accrued investment income.

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The following table summarizes the credit exposure, fair value and carrying value of the Company's derivative financial instruments subject to bifurcation at December 31, 2000 as follows:

	2000			
	Credit Exposure(1)	Fair value	Carrying value assets	Carrying value (liabilities)
	(in millions)			
Interest rate contracts				
Interest rate swap agreements	\$ 16	\$ (48)	\$ 1	\$ (66)
Financial futures contracts	—	—	3	(1)
Interest rate cap and floor agreements	2	2	1	1
	<hr/>	<hr/>	<hr/>	<hr/>
Total interest rate contracts	18	(46)	5	(66)
Equity and indexed contracts				
Options, warrants, and financial futures	17	9	18	(9)
Foreign currency contracts				
Foreign currency swap agreements	3	32	—	—
Embedded derivative financial instruments(2)				
Conversion options in fixed income securities	N/A	N/A	N/A	N/A
Equity-indexed options in life and annuity Contracts	N/A	N/A	N/A	N/A
Forward starting options in annuity contracts	N/A	N/A	N/A	N/A
Put options in variable contracts	N/A	N/A	N/A	N/A
	<hr/>	<hr/>	<hr/>	<hr/>
Total embedded derivative financial instruments	N/A	N/A	N/A	N/A
Other derivative financial instruments(2)				
Synthetic guaranteed investment contracts	N/A	N/A	N/A	N/A
Reinsurance of guaranteed minimum income annuitization options in variable contracts	N/A	N/A	N/A	N/A
Forward contracts for TBA mortgage securities	N/A	N/A	N/A	N/A
	<hr/>	<hr/>	<hr/>	<hr/>
Total other derivative financial instruments	N/A	N/A	N/A	N/A
Total derivative financial instruments	\$ 38	\$ (5)	\$ 23	\$ (75)
	<hr/>	<hr/>	<hr/>	<hr/>

(1) Credit exposure and carrying value includes the effects of legally enforceable master netting agreements. Fair value and carrying value of the assets and liabilities exclude accrued periodic settlements which are reported in Accrued investment income.

(2) In 2000, in accordance with existing accounting policies, certain derivative financial instruments were not reflected within the consolidated financial statements or in the case of embedded derivative financial instruments, were reflected in the consolidated financial statements but were not separately identified and adjusted to fair value. Such instruments are denoted as being not applicable ("N/A").

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Credit exposure represents the Company's potential loss if all of the counterparties failed to perform under the contractual terms of the contracts and all collateral, if any, became worthless. This exposure is measured by the fair value of contracts with a positive fair value at the reporting date reduced by the effect, if any, of master netting agreements.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. The Company utilizes master netting agreements for all over-the-counter derivative transactions. These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of certain of these

agreements, collateral is either pledged or obtained when certain predetermined exposure limits will be exceeded. To date, the Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance.

Fair value, which is equal to carrying value in 2001, is the estimated amount that the Company would receive (pay) to terminate or assign the derivative contracts at the reporting date. For exchange traded derivative contracts, the fair value is based on dealer and exchange quotes. The fair value of non-exchange traded derivative contracts, including embedded derivative financial instruments subject to bifurcation, is based on either independent third party pricing sources or widely accepted pricing and valuation models which utilize independent third party data as inputs.

The contract or notional amount is specified in the contract and is utilized to calculate the exchange of contractual payments under the agreement.

Interest rate swap agreements involve the exchange, at specified intervals, of contractual interest payments calculated based on a notional amount. The Company generally enters into swap agreements to change the interest rate characteristics of existing assets to more closely match the interest rate characteristics of the corresponding liabilities. Master netting agreements are used to minimize credit risk.

Financial futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price or yield. They may be settled in cash or through delivery. As part of its asset/liability management, the Company generally utilizes these contracts to manage its market risk related to fixed income securities, certain annuity contracts and forecasted purchases and sales. These contracts are used to reduce interest rate risk related to forecasted transactions pertaining to identified transactions that are probable to occur and are generally completed within one year. Futures contracts have limited off-balance-sheet credit risk as they are executed on organized exchanges and require security deposits, as well as the daily cash settlement of margins. The Company has pledged \$20 million of securities on deposit as collateral at December 31, 2001.

Interest rate cap and floor agreements give the holder the right to receive at a future date, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The Company purchases interest rate cap and floor agreements to reduce its exposure to rising or falling interest rates relative to certain existing assets and liabilities in conjunction with asset/liability management. Master netting agreements are utilized to minimize credit risk.

Indexed option contracts and indexed financial futures provide returns based on a specified index applied to the instrument's notional amount. The Company utilizes these instruments to reduce the market risk associated with certain annuity contracts. Where required, counterparties post collateral to minimize credit risk.

Warrants provide the right to purchase issues of debt or common stock at predetermined prices. Stock warrants are generally received in connection with the purchase of debt or preferred stock instruments or upon initiation of certain goods and services arrangements.

Foreign currency swaps involve the future exchange or delivery of foreign currency on terms negotiated at the inception of the contract. The Company enters into these agreements primarily to manage the currency risk associated with investing in securities and issuing obligations that are denominated in foreign currencies. Where required, counterparties post collateral to minimize credit risk. Counterparties have pledged to the Company \$14 million of securities on deposit as collateral at December 31, 2001.

Embedded derivative financial instruments subject to bifurcation include conversion options in fixed income securities, equity-indexed options in life and annuity contracts, forward starting options in annuity contracts and put options in certain variable contracts.

Other derivative financial instruments. The Company markets synthetic guaranteed investment contracts, which are considered derivative financial instruments. The Company has reinsurance agreements that transfer a portion of the investment risk of guaranteed minimum income annuitization options offered in certain variable contracts. The Company enters into forward contracts to purchase highly liquid TBA mortgage securities. Certain of these contracts are considered derivatives. Credit default swaps provide for the payment of fees as compensation for the agreement to exchange credit risk, depending on the nature or occurrence of credit events relating to the referenced entities. The Company may enter into credit default swaps to enhance yields while managing credit risk exposure.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments that the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. The Company mitigates this risk through established risk control limits set by senior management. In addition, the change in the value of the Company's derivative financial instruments designated as hedges is generally offset by the change in the value of the related assets and liabilities.

The Company reclassified pretax gains of \$1 million from Accumulated other comprehensive income to Net investment income during 2001. This amount was included in the transition adjustment affecting Accumulated other comprehensive income during the initial application of the statements. Of the amounts recorded in Accumulated other comprehensive income at December 31, 2001, the Company expects to reclassify an estimated \$312 thousand of pretax net losses to Net income (related to cash flow hedges) during the next year. Amounts released from Accumulated other comprehensive income are matched together in Net income with the results of the hedged risk. As of December 31, 2001, the Company did not terminate any hedge of a forecasted transaction because it was probable that the forecasted transaction would not occur. Therefore, no gains or losses were reclassified from Accumulated other comprehensive income to Realized capital gains and losses related thereto.

Off-balance-sheet financial instruments

A summary of the contractual amounts and fair values of off-balance-sheet financial instruments at December 31, follows:

2001		2000	
Contractual amount	Fair value	Contractual amount	Fair value
(in millions)			

Commitments to invest	\$	49	—	\$	34	—
Commitments to purchase private placement securities		119	—		104	—
Commitments to extend mortgage loans		32	—		191	2
Financial guarantees		—	—		3	1
Credit guarantees		49	(2)		49	(2)

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

Commitments to invest generally represent commitments to acquire financial interests or instruments. The Company enters into these agreements to allow for additional participation in certain limited partnership investments. Because the equity investments in the limited partnerships are not actively traded, it is not practicable to estimate the fair value of these commitments.

Commitments to purchase private placement securities represent conditional commitments to purchase private placement debt and equity securities at a specified future date. The Company regularly enters into these agreements in the normal course of business. The fair value of these commitments generally cannot be estimated on the date the commitment is made, as the terms and conditions of the underlying private placement securities are not yet final.

Commitments to extend mortgage loans are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters these agreements to commit to future loan fundings at predetermined interest rates. Commitments generally have fixed expiration dates or other termination clauses. The fair value of these commitments are estimated based upon discounted contractual cash flows, adjusted for changes in current rates at which loans would be made to borrowers with similar credit risk using similar properties as collateral.

Financial guarantees represent conditional commitments to repurchase notes from a creditor upon default of a debtor. The Company enters into these agreements primarily to provide financial support for certain companies in which the Company is an equity investor. Financial guarantees are valued based on estimates of payments that may occur over the life of the guarantees.

Credit guarantees represent conditional commitments included in certain fixed income securities owned by the Company. These commitments provide for obligations to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of credit events for the referenced entities. The Company enters into these transactions in order to achieve higher yields than direct investment in referenced entities. The fees for assuming the conditional commitments are reflected in the interest receipts reported in Net investment income over the lives of the contracts. The fair value of the credit guarantees are estimates of the conditional commitments only and are calculated using quoted market prices or valuation models, which incorporate external market data.

In the event of bankruptcy or other default of the referenced entities, the Company's maximum amount at risk, assuming the value of the referenced credits becomes worthless, is the fair value of the subject fixed income securities, which totaled \$47 million at December 31, 2001. The Company includes the impact of credit guarantees in its analysis of credit risk, and the referenced credits were current to their contractual terms at December 31, 2001.

7. Deferred Policy Acquisition Costs

Deferred policy acquisition costs for the years ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Balance, beginning of year	\$ 2,926	\$ 2,675	\$ 2,181
Acquisition costs deferred	637	797	630
Amortization charged to income	(365)	(418)	(367)
Effect of unrealized gains and losses	(201)	(128)	231
Balance, end of year	\$ 2,997	\$ 2,926	\$ 2,675

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8. Reserve for Life-Contingent Contract Benefits and Contractholder Funds

At December 31, the Reserve for life-contingent contract benefits consists of the following:

	2001	2000
	(in millions)	
Immediate annuities:		
Structured settlement annuities	\$ 5,024	\$ 4,811
Other immediate annuities	1,870	1,629
Traditional life	1,567	1,418
Other	171	142
Total Reserve for life-contingent contract benefits	\$ 8,632	\$ 8,000

The assumptions for mortality generally utilized in calculating reserves include the U.S. population with projected calendar year improvements and age setbacks for impaired lives for structured settlement annuities; the 1983 group annuity mortality table for other immediate annuities; and actual Company experience plus loading for traditional life. Interest rate assumptions vary from 5.5% to 11.7% for structured settlement annuities; 2.0% to 11.5% for other immediate annuities; and 4.0% to 11.3% for traditional life. Other estimation methods include the present value of contractually fixed future benefits for structured settlement annuities, the present value of expected future benefits based on historical experience for other immediate annuities and the net level premium reserve method using the Company's withdrawal experience rates for traditional life.

To the extent the unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve has been recorded for the structured settlement annuity business and for certain immediate annuities with life contingencies. A liability of \$212 million and \$290 million is included in the Reserve for life-contingent contract benefits with respect to this deficiency for the years ended December 31, 2001 and 2000, respectively.

At December 31, Contractholder funds are as follows:

	2001	2000
	(in millions)	
Interest-sensitive life	\$ 5,734	\$ 5,422
Fixed annuities:		
Immediate annuities	2,293	1,954
Deferred annuities	16,596	14,537
Guaranteed investment contracts	2,279	2,588
Funding agreements (non-putable)	3,557	1,585
Funding agreements (putable/callable)	1,750	1,515
Other investment contracts	92	75
	<hr/>	<hr/>
Total contractholder funds	\$ 32,301	\$ 27,676
	<hr/>	<hr/>

Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, death benefits, mortality charges, net Separate Accounts transfers and administrative expenses. Interest rates credited range from 3.4% to 8.0% for interest-sensitive life contracts; 3.2% to 10.0% for immediate annuities; 0.0% to 12.0% for deferred annuities (which include equity-indexed annuities that are hedged (see Note 2 and Note 6)); 4.9% to 8.5% for guaranteed investment contracts; 2.0% to 5.9% for funding agreements; and 2.0% to 5.7% for other investment contracts. Withdrawal and surrender charge protection includes: i) for interest-sensitive life, either a percentage of account balance or dollar amount grading off generally over 20 years; and ii) for deferred annuities not subject to a market value adjustment, either a declining or a

level percentage charge generally over nine years or less. Approximately 25.9% of deferred annuities are subject to a market value adjustment.

Contractholder funds include FAs sold to Special Purpose Entities ("SPEs") issuing medium-term notes. The SPEs, Allstate Life Funding, LLC and Allstate Financial Global Funding, LLC are used exclusively for the Company's FAs supporting medium-term note programs. The assets and liabilities of Allstate Life Funding, LLC are included on the Consolidated statements of financial position. The Company classifies the medium-term notes issued by Allstate Life Funding, LLC as Contractholder funds, using similar accounting treatment as its other investment contracts. The assets and liabilities of Allstate Financial Global Funding, LLC are not included on the Consolidated statements of financial position due to the existence of a sufficient equity ownership interest by unrelated third parties in this entity. The Company classifies the funding agreements issued to Allstate Financial Global Funding, LLC as Contractholder funds. The Corporation's management does not have an ownership interest in the SPEs.

Contractholder funds activity for the year ended December 31, was as follows:

	2001	2000
	(in millions)	
Balance, beginning of year	\$ 27,676	\$ 23,995
Deposits	7,860	7,875
Surrenders and withdrawals	(3,211)	(3,881)
Death benefits	(415)	(385)
Interest credited to contractholders' funds	1,670	1,519
Transfers (to)/from Separate Accounts	(1,014)	(1,356)
Other adjustments	(265)	(91)
	<hr/>	<hr/>
Balance, end of year	\$ 32,301	\$ 27,676
	<hr/>	<hr/>

9. Reinsurance

The Company purchases reinsurance to limit aggregate and single losses on large risks. The Company continues to have primary liability as a direct insurer for risks reinsured. Estimating amounts of reinsurance recoverable is impacted by the uncertainties involved in the establishment of loss reserves. Failure of reinsurers to honor their obligations could result in losses to the Company.

The Company reinsures certain of its risks to other reinsurers under yearly renewable term, coinsurance, and modified coinsurance agreements. Yearly renewable term and coinsurance agreements result in the passing of a portion of the risk to the reinsurer. Generally, the reinsurer receives a proportionate amount of the premiums less commissions and is liable for a corresponding proportionate amount of all benefit payments. Modified coinsurance is similar to coinsurance except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company, and settlements are made on a net basis between the companies.

The Company has a coinsurance contract with Columbia, an affiliate of the Company, to assume 100% of fixed annuity business in force as of June 30, 2000. In addition, the Company has a modified coinsurance contract with Columbia to assume 100% of traditional life and accident and health business in force on the effective date of July 1, 2000. Both agreements are continuous but may be terminated by either party with 30 days notice, material breach by either party, or by Columbia in the event of the Company's non-payment of reinsurance amounts due. As of May 31, 2001, Columbia ceased issuing new contracts. During 2001 and 2000, the Company assumed \$21 million and \$10 million, respectively, in premiums and contract charges from Columbia.

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The Company has a coinsurance contract to assume 100% of all credit insurance written by AIC. This agreement is continuous but may be terminated by either party with 60 days notice. The Company assumed \$29 million, \$29 million and \$11 million in premiums from AIC for the years ended December 31, 2001, 2000 and 1999, respectively.

The Company has a contract to assume 100% of all insurance written by Sears Life Insurance Company ("SLIC"). This agreement is continuous but may be terminated by either party with 60 days notice. The Company assumed \$64 million, \$38 million and \$14 million in premiums from SLIC for the years ended December 31, 2001, 2000 and 1999, respectively.

On January 2, 2001, the Company acquired blocks of business from American Maturity via coinsurance contracts. Pursuant to the terms of the coinsurance contracts, the Company assumed: variable annuities, market value adjusted annuities, equity-indexed annuities, fixed annuities, and immediate annuities. The Company received assets consisting primarily of cash, investments and accrued investment income with a fair value in an amount equal to the corresponding assumed reserves for life contingent contract benefits and contractholder funds resulting in no goodwill being recorded.

The Company has an administrative services agreement with respect to a block of variable annuity contracts. Pursuant to the terms of the agreement, the Company provides insurance contract administration and financial services. As part of the agreement, the Company assumed via coinsurance 100% of the general account portion of these contracts (85% for business written in New York) with an aggregate account value of \$32 million as of December 31, 2001. The Company paid \$65 million, which was capitalized as present value of future profits and will be subsequently amortized into income over 20 years, for the right to receive future contract charges and fees on the block of variable annuity contracts, which has an aggregate account value of \$795 million and \$1.23 billion as of December 31, 2001 and 2000, respectively. During 2001, 2000 and 1999, the Company earned contract charges and fees assessed to contractholders' fund balances of \$8 million, \$17 million, and \$15 million, respectively.

The Company cedes 90%, 80% or 60% of the mortality risk on certain term life policies, depending upon the issue year and product, to a pool of eleven reinsurers that are not affiliated with the Company or the Corporation. Beginning in 1998, the Company cedes mortality risk on new business in excess of \$2 million per life for individual coverage. For business sold prior to 1998, the Company ceded mortality risk in excess of \$1 million per life for individual coverage. As of December 31, 2001, \$138.92 billion of life insurance in force was ceded to other companies.

The Company also has catastrophe reinsurance from three reinsurers not affiliated with the Company or the Corporation covering single events exceeding predetermined limits. The risk of reinsurance collectibility on the Company's recoverables is mitigated by an absence of high concentrations with individual reinsurers.

The Company has a modified coinsurance contract with Alpine Indemnity Limited ("Alpine") to cede 50% of certain variable annuity business issued on or after May 1, 1999 under a distribution agreement with PNC Bank NA. The agreement is continuous but may be terminated by either party with 120 days notice.

The Company has entered into reinsurance agreements in conjunction with the disposition of certain blocks of business.

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the recoverables are appropriately established. No single reinsurer has a material obligation to the Company nor is the Company's business substantially dependent upon any reinsurance contract.

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The effects of reinsurance on premiums and contract charges for the years ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Premiums and contract charges			
Direct	\$ 2,085	\$ 2,075	\$ 1,748
Assumed			
Affiliate	41	39	24
Non-affiliate	64	55	30
Ceded—non affiliate	(323)	(302)	(241)
	<u>\$ 1,867</u>	<u>\$ 1,867</u>	<u>\$ 1,561</u>
Premiums and contract charges, net of reinsurance	\$ 1,867	\$ 1,867	\$ 1,561

The effects of reinsurance on contract benefits for the years ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Contract Benefits			
Direct	\$ 1,693	\$ 1,633	\$ 1,382
Assumed			
Affiliate	36	29	23
Non-affiliate	33	20	7
Ceded—non affiliate	(277)	(243)	(161)
	<u>\$ 1,485</u>	<u>\$ 1,439</u>	<u>\$ 1,251</u>

Reinsurance recoverables in the Company's consolidated statements of financial position were \$950 million and \$614 million, at December 31, 2001 and 2000, respectively. The reinsurance recoverable and reinsurance payable balances pertaining to related party reinsurance agreements were not material at December 31, 2001 and 2000, respectively.

10. Commitments and Contingent Liabilities

The Company leases certain office facilities and computer equipment. Total rent expense for all leases was \$3 million, \$1 million and \$11 million in 2001, 2000 and 1999, respectively.

Minimum rental commitments under noncancelable operating leases with an initial or remaining term of more than one year as of December 31, 2001 are as follows:

	(in millions)
2002	\$ 1.5
2003	0.5
2004	—
2005	—
Thereafter	—
	<u>\$ 2.0</u>

Regulations and legal proceedings

The Company's business is subject to the effects of a changing social, economic and regulatory environment. State and federal initiatives have varied and have included employee benefit regulations, removal of barriers preventing banks from engaging in the securities and insurance businesses, tax law changes affecting the taxation of insurance companies, the tax treatment of insurance products and its

impact on the relative desirability of various personal investment vehicles, and the overall expansion of regulation. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

The Company is defending various lawsuits involving sales practices such as breach of contract, licensing and other business conduct. One statewide class action alleges that the Company violated Florida insurance statutes in the sales of credit insurance. The judge has granted a partial summary judgment against the Company, however, damages have not yet been determined. The Company is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial and/or indeterminate amounts (including punitive and treble damages) and the outcomes of which are unpredictable. This litigation is based on a variety of issues. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

Guaranty Funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in a particular state. The Company's expenses related to these funds have been immaterial.

11. Income Taxes

ALIC and its eligible domestic subsidiaries (the "Allstate Life Group") join with the Corporation (the "Allstate Group") in the filing of a consolidated federal income tax return and are party to a federal income tax allocation agreement (the "Allstate Tax Sharing Agreement"). Under the Allstate Tax Sharing Agreement, the Allstate Life Group pays to or receives from the Corporation the amount, if any, by which the Allstate Group's federal income tax liability is affected by virtue

of inclusion of the Allstate Life Group in the consolidated federal income tax return. Effectively, this results in the Allstate Life Group's annual income tax provision being computed, with adjustments, as if the Allstate Life Group filed a separate return. Certain domestic subsidiaries are not eligible to join in the consolidated federal income tax return and file a separate tax return.

Prior to June 30, 1995, the Corporation was a subsidiary of Sears Roebuck & Co. ("Sears") and, with its eligible domestic subsidiaries, was included in the Sears consolidated federal income tax return and federal income tax allocation agreement. Effective June 30, 1995, the Corporation and Sears entered into a new tax sharing agreement, which governs their respective rights and obligations with respect to federal income taxes for all periods during which the Corporation was a subsidiary of Sears, including the treatment of audits of tax returns for such periods.

The Internal Revenue Service ("IRS") has completed its review of the Corporation's federal income tax returns through the 1993 tax year. Any adjustments that may result from IRS examinations of tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

The components of the deferred income tax assets and liabilities at December 31, are as follows:

	2001	2000
	(in millions)	
Deferred assets		
Life and annuity reserves	\$ 533	\$ 603
Other assets	116	66
	<u>649</u>	<u>669</u>
Deferred liabilities		
Deferred policy acquisition costs	(846)	(819)
Unrealized net capital gains	(343)	(301)
Other liabilities	(29)	(54)
	<u>(1,218)</u>	<u>(1,174)</u>
Net deferred liability	<u>\$ (569)</u>	<u>\$ (505)</u>

Although realization is not assured, management believes it is more likely than not that the deferred tax assets will be realized based on the assumption that certain levels of income will be achieved. The Company had established valuation allowances for deferred tax assets of an international operation, due to a lack of evidence that such assets would be realized. The valuation allowance reducing deferred tax assets was \$2 million at December 31, 2000. During 2001, the \$2 million valuation allowance was released as the entire amount held related to the Company's holdings in its subsidiary, Pt Asuransi Jiwa Allstate, Indonesia, which was sold on June 29, 2001.

The components of income tax expense for the year ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Current	\$ 156	\$ 116	\$ 195
Deferred	23	125	71
	<u>\$ 179</u>	<u>\$ 241</u>	<u>\$ 266</u>

The Company paid income taxes of \$116 million, \$168 million and \$197 million in 2001, 2000 and 1999, respectively. The Company had a current income tax liability of \$21 million at December 31, 2001 and a current income tax asset of \$16 million at December 31, 2000.

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the year ended December 31, is as follows:

	2001	2000	1999
	(in millions)		
Statutory federal income tax rate	35.0%	35.0%	35.0%
Dividends received deduction	(2.4)	(1.9)	(1.3)
Other	(0.2)	0.8	0.8
	<u>32.4%</u>	<u>33.9%</u>	<u>34.5%</u>

Prior to January 1, 1984, the Company was entitled to exclude certain amounts from taxable income and accumulate such amounts in a "policyholder surplus" account. The balance in this account at December 31, 2001, approximately \$94 million, will result in federal income taxes payable of \$33 million if

distributed by the Company. No provision for taxes has been made as the Company has no plan to distribute amounts from this account. No further additions to the account have been permitted since 1983.

12. Preferred stock

The Company has issued two series of non-voting, redeemable preferred stock. Redeemable preferred stock—Series A was issued to Northbrook Corporation, a subsidiary of AIC, while Redeemable preferred stock—Series B was issued directly to AIC. Both series of preferred stock are redeemable at the option of the Company at any time five years after the issuance date at a price of \$100 per share plus cumulative accrued and unpaid dividends. If the Company is liquidated or dissolved, holders of the preferred stock will be entitled to payments of \$100 per share plus cumulative accrued and unpaid dividends.

For Redeemable preferred stock—Series A, the Company's Board of Directors declares and pays a cash dividend from time to time, but not more frequently than quarterly. The dividend is based on the three month LIBOR rate. Dividends of \$5 million, \$5 million and \$4 million were paid during 2001, 2000, and 1999, respectively. There were no accrued and unpaid dividends for Series A preferred stock at December 31, 2001.

Redeemable preferred stock—Series A subscriptions receivable resulted from the Company's issuance of additional shares to Northbrook Corporation in return for \$14 million in cash, which was received on January 14, 2002.

For Redeemable preferred stock—Series B, cash dividends of 6.9% per annum were payable annually in arrears on the last business day of each year to the shareholder of record on the immediately preceding business day. Dividends of \$8 million were paid annually in 2001, 2000 and 1999, respectively.

On December 28, 2001 AIC made a capital contribution to ALIC of all of the issued and outstanding ALIC Redeemable preferred stock—Series B, resulting in an increase in Additional capital paid-in of \$117 million.

13. Statutory Financial Information

The following table reconciles consolidated Net income for the year ended December 31, and consolidated Shareholder's equity at December 31, as reported herein in conformity with GAAP with total statutory net income and capital and surplus of ALIC and its subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities:

	Net income			Shareholder's equity	
	2001	2000	1999	2001	2000
	(in millions)				
Balance per GAAP	\$ 368	\$ 470	\$ 504	\$ 5,397	\$ 5,125
Undistributed net income of certain subsidiaries	7	2	2	—	—
Unrealized gain/loss on fixed income securities	—	—	—	(1,508)	(1,280)
Deferred policy acquisition costs	(291)	(368)	(262)	(2,997)	(2,926)
Deferred income taxes	18	30	104	1,055	505
Employee benefits	8	(1)	1	(17)	(34)
Reserves and non-admitted assets	112	205	(72)	743	3,658
Separate Accounts	—	—	—	141	(2,513)
Other	5	13	27	(79)	46
Balance per statutory accounting practices	\$ 227	\$ 351	\$ 304	\$ 2,735	\$ 2,581

ALIC and each of its subsidiaries prepares their statutory financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

Beginning in 2001, all states required domiciled insurance companies to prepare statutory-basis financial statements in accordance with NAIC Accounting Practices and Procedures Manual—Version effective January 1, 2001 ("Codification") subject to any deviations prescribed or permitted by the applicable state of domicile's insurance commissioner.

Accounting changes adopted to conform to the provisions of Codification are reported as changes in accounting principles in the statutory-basis financial statements for 2001. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. The adoption of Codification increased the surplus of ALIC by \$81 million effective January 1, 2001. The increase is primarily a result of the requirement to recognize net statutory deferred tax assets for temporary differences reversing within the succeeding twelve-month period. Two of the Company's subsidiaries are domiciled in the State of New York, which chose not to adopt Statement of Statutory Accounting Principle No. 10, Income Taxes. As a result, the Company's total surplus does not reflect deferred taxes of the New York domiciled subsidiaries. Statutory surplus on the basis of Codification would have increased \$3 million had the Company recorded deferred tax assets for the New York domiciled subsidiaries.

Dividends

The ability of ALIC to pay dividends is dependent on business conditions, income, cash requirements of ALIC, receipt of dividends from its subsidiaries and other relevant factors. The payment of shareholder dividends by ALIC to AIC without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus, determined in accordance with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months.

In the twelve month period beginning January 1, 2001, ALIC paid dividends of \$172 million. This was less than the maximum amount allowed under Illinois insurance law without the approval of the Illinois Department of Insurance ("IL Department") based on 2000 formula amounts. Based on 2001 ALIC statutory net income, the maximum amount of dividends ALIC will be able to pay without prior IL Department approval at a given point in time during 2002 is \$273 million, less dividends paid during the preceding twelve months measured at that point in time.

Risk-based capital

The NAIC has a standard for assessing the solvency of insurance companies, which is referred to as risk-based capital ("RBC"). The requirement consists of a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. The RBC formula for life insurance companies establishes capital requirements relating to insurance, business, asset and interest rate risks. At December, 31 2001, RBC for each of the Company's domestic insurance subsidiaries was significantly above levels that would require regulatory action.

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14. Benefit Plans

Pension and other postretirement plans

Defined benefit pension plans, sponsored by AIC, cover most domestic full-time employees and certain part-time employees. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. AIC's funding policy for the pension plans is to make annual contributions in accordance with accepted actuarial cost methods. The allocated benefit to the Company included in net income was \$1 million for the pension plans in 2001, 2000 and 1999.

AIC also provides certain health care and life insurance benefits for employees when they retire. Qualified employees may become eligible for these benefits if they retire in accordance with AIC's established retirement policy and are continuously insured under AIC's group plans or other approved plans for ten or more years prior to retirement. AIC shares the cost of the retiree medical benefits with retirees based on years of service, with AIC's share being subject to a 5% limit on annual medical cost inflation after retirement. AIC's postretirement benefit plans currently are not funded. AIC has the right to modify or terminate these plans. The allocated cost to the Company included in net income was \$5 million, \$3 million and \$1 million for postretirement benefits other than pension plans in 2001, 2000 and 1999, respectively.

Profit sharing plans

Employees of AIC are also eligible to become members of The Savings and Profit Sharing Fund of Allstate Employees ("Allstate Plan"). The Corporation's contributions are based on the Corporation's matching obligation and performance.

The Company's allocation of profit sharing expense from the Corporation was \$5 million, \$4 million, and \$4 million in 2001, 2000 and 1999, respectively.

15. Business Segments

ALIC's management is organized around products and services, and this structure is considered in the identification of its two reportable segments. These segments and their respective operations are as follows:

Retail

The Retail segment offers a diversified group of products to meet consumers' lifetime needs in the areas of protection and retirement solutions through a variety of distribution channels. See Note 1 for discussion of the Retail segment's products and distribution channels. The Company evaluates the results of this segment based upon invested asset growth, face amounts of policies inforce and Net Income.

Structured Financial Products

The Structured Financial Products segment offers a variety of spread-based and fee-based products to qualified investment buyers. See Note 1 for discussion of the Structured Financial Products segment's products and distribution channels. The Company evaluates the results of this segment based upon statutory premiums and deposits and Net Income.

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Summarized revenue data for each of the Company's business segments for the years ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Revenues			
<i>Retail</i>			
Premiums and contract charges	\$ 1,510	\$ 1,449	\$ 1,306
Net investment income	1,705	1,556	1,342
Realized capital gains and losses	(140)	(20)	162
	<hr/>	<hr/>	<hr/>
Total Retail	3,075	2,985	2,810
	<hr/>	<hr/>	<hr/>

<i>Structured Financial Products</i>			
Premiums and contract charges	357	418	255
Net investment income	1,134	1,033	897
Realized capital gains and losses	(73)	(6)	30
	<hr/>	<hr/>	<hr/>
Total Structured Financial Products	1,418	1,445	1,182
	<hr/>	<hr/>	<hr/>
Consolidated Revenues	\$ 4,493	\$ 4,430	\$ 3,992
	<hr/>	<hr/>	<hr/>

Summarized financial performance data for each of the Company's business segments for the years ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Income from operations before income taxes and other items			
<i>Retail</i>			
Premiums and contract charges	\$ 1,510	\$ 1,449	\$ 1,306
Net investment income	1,705	1,556	1,342
Realized capital gains and losses	(140)	(20)	162
Contract benefits	706	606	598
Interest credited to contractholders' funds	1,165	1,075	869
Amortization of deferred policy acquisition costs	360	414	365
Operating costs and expenses	371	299	313
Loss on disposition of operations	(4)	—	—
	<hr/>	<hr/>	<hr/>
Retail income from operations before income taxes and other items	469	591	665
	<hr/>	<hr/>	<hr/>
<i>Structured Financial Products</i>			
Premiums and contract charges	357	418	255
Net investment income	1,134	1,033	897
Realized capital gains and losses	(73)	(6)	30
Contract benefits	779	833	653
Interest credited to contractholders' funds	505	444	391
Amortization of deferred policy acquisition costs	5	4	2
Operating costs and expenses	45	44	31
	<hr/>	<hr/>	<hr/>
Structured Financial Products income from operations before income taxes and other items	84	120	105
	<hr/>	<hr/>	<hr/>
Consolidated income from operations before income taxes and other items	\$ 553	\$ 711	\$ 770
	<hr/>	<hr/>	<hr/>

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Additional significant financial performance data for each of the Company's reportable segments for the years ended December 31, are as follows:

	2001	2000	1999
	(in millions)		
Amortization of deferred policy acquisition costs			
<i>Retail</i>	\$ 360	\$ 414	\$ 365
Structured Financial Products	5	4	2
	<hr/>	<hr/>	<hr/>
Consolidated	\$ 365	\$ 418	\$ 367
	<hr/>	<hr/>	<hr/>
Income tax expense			
<i>Retail</i>	\$ 151	\$ 200	\$ 231
Structured Financial Products	28	41	35
	<hr/>	<hr/>	<hr/>
Consolidated	\$ 179	\$ 241	\$ 266
	<hr/>	<hr/>	<hr/>

Summarized data for total assets and investments for each of the Company's reportable segments as of December 31, are as follows:

2001	2000	1999
------	------	------

Assets			
Retail	\$ 44,041	\$ 41,729	\$ 37,067
Structured Financial Products	18,581	16,462	13,380
	<hr/>	<hr/>	<hr/>
Consolidated	\$ 62,622	\$ 58,191	\$ 50,447
	<hr/>	<hr/>	<hr/>

Investments			
Retail	\$ 26,398	\$ 23,331	\$ 20,640
Structured Financial Products	17,899	15,289	12,239
	<hr/>	<hr/>	<hr/>
Consolidated	\$ 44,297	\$ 38,620	\$ 32,879
	<hr/>	<hr/>	<hr/>

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16. Other Comprehensive Income

The components of other comprehensive income on a pretax and after-tax basis for the year ended December 31, are as follows:

	2001			2000			1999		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax	Pretax	Tax	After-tax
	(in millions)								
<i>Unrealized net capital gains and losses and net losses on derivative financial instruments:</i>									
Unrealized holding gains (losses) arising during the period	\$ (115)	\$ 40	\$ (75)	\$ 550	\$ (192)	\$ 358	\$ (814)	\$ 285	\$ (529)
Less: reclassification adjustments	(238)	83	(155)	10	(3)	7	180	(63)	117
Unrealized net capital gains and losses	123	(43)	80	540	(189)	351	(994)	348	(646)
Cumulative effect of change in accounting for derivative financial instruments	(1)	—	(1)	—	—	—	—	—	—
Net losses on derivative financial instruments arising during the period	(1)	—	(1)	—	—	—	—	—	—
Less: reclassification adjustments for derivative financial instruments	4	(2)	2	—	—	—	—	—	—
Net losses on derivative financial instruments	(6)	2	(4)	—	—	—	—	—	—
Unrealized net capital gains and losses and net losses on derivative financial instruments:	117	(41)	76	540	(189)	351	(994)	348	(646)
<i>Unrealized foreign currency translation adjustments</i>	3	(1)	2	(3)	1	(2)	2	(1)	1
Other comprehensive income	\$ 120	\$ (42)	\$ 78	\$ 537	\$ (188)	\$ 349	\$ (992)	\$ 347	\$ (645)

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17. Quarterly Results (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2001	2000	2001	2000	2001	2000	2001	2000
	(in millions)							
Revenues	\$ 1,048	\$ 1,086	\$ 1,154	\$ 998	\$ 1,130	\$ 1,189	\$ 1,161	\$ 1,157
Net Income	67	127	89	104	90	147	122	92

18. Subsequent event

On March 28, 2002, Allstate Life paid a dividend of \$44 million to AIC.

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ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

SCHEDULE I—SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

DECEMBER 31, 2001

Type of Investment	Cost	Fair Value	Carrying Value
	(in millions)		
Fixed Income Securities, Available for Sale:			
Bonds:			
United States government, government agencies and authorities	\$ 2,538	\$ 3,021	\$ 3,021
States, municipalities and political subdivisions	1,162	1,202	1,202
Foreign governments	245	257	257
Public utilities	2,712	2,793	2,793
Convertibles and bonds with warrants attached	435	448	448
All other corporate bonds	18,207	18,833	18,833
Mortgage-backed securities	7,927	8,164	8,164
Asset-backed securities	2,395	2,410	2,410
Redeemable preferred stocks	97	98	98
Total fixed income securities	\$ 35,718	\$ 37,226	\$ 37,226
Equity Securities:			
Common Stocks:			
Public utilities	\$ —	\$ —	\$ —
Banks, trusts and insurance companies	—	—	—
Industrial, miscellaneous and all other	184	188	188
Nonredeemable preferred stocks	12	13	13
Total equity securities	\$ 196	\$ 201	\$ 201
Mortgage loans on real estate	\$ 5,450		\$ 5,450
Real estate	32		32
Policy loans	673		673
Other long-term investments	(34)		43
Short-term investments	672		672
Total investments	\$ 42,707		\$ 44,297

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ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

SCHEDULE III—SUPPLEMENTARY INSURANCE INFORMATION

DECEMBER 31, 2001

Segment	At December 31			For the Year Ended December 31				
	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims, Expenses	Unearned Premiums	Premiums and Contract Charges	Net Investment Income	Contract Benefits and Credited Interest	Amortization of Deferred Policy Acquisition Costs	Operating Costs and Expenses
(in millions)								
2001								
Retail	\$ 2,976	\$ 24,532	\$ 9	\$ 1,510	\$ 1,705	\$ 1,871	\$ 360	\$ 371
Structured Financial Products	21	16,401	—	357	1,134	1,284	5	45
Total	\$ 2,997	\$ 40,933	\$ 9	\$ 1,867	\$ 2,839	\$ 3,155	\$ 365	\$ 416
2000								
Retail	\$ 2,902	\$ 21,699	\$ 48	\$ 1,449	\$ 1,556	\$ 1,681	\$ 414	\$ 299
Structured Financial Products	24	13,977	—	418	1,033	1,277	4	44

Total	\$	2,926	\$	35,676	\$	48	\$	1,867	\$	2,589	\$	2,958	\$	418	\$	343
1999																
Retail	\$	2,656	\$	19,271	\$	18	\$	1,306	\$	1,342	\$	1,467	\$	364	\$	313
Structured																
Financial																
Products		19		11,872		—		255		897		1,044		3		31
Total	\$	2,675	\$	31,143	\$	18	\$	1,561	\$	2,239	\$	2,511	\$	367	\$	344

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**ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE IV—REINSURANCE
DECEMBER 31, 2001**

	Gross amount	Ceded to other Companies	Assumed from other Companies	Net amount	Percent of amount assumed to net
	(in millions)				
<u>Year Ended December 31, 2001</u>					
Life insurance in force	\$ 356,547	\$ 139,044	\$ 3,691	\$ 221,194	1.7%
Premiums and contract charges:					
Life and annuities	\$ 1,929	\$ 282	\$ 57	\$ 1,704	3.3%
Accident and health	156	41	48	163	29.4%
Total premiums and contract charges	\$ 2,085	\$ 323	\$ 105	\$ 1,867	5.6%
<u>Year Ended December 31, 2000</u>					
Life insurance in force	\$ 338,648	\$ 120,827	\$ —	\$ 217,821	0.0%
Premiums and contract charges:					
Life and annuities	\$ 1,933	\$ 278	\$ 64	\$ 1,719	3.7%
Accident and health	142	24	30	148	20.3%
Total premiums and contract charges	\$ 2,075	\$ 302	\$ 94	\$ 1,867	5.0%
<u>Year Ended December 31, 1999</u>					
Life insurance in force	\$ 307,225	\$ 102,153	\$ 1	\$ 205,073	0.0%
Premiums and contract charges:					
Life and annuities	\$ 1,511	\$ 221	\$ 18	\$ 1,308	1.4%
Accident and health	237	20	36	253	14.2%
Total premiums and contract charges	\$ 1,748	\$ 241	\$ 54	\$ 1,561	3.5%

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**ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE V—VALUATION AND QUALIFYING ACCOUNTS
DECEMBER 31, 2001**

	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period
	(in millions)			
<u>Year Ended December 31, 2001</u>				
Allowance for estimated losses on mortgage loans and real estate	\$ 5	\$ —	\$ —	\$ 5

Allowance for deferred tax assets	\$	2	\$	—	\$	2	\$	—
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

Year Ended December 31, 2000

Allowance for estimated losses on mortgage loans and real estate	\$	7	\$	(2)	\$	—	\$	5
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

Allowance for deferred tax assets	\$	1	\$	1	\$	—	\$	2
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

Year Ended December 31, 1999

Allowance for estimated losses on mortgage loans and real estate	\$	9	\$	(2)	\$	—	\$	7
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

Allowance for deferred tax assets	\$	—	\$	1	\$	—	\$	1
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

Independent Auditors' Report

*To the Board of Directors and Shareholder
of Allstate Life Insurance Company:*

We have audited the accompanying Consolidated Statements of Financial Position of Allstate Life Insurance Company and subsidiaries (the "Company", an affiliate of The Allstate Corporation) as of December 31, 2001 and 2000, and the related Consolidated Statements of Operations and Comprehensive Income, Shareholder's Equity and Cash Flows for each of the three years in the period ended December 31, 2001. Our audits also included Schedule I—Summary of Investments other than Investments in Related Parties, Schedule III—Supplementary Insurance Information, Schedule IV—Reinsurance, and Schedule V—Valuation and Qualifying Accounts. These financial statements and financial schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Allstate Life Insurance Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Schedule I—Summary of Investments other than Investments in Related Parties, Schedule III—Supplementary Insurance Information, Schedule IV—Reinsurance, and Schedule V—Valuation and Qualifying Accounts, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 20, 2002
(March 28, 2002 as to Note 18)

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 15. Financial Statements and Exhibits.

The following financial statements of Allstate Life Insurance Company are included as part of this registration statement:

- Consolidated Statements of Operations and Comprehensive Income
- Consolidated Statements of Financial Position
- Consolidated Statements of Shareholder's Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

Schedule I—Summary of Investments Other than Investments in Related Parties

An "Exhibit Index" is included on pages E-1 through E-5 and it is incorporated in this Item 15 by reference.

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SIGNATURES

Pursuant to the Requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ THOMAS J. WILSON, II

Thomas J. Wilson, II
Chairman and President

April 24, 2002

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EXHIBIT INDEX

Exhibit No.	Document Description
3.1	Articles of Amendment to the Articles of Incorporation of Allstate Life Insurance Company dated December 29, 1999
3.2	By-Laws of Allstate Life Insurance Company, Amended and Restated June 28, 2000
4	See Exhibits 3.1 and 3.2.
10.1*	Allstate Insurance Company Supplemental Retirement Income Plan, as amended and restated effective January 1, 1996. Incorporated herein by reference to Exhibit 10.11 to The Allstate Corporation's Annual Report on Form 10-K for 1995.**
10.2*	The Allstate Corporation Deferred Compensation Plan, as amended and restated as of November 1, 2001. Incorporated herein by reference to Exhibit 10.4 to The Allstate Corporation's Annual Report on Form 10-K for 2001.**
10.3*	The Allstate Corporation Amended and Restated Deferred Compensation Plan for Non-Employee Directors, as amended and restated as of February 5, 1997. Incorporated herein by reference to Exhibit 4 to Registration Statement No. 333-16129.**
10.4*	The Allstate Corporation Annual Executive Incentive Compensation Plan, as amended and restated as of March 9, 1999. Incorporated herein by reference to Exhibit 10.14 to The Allstate Corporation's Annual Report on Form 10-K for 1998.**
10.5*	The Allstate Corporation Long-Term Executive Incentive Compensation Plan, as amended and restated as of March 9, 1999. Incorporated herein by reference to Exhibit 10.15 to The Allstate Corporation's Annual Report on Form 10-K for 1998.**
10.6*	The Allstate Corporation Equity Incentive Plan, as amended and restated as of November 10, 1998. Incorporated herein by reference to Exhibit 10.16 to The Allstate Corporation's Annual Report on Form 10-K for 1998.**

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10.7*	Amendments approved by the Board of Directors on March 3, 1999 and March 13, 2001 to The Allstate Corporation Equity Incentive Plan, as amended and restated as of November 10, 1998. Incorporated herein by reference to Exhibit 10.1 to The Allstate Corporation's Quarterly Report on Form 10-Q for quarter ended June 30, 2001.**
10.8*	Form of stock option under the Equity Incentive Plan. Incorporated by reference to Exhibit 10.15 to The Allstate Corporation Annual Report on Form 10-K for 1999.**
10.9*	Form of stock option with reload under the Equity Incentive Plan. Incorporated by reference to Exhibit 10.16 to The Allstate Corporation Annual Report on Form 10-K for 1999.**

- 10.10* Form of restricted stock grant under the Equity Incentive Plan. Incorporated by reference to Exhibit 10.17 to The Allstate Corporation's Annual Report on Form 10-K for 1999.**
- 10.11* The Allstate Corporation Equity Incentive Plan for Non-Employee Directors as amended and restated on September 18, 2000 effective June 1, 2001. Incorporated herein by reference to Exhibit 10.12 to The Allstate Corporation's Annual Report on Form 10-K for 2000.**
- 10.12* The Allstate Corporation Employees Replacement Stock Plan, as amended and restated on November 10, 1998. Incorporated herein by reference to Exhibit 10.20 to The Allstate Corporation's Annual Report on Form 10-K for 1998.**
- 10.13* Amendments approved by the Board of Directors on March 3, 1999 and March 13, 2001 to The Allstate Corporation Employees Replacement Stock Plan, as amended and restated on November 10, 1998. Incorporated by reference to Exhibit 10.2 to The Allstate Corporation's Quarterly Report on Form 10-Q for quarter ended June 30, 2001.**
- 10.14* Form of stock option under the Employees Replacement Stock Plan. Incorporated herein by reference to Exhibit 10.21 to The Allstate Corporation's Annual Report on Form 10-K for 1995.**
- 10.15* Form of restricted stock grant under the Employees Replacement Stock Plan. Incorporated herein by reference to Exhibit 10.22 to The Allstate Corporation's Annual Report on Form 10-K for 1995.**

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- 10.16* The Allstate Corporation Annual Covered Employee Incentive Compensation Plan adopted and made effective on March 9, 1999. Incorporated herein by reference to Exhibit 10.23 to The Allstate Corporation's Annual Report on Form 10-K for 1998.**
- 10.17* The Allstate Corporation 2001 Equity Incentive Plan effective May 15, 2001. Incorporated by reference to Exhibit 10.3 to The Allstate Corporation's Quarterly Report on Form 10-Q for quarter ended June 30, 2001.**
- 10.18* Form of Option Award Agreement under The Allstate Corporation 2001 Equity Incentive Plan. Incorporated by reference to Exhibit 10.4 to The Allstate Corporation's Quarterly Report on Form 10-Q for quarter ended June 30, 2001.**
- 10.19* Retirement Benefits of Edward M. Liddy, John L. Carl and Casey J. Sylla. Incorporated herein by reference to Exhibit 10.21 to The Allstate Corporation's Annual Report on Form 10-K for 2001.**
- 10.20* CEO Change of Control Employment Agreement. Incorporated herein by reference to Exhibit 10.3 to The Allstate Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.**
- 10.21* Other Named Executive Officer Change of Control Employment Agreement. Incorporated herein by reference to Exhibit 10.4 to The Allstate Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.**
- 10.22 Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation and Certain Insurance Subsidiaries dated January 1, 1999
- 10.23 Addendum to Service and Expense Agreement between Allstate Insurance Company and Allstate Assurance Company (fka Provident National Assurance Company) effective February 1, 2001
- 10.24 Service Agreement effective as of July 1, 1989 between Allstate Insurance Company and Allstate Life Insurance Company of New York
- 10.25 Administrative Services Agreement between Allstate Insurance Company and Intramerica Life Insurance Company effective July 1, 1999

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- 10.26 Service Agreement between Allstate Insurance Company and Allstate Financial Services, LLC effective August 1, 1999
- 10.27 Cost Sharing Agreement between Allstate Life Insurance Company and Allstate Reinsurance Ltd. effective October 12, 2000
- 10.28 Investment Management Agreement and Amendment to Certain Service and Expense Agreements Among Allstate Investments, LLC and Allstate Insurance Company and The Allstate Corporation and Certain Affiliates effective as of January 1, 2002
- 10.29 Investment Advisory Agreement by and between Allstate Insurance Company and Intramerica Life Insurance Company effective July 1, 1999
- 10.30 Assignment and Assumption Agreement dated as of January 1, 2002 among Allstate Insurance Company, Allstate Investments, LLC and Intramerica Life Insurance Company
- 10.31 Investment Advisory Agreement and Amendment to Service Agreement as of January 1, 2002 between Allstate Insurance Company, Allstate Investments, LLC and Allstate Life Insurance Company of New York

10.32	Cash Management Services Master Agreement between Allstate Insurance Company and Allstate Bank (fka Allstate Federal Savings Bank) dated March 16, 1999
10.33	Amendment No. 1 to Cash Management Services Master Agreement effective January 5, 2001
10.34	Form of Allstate Insurance Company Agreement of General Indemnity executed by Allstate Life Insurance Company and Northbrook Life Insurance Company dated November 27, 1987 and executed by Allstate Settlement Corporation dated May 14, 1991
10.35	Stipulation to Allstate Insurance Company Agreement of General Indemnity executed by Allstate Settlement Corporation
10.36	Tax Sharing Agreement dated as of November 12, 1996 among The Allstate Corporation and certain affiliates
10.37	Reinsurance Agreement between Allstate Insurance Company and Allstate Life Insurance Company effective as of June 1, 1992

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10.38	Amendment to Reinsurance Agreement between Allstate Insurance Company and Allstate Life Insurance Company, effective January 1, 1993
10.39	Reinsurance Agreement between Columbia Universal Life Insurance Company and Allstate Life Insurance Company, approved August 2000
10.40	Reinsurance Agreement between Columbia Universal Life Insurance Company and Allstate Life Insurance Company, approved July 2000
10.41	Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd.
10.42	Amendment No. 1 to Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd. effective January 1, 1998
10.43	Amendment No. 2 to Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd.
10.44	Amendment No. 3 to Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd.
21	Subsidiaries of Allstate Life Insurance Company

* A management contract or compensatory plan or arrangement

** SEC File Number 1-11840

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ARTICLES OF AMENDMENT
TO THE ARTICLES OF INCORPORATION
OF
ALLSTATE LIFE INSURANCE COMPANY

ARTICLE I

(a) The name of the company shall be ALLSTATE LIFE INSURANCE COMPANY.

(b) The principal office of the company shall be located in the township of Northfield, County of Cook, in the State of Illinois.

(c) The period of duration of the company shall be perpetual.

ARTICLE II

The objects and purposes of the company shall be to make, write and issue the following classes and kinds of insurance:

(a) LIFE: Insurance on the lives of persons and every insurance appertaining thereto or connected therewith and granting, purchasing or disposing of annuities. Policies of life or endowment insurance or annuity contracts or contracts supplemental thereto which contain provisions for additional benefits in case of death by accidental means and provisions operating to safeguard such policies or contracts against lapse or to give a special surrender value, or special benefit, or an annuity, in the event that the insured or annuitant shall become totally and permanently disabled as defined by the policy or contract, shall be deemed to be policies of life or endowment insurance or annuity contracts within the intent of this clause.

(b) ACCIDENT AND HEALTH: Insurance against bodily injury, disablement or death by accident and against disablement resulting from sickness or old age and every insurance appertaining thereto.

(c) LEGAL EXPENSE: Insurance which involves the assumption of a contractual obligation to reimburse the beneficiary against or pay on behalf of the beneficiary, all or a portion of his fees, costs or expenses related to or arising out of services performed by or under the supervision of an attorney licensed to practice in the jurisdiction wherein the services are performed, regardless of whether the payment is made by the beneficiary individually or by a third person for them, but does not include the provision of or reimbursement for legal services incidental to other insurance coverages.

ARTICLE III

(a) The number of Directors shall be as provided in the By-Laws, but shall not be less than three, nor more than twenty-one. The Directors shall be elected at each annual meeting of the shareholders for a term of one year. Vacancies in the Board of Directors shall be filled by vote of the shareholders.

(b) The corporate powers of the company shall be vested in the Board of Directors, who shall have the power to do any and all acts the company may do under the law and not otherwise to be performed by the shareholders, and shall have the power to adopt By-Laws not inconsistent with law for the government and regulation of the business.

ARTICLE IV

The amount of authorized capital of the company shall be three hundred five million four hundred two thousand six hundred and no/100 Dollars (\$305,402,600), divided into twenty three thousand eight hundred (23,800) shares of common stock of the par value of two hundred twenty seven and no/100 dollars (\$227.00) per share, and three million (3,000,000) shares of non-voting preferred stock of the par value of one hundred and no/100 dollars (\$100.00) per share.

Preferred stock may be issued, from time to time and as permitted by law, in one or more series and with such designation for each such series as shall be stated in the resolution of the Board of Directors authorizing such series. The Board of Directors shall fix and determine the relative rights and preferences of each such series, and shall establish the number of shares to be included in each such series; provided, however, that in no event may any such series of preferred stock be issued subject to a right or preference which grants to the holder thereof any voting rights in the affairs of the Company or permits conversion of such preferred stock to common stock of the Company; and provided, further, that the aggregate par value of all such series of preferred stock

issued and outstanding shall not exceed Three Hundred Million Dollars (\$300,000,000).

ARTICLE V

The designation of the general officers shall be Chairman of the Board, President, two or more Vice Presidents, Treasurer and Secretary.

ARTICLE VI

The fiscal year of the company shall commence on the first day of January and terminate on the 31st day of December of each year.

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ARTICLE VII

The company may indemnify any agent as permitted by the Business Corporation Act of Illinois. The company shall have the power to purchase and maintain insurance on behalf of any agent against any liability asserted against and incurred by such agent or arising out of such status as an agent, whether or not the corporation would have the power to indemnify such agent against such liability. The company shall also have the power to purchase and maintain insurance to indemnify the company for any obligation which it may incur as a result of such indemnification of an agent.

Any indemnification provided to an agent (a) shall not be deemed exclusive of any other rights to which such agent may be entitled by law or under any by-law, agreement, vote of shareholders or disinterested Directors or otherwise, and (b) shall inure to the benefit of the legal representative of such agent or the estate of such agent, whether such representatives are court-appointed or otherwise designated, and to the benefit of the heirs of such agent.

As used in this Article, "agent" shall mean any person who is or was

- (i) a director, officer or employee of the company and/or any subsidiary,
- (ii) a trustee or a fiduciary under any employee pension, profit sharing, welfare or similar plan or trust of the company and/or any subsidiary, or
- (iii) serving at the request of the company as a director, officer and/or employee of or in a similar capacity in another corporation, partnership, joint venture, trust or other enterprise (which shall, for the purpose of this Article be deemed to include not-for-profit entities of any type), whether acting in such capacity or in any other capacity including, without limitation, as a trustee or fiduciary under any employee pension, profit sharing, welfare or similar plan.

ARTICLE VIII

The Company shall be bound by all the terms and provisions of the Illinois Insurance Code applicable to similar companies organized or incorporated thereunder.

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Micheal J. Velotta

Vice President, Secretary and General Counsel

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Attest:

/s/ Emma M. Kalaidjian

Assistant Secretary

SEAL

Approved this 29th day of
December, 1999

/s/ Nat Shapo

Director of Insurance

AMENDED AND RESTATED
BY-LAWS OF
ALLSTATE LIFE INSURANCE COMPANY

JUNE 28, 2000

ARTICLE I

DIRECTORS

SECTION 1. The property, business and affairs of the Company shall be managed and controlled by a Board of Directors composed of not less than twelve nor more than seventeen members. The number of directors may be fixed or changed from time to time, within the minimum and maximum, by the Board of Directors without further amendment to these By-Laws. The Directors shall be elected at each annual meeting of the shareholders of the Company for a term of one year. Each Director shall hold office for the term for which he or she was elected and until the election and qualification of his or her successor.

SECTION 2. In the event of a vacancy occurring in the Board of Directors, the shareholders of the Company shall, by a majority vote at a special meeting called for that purpose or at the next annual meeting of shareholders, elect a Director to fill such vacancy, who shall hold office during the unexpired portion of the term of the Director whose place he or she was elected to fill.

SECTION 3. The Board of Directors may declare dividends payable out of the surplus funds of the Company when warranted by law.

SECTION 4. The Board of Directors shall elect all the general officers of the Company hereafter provided and may prescribe additional descriptive titles for any such officers.

The Board of Directors may from time to time appoint an Actuary, Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers, Assistant Actuaries and other officers of the Company. The Board of Directors may prescribe the duties and fix the compensation of any elected or appointed officer and may require from any officer security for his or her faithful service and for his or her proper accounting for monies and property from time to time in his or her possession.

All officers of the Company shall hold office at the will of the Board of Directors.

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SECTION 5. The Board of Directors shall designate in what bank or banks the funds of the Company shall be deposited and the person or persons who may sign, on behalf of the Company, checks or drafts against such deposits. Such designations may also be made by such person or persons as shall be appointed for that purpose by the Board of Directors.

SECTION 6. The Board of Directors shall have the power to make rules and regulations not inconsistent with the laws of this State, the Articles of Incorporation of the Company, or these By-Laws, for the conduct of its own meetings and the management of the affairs of the Company.

SECTION 7. The Board of Directors may authorize payment of compensation to Directors for their services as Directors, and fix the amount thereof.

SECTION 8. The Board of Directors shall have the power to appoint committees and to grant them powers not inconsistent with the laws of this State, the Articles of Incorporation of the Company, or these By-Laws.

SECTION 9. An annual meeting of the Board of Directors shall be held each year immediately after the adjournment of the annual meeting of the shareholders. Other meetings of the Board of Directors may be held at such time, as the Board of Directors may determine or when called by the President or by a majority of the Board of Directors.

Notice of every meeting of the Directors other than the stated annual meeting shall be given by letter or telegraph sent to each Director at his business address, not less than three days prior to the meeting. Any Director may, in writing, waive notice of any meeting, and the presence of a Director at any meeting shall be considered a waiver by him or her of notice of such meeting, except as otherwise provided by law.

Any action required or permitted to be taken at any meeting of the Board of Directors, or of any Committee thereof, may be taken without a meeting if all members of the Board or such Committee, as the case may be, consent thereto in writing. Such writing or writings shall be filed with the minutes of proceedings of the Board or such Committee.

SECTION 10. A majority of the whole Board of Directors shall constitute a quorum for the transaction of business, but if at any meeting of the Board of Directors there shall be less than a quorum present, a majority of those present may adjourn the meeting, from time to time, until a quorum shall have been obtained.

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ARTICLE II Officers

SECTION 1. The general officers of the Company shall consist of a Chairman of the Board, President, two or more Vice Presidents, a Secretary, a Treasurer, and a Controller, who shall be elected annually by the Board of Directors at the stated annual meeting held upon adjournment of the annual shareholders' meeting, and if not elected at such meeting, such officers may be elected at any meeting of the Board of Directors held thereafter. Such officers shall be elected by a majority of the Directors, and shall hold office for one year and until their respective successors are elected and qualified, subject to removal at will by the Board of Directors. In case of a vacancy in any of the general offices of the Company, such vacancy may be filled by the vote of a majority of the Board of Directors. Any two of the aforesaid offices may be filled by the same person, with the exception of the offices of President and Vice President, or President and Secretary.

SECTION 2. The Chairman of the Board shall preside at all meetings of the shareholders and of the Board of Directors. He shall be the Chief Executive Officer of the Company, shall have general and active management of the business of the Company subject to the supervision of the Board of Directors, and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall also perform such other duties as shall be prescribed from time to time by the Board of Directors.

SECTION 3. The President shall have general administrative control and supervision over the operations of the company subject to the supervision of the Chairman Board. He shall, in the absence or inability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the corporation. He shall also perform such other duties as may properly belong to his office or as shall be prescribed from time to time by the Chairman of the Board or by the Board of Directors.

SECTION 4. Each Vice President shall have such powers and shall perform such duties as may be assigned to him or her by the Chairman of the Board, or by the President or by the Board of Directors. In the absence or in the case of the inability of the Chairman of the Board and the President to act, the Board of Directors may designate which one of the Vice Presidents shall be the acting Chief Executive Officer of the Company during such absence or inability, whereupon such acting Chief Executive Officer shall have all the powers and perform all of the duties incident to the office of the Chairman during the absence or inability of the Chairman and President to act.

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SECTION 5. The Secretary shall keep the minutes of all meetings of the Board of Directors, and of all meetings of the shareholders, in books provided by the Company for such purpose. He or she shall attend to the giving of all notices of meetings of the Board of Directors or shareholders. He or she may sign with the Chairman of the Board, the President or a Vice President in the name of the Company when authorized by the Board of Directors so to do, all contracts and other instruments requiring the seal of the Company and may affix the seal thereto. He or she shall, in general, perform all of the duties which are incident to the office of Secretary and such other duties as the Board of Directors or Chairman of the Board may from time to time prescribe.

SECTION 6. The Treasurer shall deposit the monies of the Company in the Company's name in depositories designated by the Board of Directors, or by such person or persons as shall be appointed for that purpose by the Board of Directors. He or she shall, in general, perform all of the duties which are incident to the office of Treasurer and such other duties as the Board of

Directors or Chairman of the Board may from time to time prescribe. The Board of Directors may, in its discretion, require him or her to give bond for the faithful discharge of his or her duties.

SECTION 7. The Controller shall have such powers and perform such duties as the Board of Directors or the Chairman of the Board may from time to time prescribe.

ARTICLE III

SHAREHOLDERS' MEETING

SECTION 1. The annual meeting of the shareholders shall be held at the principal office of the Company in Northfield Township, Cook County, Illinois, or at such other location within or without the State of Illinois as may be set forth in the notice of call, on the third Tuesday in February of each year, except when such day shall be a legal holiday, in which case the meeting shall be held on the next succeeding business day. The Chairman of the Board or the Board of Directors may at any time call a special meeting of the shareholders, and the Chairman of the Board shall call such special meeting when requested, in writing, so to do by the owners of not less than one-fifth of the outstanding share of the Company.

SECTION 2. Notice of every meeting of the shareholders shall be given by mailing notice thereof at least ten days before such meeting to all the shareholders at their respective post office addresses last furnished by them, respectively, to the Company. The shareholders may waive notice of any such meeting, in writing, and the presence of a shareholder, either in person or by proxy, shall be considered a waiver of notice, except as otherwise provided by law.

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SECTION 3. The presence at such meeting in person or by proxy of shareholders of the Company representing at least fifty-one percent of the then outstanding shares of the Company shall be necessary to constitute a quorum for the purpose of transacting business, except as otherwise provided by law, but a smaller number may adjourn the meeting from time to time until a quorum shall be obtained. Each shareholder shall be entitled to cast one vote in person or by proxy for each share of stock of the Company held and of record in his or her name on the books of the Company.

SECTION 4. A shareholder may vote at any meeting of the shareholders either in person or by proxy duly constituted in writing. No special form of proxy shall be necessary.

ARTICLE IV

SHARES

SECTION 1. Share certificates shall be signed by the President or a Vice President and countersigned by the Secretary, shall be sealed with the corporate seal of the Company, and shall be registered upon the Share Register of the Company. Each certificate shall express on its face the name of the Company, the number of the certificate, the number of shares for which it is issued, the name of the person to whom it is issued, the par value of each of said shares, and the amount actually received by the Company for each share represented by said certificate.

SECTION 2. Transfer of shares of the Company shall be made only on the books of the Company by the holder thereof in person or by his or her attorney duly authorized, in writing, and upon the surrender of the certificates or certificate for the share transfer, upon which surrender and transfer new certificates will be issued. The Board of Directors may, by resolution, close the share transfer books of the Company for a period not exceeding ten days before the holding of any annual or special meeting of the shareholders. The Board of Directors may, by resolution, also close the transfer books of the Company for a period not exceeding ten days before the payment of any dividends which may be declared upon the shares of the Company.

ARTICLE V

PREFERRED SHARES

SECTION 1. The issuance of preferred shares shall be evidenced by entry thereof in the Preferred Share Register of the Company or by distribution of preferred

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Share Certificates, signed by the President or a Vice President, countersigned by the Secretary and sealed with the corporate seal of the Company. Each such certificate shall express on its face the name of the Company, the series in which it is issued, the number of the certificate, the number of shares for which it is issued, the name of the person to whom it is issued, the par value of each of the said shares, and the amount actually received by the Company or each share represented by said certificate. Such information shall likewise be recorded in the Preferred Share Register of the Company.

SECTION 2. Transfers of Preferred Shares of the Company shall be made on the books of the Company by the holder thereof in person or by the holder's attorney duly authorize, in writing, and, where a certificate or certificates have been issued, upon surrender of the certificates or certificate for the share transfer, upon which surrender and transfer new certificates will be issued. The Board of Directors may, by resolution, close the preferred share transfer books of the Company for a period not exceeding ten days before the payment of any dividends which may be declared upon the preferred shares of the Company.

ARTICLE VI

INSURANCE POLICES

SECTION 1. All policies of insurance issued by this Company shall comply with the laws of the respective states or territories in which the policies are issued. All policies of insurance issued by this Company shall be signed, either manually or by facsimile, by the President and the Secretary or by such officer or officers as the President may designate, and shall be countersigned by a duly licensed resident agent where so required by law or regulation.

ARTICLE VII

MISCELLANEOUS

SECTION 1.

(a) As used in this Section:

(i) "acted properly" as to any person shall mean that such person

(A) acted in good faith;

(B) acted in a manner which he or she reasonably believed to be

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in or not opposed to the best interests of the corporation;
and

(C) with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act properly.

(ii) "covered person" shall mean an Indemnitee (as defined below) or an Employee Indemnitee (as defined below).

(iii) "Employee Indemnitee" shall mean any non-officer employee of the corporation (but not subsidiaries of the corporation).

(iv) "expenses" shall include attorneys' fees and expenses and any attorneys' fees and expenses of establishing a right to indemnification under this Section.

(v) "Indemnitee" shall mean any person who is or was

(A) a director or officer of the corporation and/or any subsidiary;

(B) a trustee or a fiduciary under any employee pension, profit sharing, welfare or similar plan or trust of the corporation and/or any subsidiary; or

(C) serving at the request of the corporation as a director or officer of or in a similar capacity in another

corporation, partnership, joint venture, trust or other enterprise, (which shall, for the purpose of this Section be deemed to include not-for-profit or for-profit entities of any type), whether acting in such capacity or in any other capacity including, without limitation, as a trustee or fiduciary under any employee pension, profit sharing, welfare or similar plan of trust.

- (vi) "proceeding" shall mean any threatened, pending or completed action or proceeding, whether civil or criminal, and whether judicial, legislative or administrative and shall include investigative action by any person or body.

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- (vii) "subsidiary" shall mean a corporation, 50% or more of the shares of which at the time outstanding having voting power for the election of directors are owned directly or indirectly by the corporation or by one or more subsidiaries or by the corporation and one or more subsidiaries.
- (b) The corporation shall indemnify any Indemnitee to the fullest extent permitted under law (as the same now or hereafter exists), who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that such person is or was an Indemnitee against liabilities, expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her.
- (c) The corporation shall indemnify any Employee Indemnitee who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was an employee against liabilities, expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such proceeding if such person acted properly.
- (d) The corporation shall indemnify any Employee Indemnitee who was or is a party or is threatened to be made a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was an employee against amounts paid in settlement and against expenses actually and reasonably incurred by him or her in connection with the defense or settlement of such proceeding if he or she acted properly, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication or liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.
- (e) Expense incurred in defending a proceeding shall be paid by the corporation to or on behalf of a covered person in advance of the final disposition of such proceeding if the corporation shall have received an undertaking by or on behalf of such person to repay such amounts unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Section.
- (f) Any indemnification or advance under this Section (unless ordered by a court) shall be made by the corporation only as authorized in the specific

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proceeding upon a determination that indemnification or advancement to a covered person is proper in the circumstances. Such determination shall be made:

- (i) by the Board of Directors, by a majority vote of a quorum consisting of directors who were not made parties to such proceedings, or
- (ii) if such a quorum is not obtainable, or, even if obtainable and a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or

- (iii) in the absence of a determination made under (i) or (ii), by the stockholders.
- (g) The corporation shall indemnify or advance funds to any Indemnitee described in Section (a)(v)(C), only after such person shall have sought indemnification or an advance from the corporation, partnership, joint venture, trust or other enterprise in which he or she was serving at the corporation's request, shall have failed to receive such indemnification or advance and shall have assigned irrevocably to the corporation any right to receive indemnification which he or she might be entitled to assert against such other corporation, partnership, joint venture, trust or other enterprise.
- (h) The indemnification provided to a covered person by this Section:
 - (i) shall not be deemed exclusive of any other rights to which such person may be entitled by law or under any articles of incorporation, by-law, agreement, vote of shareholders or disinterested directors or otherwise;
 - (ii) shall inure to the benefit of the legal representatives of such person or his or her estate, whether such representatives are court appointed or otherwise designated, and to the benefit of the heirs of such person; and
 - (iii) shall be a contract right between the corporation and each such person who serves in any such capacity at any time while this Section 1 of Article VII is in effect, and any repeal or modification of this Section shall not affect any rights or obligations then existing with respect to any state of facts or any proceedings then existing.
- (i) The indemnification and advances provided to a covered person by this Section shall extend to and include claims for such payments arising out of

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any proceeding commenced or based on actions of such person taken prior to the effective date of this Section; provided that payment of such claims had not been agreed to or denied by the corporation at the effective date.

- (j) The corporation shall have power to purchase and maintain insurance on behalf of any covered person against any liability asserted against him or her and incurred by him or her as a covered person or arising out of his or her status of such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of this Section. The corporation shall also have power to purchase and maintain insurance to indemnify the corporation for any obligation which it may incur as a result of the indemnification of covered persons under the provisions of this Section.
- (k) The invalidity or unenforceability of any provision in this Section shall not affect the validity or enforceability of the remaining provisions of this Section.

SECTION 2. The fiscal year of the Company shall begin in each year on the first day of January, and end on the thirty-first day of the December following.

SECTION 3. The common seal of the Company shall be circular in form and shall contain the name of the Company and the words: "CORPORATE SEAL" and "ILLINOIS".

SECTION 4. These By-Laws may be amended or repealed by the vote of a majority of the Directors present at any meeting at which a quorum is present.

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Thomas J. Wilson, II

President

Attest:

/s/ Michael J. Velotta

Secretary

SERVICE AND EXPENSE AGREEMENT
AMONG

ALLSTATE INSURANCE COMPANY

AND

THE ALLSTATE CORPORATION

AND

CERTAIN INSURANCE SUBSIDIARIES

This Agreement made and effective as of this 1st day of January, 1999, among ALLSTATE INSURANCE COMPANY, an Illinois insurance company ("Allstate"), THE ALLSTATE CORPORATION, a Delaware corporation and parent of Allstate ("Allcorp"), and Certain Insurance Subsidiaries identified as follows: ALLSTATE COUNTY MUTUAL INSURANCE COMPANY, a Texas county mutual insurance company, ALLSTATE TEXAS LLOYD'S, a Texas Lloyds plan insurer, LINCOLN BENEFIT LIFE COMPANY, a Nebraska insurance company, SURETY LIFE INSURANCE COMPANY, a Nebraska insurance company, ALLSTATE INDEMNITY COMPANY, an Illinois insurance company, ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY, an Illinois insurance company, DEERBOOK INSURANCE COMPANY, an Illinois insurance company, FORESTVIEW MORTGAGE INSURANCE COMPANY, a California insurance company, ALLSTATE LIFE INSURANCE COMPANY, an Illinois insurance company, NORTHBROOK LIFE INSURANCE COMPANY, an Arizona insurance company, GLENBROOK LIFE AND ANNUITY COMPANY, an Arizona insurance company, ALLSTATE FLORIDIAN INDEMNITY COMPANY, an Illinois insurance company, ALLSTATE FLORIDIAN INSURANCE COMPANY, an Illinois insurance company, ALLSTATE NEW JERSEY INSURANCE COMPANY, an Illinois insurance company, AMERICAN SURETY & CASUALTY COMPANY, a Florida insurance company, CHARTER NATIONAL LIFE INSURANCE COMPANY, an Illinois insurance company, AMERICAN HERITAGE LIFE INSURANCE COMPANY, a Florida insurance company, FIRST COLONIAL REINSURANCE COMPANY, a Florida insurance company, COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a Texas insurance company, KEYSTONE STATE LIFE INSURANCE COMPANY, a Pennsylvania insurance company, CONCORD HERITAGE LIFE INSURANCE COMPANY, INC., a New Hampshire insurance company, and AHL SELECT HMO, INCORPORATED, a Florida insurance company. For purposes of this agreement, the Insurance Subsidiaries shall be referred to herein, individually as "Affiliate" and collectively as "Affiliates."

W I T N E S S E T H:

WHEREAS, Allcorp and each Affiliate desire that Allstate furnish or cause to be furnished to them certain services and facilities.

NOW, THEREFORE, it is agreed as follows:

1. Allstate shall furnish or cause to be furnished, at cost and in the same manner as such services and facilities are furnished to its other affiliates, (a.) to each Affiliate that is a property and casualty insurer, services and facilities listed on Exhibit A; (b.) to each Affiliate that is a life insurer, services and facilities listed on Exhibit B; (c.) to ALLCORP such services and facilities as are required; and (d) to Allcorp and each Affiliate the investment services as described in Exhibit E, each attached hereto. Allstate and any Affiliate may from time to time agree that only certain of the listed services and facilities will be provided by Allstate.
2. Costs are defined as Allstate's actual costs and expenses incurred which are attributable to the services and facilities provided under this Agreement, such as: salaries and benefits; space rental; overhead expenses which may include items such as electricity, heat, and water; building maintenance services; furniture and other office equipment; supplies and special equipment such as reference libraries, electronic data processing equipment and the like.
3. Allocations for the above services and facilities shall be made by Allstate in accordance with the general provisions contained in Exhibits A through E. Exhibits A and B are based upon NAIC expense classification and allocation guidelines. In the event such guidelines are amended, Exhibits A and B shall be deemed amended to conform thereto. Allstate will exercise reasonable judgment in appropriately revising these Exhibits, maintain proper documentation for revisions and communicate changes in allocation requirements to affected Affiliates or Allcorp parties in a timely manner. Exhibit C provides a narrative overview of the expense management process and Exhibit D provides certain definitions used throughout.

4. Notwithstanding anything contained in this Agreement to the contrary, the amount charged to any Affiliate or Allcorp shall not exceed the cost to Allstate. Allstate will exercise reasonable judgement in periodically reviewing the expenses incurred and the percentage thereof allocated. Any Affiliate or Allcorp may request a review of such expenses and their allocation and such review will occur promptly thereafter.
5. Allstate will charge Allcorp and each Affiliate for all the services and facilities provided pursuant to this Agreement via the monthly expense allocation process, and payments will be through the monthly intercompany settlement process. The process will be completed by Allstate personnel in the most timely and effective method available.
6. Allstate shall maintain such records as may be required relating to the accounting system of Allstate, Allcorp and its Affiliates. Each Affiliate and Allcorp understand and accept the financial records generated by this system which utilizes the concepts detailed in the addenda attached to Exhibits A and B, respectively.
7. Upon reasonable notice, and during normal business hours, each Affiliate and Allcorp shall be entitled to, at its own expense, inspect records which pertain to the computation of charges for the facilities or services provided pursuant to this Agreement. Allstate shall at all times maintain correct and complete books, records and accounts of all services and facilities furnished pursuant to this Agreement.

Each Affiliate and Allcorp shall have unconditional right of ownership of any records prepared on its behalf under this Agreement.

8. Certain agreements relating to reinsurance and other service and expense sharing exist by and among Allstate and certain of its Affiliates. Except for those Agreements listed on Exhibit F, nothing in this Agreement shall be deemed to amend any such previously executed agreement between the parties.
9. Allstate employees performing duties hereunder at all times during the term of this Agreement shall be in the employment, under the supervision and control of Allstate and shall not be deemed employees of Allcorp or any Affiliate.
10. The scope of, and the manner in which, Allstate provides facilities and services to Allcorp and the Affiliates shall be reviewed periodically by Allstate, Allcorp and each Affiliate. All services and facilities shall be of good quality and suitable for the purpose for which they are intended.
11. Allstate shall not assign its obligations or rights under this Agreement without the written consent of each Affiliate and Allcorp. Allstate may terminate this Agreement in its entirety, and Allcorp or any Affiliate may cancel its participation in the arrangements under this Agreement, each by giving six months written notice to the other parties to this Agreement; provided, however, that in the event that the affiliate relationship ceases to exist with respect to any Affiliate, this Agreement shall terminate immediately with respect to such Affiliate. Under no circumstances will the initial term of this Agreement exceed five (5) years.
12. All communications provided for hereunder shall be in writing, and if to an Affiliate, mailed or delivered to such Affiliate at its office at the address listed in such Affiliate's Statutory Annual Statement Blank, Attention: Secretary, or if to Allcorp or Allstate, mailed or delivered to its office at 3075 Sanders Road, Northbrook, Illinois 60062, Attention: Controller, or addressed to any party at the address such party may hereafter designate by written notice to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed as of the day and year above written.

ALLSTATE INSURANCE COMPANY

By /s/ Samuel H. Pilch

Samuel H. Pilch
Group Vice President and Controller

ALLSTATE COUNTY MUTUAL INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

ALLSTATE TEXAS LLOYDS, INC.
On behalf of ALLSTATE TEXAS LLOYDS

By /s/ James P. Zils

James P. Zils
Vice President and Controller

LINCOLN BENEFIT LIFE COMPANY

By /s/ Thomas J. Wilson, II

Thomas J. Wilson, II
Chief Executive Officer

SURETY LIFE INSURANCE COMPANY

By /s/ Thomas J. Wilson, II

Thomas J. Wilson, II
Chief Executive Officer

ALLSTATE INDEMNITY COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

ALLSTATE PROPERTY AND CASUALTY
INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

DEERBROOK INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

FORESTVIEW MORTGAGE INSURANCE
COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

ALLSTATE LIFE INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Treasurer

NORTHBROOK LIFE INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Treasurer

GLENBROOK LIFE AND ANNUITY COMPANY

By /s/ James P. Zils

James P. Zils
Treasurer

THE ALLSTATE CORPORATION

By /s/ James P. Zils

James P. Zils
Treasurer

ALLSTATE FLORIDIAN INDEMNITY COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

ALLSTATE FLORIDIAN INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

ALLSTATE NEW JERSEY INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

AMERICAN SURETY & CASUALTY COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

CHARTER NATIONAL LIFE INSURANCE COMPANY

By /s/ James P. Zils

James P. Zils
Vice President and Treasurer

AMERICAN HERITAGE LIFE INSURANCE COMPANY

By /s/ C. Richard Morehead

Name: C. Richard Morehead
Title: President and Chief Executive
Officer

FIRST COLONIAL INSURANCE COMPANY

By /s/ C. RICHARD MOREHEAD

Name: C. Richard Morehead
Title: President and Treasurer

COLUMBIA UNIVERSAL LIFE INSURANCE
COMPANY

By /s/ Mike Pinkham

Name: Mike Pinkham
Title: President

KEYSTONE STATE LIFE INSURANCE COMPANY

By /s/ Zack G. Athens

Name: Zack G. Athens
Title: Chief Financial Officer

CONCORD HERITAGE LIFE INSURANCE COMPANY,
INC.

By /s/ Virginia F. Phipps

Name: Virginia F. Phipps
Title: President & CEO

By /s/ James H. Baum

Name: James H. Baum
Title: President

EXHIBIT A

INTERCOMPANY SERVICE AND EXPENSE ALLOCATION SUMMARY MATRIX
ALLSTATE INSURANCE COMPANY AND PROPERTY & CASUALTY AFFILIATES

- -----

---- EXPENSE
LINE ITEM
BASIS OF
EXPENSE PER
U&I EXHIBIT*
EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***

- -----

---- 1. Claim
Adjustment
Investigation
and
adjustment of
policy claims
for direct,
reinsurance
assumed No
allocation-
direct
Services and
ceded
business. The
more
significant
expenses and
fees related
to: (1) all
charge to
company
outside costs
associated
with
independent
adjusters,
(2) lawyers
for legal
services in
the defense,
trial, or
appeal of
suits, (3)
general court

----- 4.
Advertising
Typical
expenses would
include
services of:
(1) advertising
agents, (2)
public Direct
charge by
company
relations
counsel, (3)
advertisements
in newspapers,
periodicals,
billboards,
where known.
Allocated
pamphlets and
literature
issued for
advertising or
promotional
purposes, (4)
items handled
as related
paper and
printing
charges for
advertising
purposes, (5)
radio follows:
See Exhibit A
broadcasts, (6)
prospect and
mailing lists,
(7) signs and
medals for
agents and
Appendix at B;
C 1; D 1 (8)
television
commercials.
and E 1 for
explanation of
allocation by
type of office

5. Boards,
Bureaus Various
dues,
assessments,
fees and
charges for
items such as:
(1)
underwriting No
allocation -
direct and
boards, rating
organizations,
statistical
agencies,
inspection and
audit charge to
company
Associations
bureaus, (2)
underwriters'
advisory and

service
organizations,
(3) accident
and loss
prevention
organizations,
(4) claim
organizations,
(5)
underwriting
syndicates,
pools and
associations,
assigned risk
plans. - -----

----- 6.
Surveys and
Costs to
support the
business
including: (1)
survey, credit,
moral hazard,
See Exhibit A
Appendix at
Underwriting
character
reports for
underwriting,
(2) appraisals
for
underwriting,
(3) fire B; D1;
and E1 for
Reports
records, (4)
inspection and
engineering
billed
specifically,
(5) medical
explanation of
allocation
examiner
services
relating to
underwriting.
by type of
office - -----

----- 7. Audit
of Auditing
fees and
expenses of
independent
auditors for
auditing
payroll and No
allocation -
direct
Assured's other
premium bases.
charge to
company Records
- -----

costs of
automobiles (4)
transportation, 2,
3, 4 for
explanation hotel
and
meals/entertainment
of guests, (5)
dues and by type
of office
subscriptions to
accounting, for
explanation by
type of legal,
actuarial or
similar societies
and associations.

- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -

----- 13. Rent
and Rent of
home office and
branch offices,
space occupied in
company owned
Direct charges by
company Items
buildings, storage
and warehouse
space, safe
deposit boxes and
post office are
based on square
boxes. Related
expenses for: (1)
light, heat, power
and water, (2)
interest, footage.
taxes, (3) cost of
alterations and
repairs to leased
properties, and
(4) costs of
cleaning and
general
maintenance.

Allocated expenses
handled per
Exhibit A Appendix
at A; B; C 1, 2; D
1, 2, 3, 4; E 2,
5; and F 1, 2, 3,
4 - - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -

----- 14.
Equipment Rent and
repair of
furniture,
equipment, and
office machines,
including the See
Exhibit A Appendix
at related
depreciation
charges. A; B; C
1, 2; D 1, 2, 3,
4; E 1, 2, 3, 4;
and F 1, 2, 3, 4 -
- - - - -
- - - - -
- - - - -

first classification. Expenses relating to the Insurance Department would include agents' licenses, filing fees, certificates of authority and fees and expenses of examination. Payroll related expenses normally include old age benefit and unemployment insurance taxes. More significant expenses in the all other section would be financial statement publication fees, legally mandated advertising and personal property and state income taxes. - -----

----- 19. Real Estate Salaries, wages and other compensation of maintenance workers in connection with Direct charges by company Expenses owned real estate. Other expense items assigned to this category may also be based on square include expenses associated with: operations; maintenance; insurance and footage. advertising. Allocated expenses handled per Exhibit A Appendix at A; B; C 1, 2; D 1, 2, 3, 4; E 1, 2, 3, 4; and F 1, 2, 3, 4 - --

----- EXPENSE
----- LINE ITEM
----- BASIS OF
----- EXPENSE PER
----- U&I EXHIBIT*
----- EXPENSE
----- CLASSIFICATION
----- DESCRIPTION**
----- ALLOCATION***

----- 20. Real
Estate Taxes,
licenses and
fees on owned
real estate.
Direct
charges by
company Taxes
are based on
square
footage.
Allocated
expenses
handled per
Exhibit A
Appendix at
A; B; C 1, 2;
D 1, 2, 3, 4;
E 1, 2, 3, 4;
and F 1, 2,
3, 4 - -----

NOTE: Expense classification for lines 3, 11 and 20a are not applicable for the Allstate Group.

----- 1.
Rent Rent for
all premises
occupied by the
company,
including any
adequate rent
for Direct
charges by
company
occupancy of
its own
buildings, in
whole or in
part, except to
the extent that
are based on
square
allocation to
other expense
classifications
on a functional
basis is
permitted
footage. and
used. Allocated
expenses are
handled per
Exhibit B
Appendix at A;
B 1, 2; C 1, 2
and D 1, 2, 3 -

----- 2.
Salaries and
Salaries and
wages, bonuses
and incentive
compensation to
employees,
overtime
Agents'
compensation is
a wages
payments,
continuation of
salary during
temporary
short-term
absences,
dismissal
direct charge
to company.
allowances,
payments to
employees while
in training and
other
compensation to
The remaining
expenses in
employees not
specifically
designated
herein, except
to the extent
that this
category are
allocation to
their expense
classifications
is permitted
and used.
allocated per

administered or
trusteed 1, 2,
3 employees
plan or for the
purchase of
annuity or
insurance
contracts.
Appropriation
of any other
assignment of
funds by
company in
connection with
any benefit
plan of the
types
enumerated
herein. - -----

----- 3.12
Contributions
Contributions
by company for
pension and
total permanent
disability
benefits, See
Exhibit B
Appendix at for
benefit life
insurance
benefits,
accident,
health,
hospitalization,
medical,
surgical, C 1,
2; and D 1, 2,
3 plans for or
other temporary
disability
benefits under
a self-
administered or
trusteed agents
plan or for the
purchase of
annuity or
insurance
contracts.
Appropriation
of any other
assignment of
funds by
company in
connection with
any benefit
plan of the
types
enumerated
herein. - -----

----- 3.21
Payments to
Payments by
company under a

program for
pension and
total and
permanent No
allocation -
direct
employees under
disability
benefits, death
benefits,
accident,
health,
hospitalization,
medical charge
to company non-
funded surgical
or other
temporary
disability
benefits where
no contribution
or benefit
plans
appropriation
is made prior
to the payment
of the benefit.

- -----

3.22 Payments
to Payments by
company under a
program for
pension and
total and
permanent No
allocation -
direct agents
under
disability
benefits, death
benefits,
accident,
health,
hospitalization,
medical, charge
to company non-
funded surgical
or other
temporary
disability
benefits where
no contribution
or benefit
plans
appropriation
is made prior
to the payment
of the benefit.

- -----

3.31 Other
employee The
net periodic
postretirement
benefit cost,
meals to

employees,
contribution
Agents'
compensation is
a welfare to
employee
associations or
clubs, dental
examinations,
medical
dispensary or
direct charge
to company.
convalescent
home expenses
for employees.
The remaining
expenses in
this category
are allocated
per Exhibit B
Appendix at A;
B 1, 2; C 1, 2;
and D 1, 2, 3 -

EXPENSE LINE
ITEM BASIS OF
EXPENSE PER
GENERAL EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***
EXPENSE
EXHIBIT* - ----

----- 3.32
Other agent The
net periodic
postretirement
benefit cost,
meals to
employees,
contribution
Agents'
compensation is
a welfare to
employee
associations or
clubs, dental
examinations,
medical
dispensary or
direct charge

applications
for employment.
Cost of
services
furnished by D
1, 2 the
Medical
Information
Bureau. - -----

----- 4.4
Fees of public
Include
expenses
relating to
this category
except exclude
examination
fees made See
Exhibit B
Appendix at
accountants by
State
Departments and
internal audits
by company
employees. A; B
1, 2; C 1, 2;
and D and
consulting 1, 2
actuaries - ---

----- 4.6
Expense of
Payment to
other than
employees of
fees and
expenses for
the
investigation,
See Exhibit B
Appendix at
investigation
litigation and
settlement of
policy claims.
D 1, 2 and
settlement of
policy claims -

----- 5.1 Traveling
Traveling
expense of
officers, other
employees,
directors and
agents,
including See

Exhibit B
Appendix at
expenses hotel,
meals,
telephone,
telegraph and
postage charges
incurred while
traveling. A; B
1, 2; C 1, 2;
and D Also
include amounts
allowed
employees for
use of their
own cars on
company and 1,
2, 3 business
and the cost
of, or
depreciation
on, maintenance
and running
expenses of
company-owned
automobiles. -

EXPENSE LINE
ITEM BASIS OF
EXPENSE PER
GENERAL EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***
EXPENSE
EXHIBIT* - ----

----- 5.2
Advertising
Newspaper,
magazine and
trade journal
advertising for
the purpose of
See Exhibit B
Appendix at
solicitation
and
conservation of
business.
Billboard, sign
and telephone B
1, 2; C 1; and

D 1, 2
directory,
television,
radio
broadcasting
and motion
picture
advertising,
excluding
subjects
dealing wholly
with health and
welfare. All
canvassing or
other
literature,
such as
pamphlets,
circulars,
leaflets,
policy
illustration
forms and other
sales aids,
printed
material, etc.,
prepared for
distribution to
the public by
agents or
through the
mail for the
purposes of
solicitation
and
conservation of
business. All
calendars,
blotters,
wallets,
advertising
novelties,
etc., for
distribution to
the public.
Printing, paper
stock, etc. in
connection with
advertising.
Prospect and
mailing lists
when used for
advertising
purposes. Fees
and expenses of
advertising
agencies
related to
advertising. -

5.3 Postage,
express,
Freight and
cartage,
cables,
radiograms and
teletype. Also
charges for
use, See
Exhibit B
Appendix at
telegraph and
installation

and maintenance
of related
equipment if
not included
elsewhere. A; B
1, 2; C 1, 2;
and D telephone
1, 2, 3 - -----

----- 5.4
Printing and
Policy forms,
riders,
supplementary
contracts,
applications,
etc., rate
books, See
Exhibit B
Appendix at
stationery
instruction
manuals, punch-
cards, house
organs, and all
other printed
material A; B
1, 2; C 1, 2;
and D which is
not required to
be included in
any other
expense
classification.
Office 1, 2, 3
supplies and
pamphlets on
health, welfare
and education
subjects. Also
include annual
reports to
policyholders
and
stockholders if
not included in
Line 5.2. - ---

----- 5.5
Cost or The
cost or
depreciation of
office machines
except for such
charges as may
be See Exhibit
B Appendix at
depreciation
reported in
Line 5.3. A; B
1, 2; C 1, 2;
and D of
furniture and
1, 2, 3
equipment - ---

----- 5.6
Rental of
Rental of
office machines
except for such
charges as may
be reported in
Line See
Exhibit B
Appendix at
equipment 5.3.
A; B 1, 2; C 1,
2; and D 1, 2,
3 - -----

- 6.1 Books and
Books,
newspapers,
periodicals,
etc., including
investment tax
and legal See
Exhibit B
Appendix at
periodicals
publications
and information
services, and
including all
such material
for A; B 1, 2;
C 1, 2; and D
company's law
department and
libraries. 1,
2, 3 - -----

- -----

----- EXPENSE
LINE ITEM
BASIS OF
EXPENSE PER
GENERAL
EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***

general
service
rendered by
outside
organizations,
gifts and
donations.
Any portion
of at A; B 1,
2; C 1, 2;
and expenses
commissions
and expense
allowances on
reinsurance
assumed for
group
business D 1,
2, 3 which
represents
specific
reimbursement
of expenses.
Reimbursement
to another
insurer for
expense of
jointly
underwritten
group
contracts. -

-- 6.7 Group
service
Administration
fees, service
fees, or any
other form of
allowance,
reimbursement
See Exhibit B
Appendix at
and of
expenses, or
compensation
(other than
commissions)
to agents,
brokers, D 1,
2

administration
applicants,
policyholders
or third
parties in
connection
with the
solicitation,
fees sale,
issuance,
service and
administration
of group
business. - -

-

---- EXPENSE
LINE ITEM
BASIS OF
EXPENSE PER
GENERAL
EXPENSE

CLASSIFICATION
DESCRIPTION**
ALLOCATION***
EXPENSE
EXHIBIT* - -

6.8
Reimbursements
Report as a
negative
amount
administrative
fees, direct
reimbursement
of No
allocation -
direct by
uninsured
expenses, or
other similar
receipts or
credits
attributable
to uninsured
charge to
company
accident and
accident and
health plans
and the
uninsured
portion of
partially
insured
health plans
accident and
health plans.

---- 7.1
Agency

expense All
bona fide
allowance for
agency
expense, but
not
allowances
constituting
No allocation
- direct
allowance
additional
compensation.
charge to
company - ---

7.2 Agents'
balances
Agents'
balances
charged off
less any
amounts
recovered
during the
year. No
allocation -
direct
charged off
charge to
company - ---

7.3 Agency
Cost of
banquets and
rental of
meeting
rooms.
Expenses of
all persons
traveling
Primary
dollars are a
conferences
to
conferences
and their
expenses at
conferences.
direct charge
to company.
other than
local The
remaining
expenses in
meetings this
category are
allocated per
Exhibit B
Appendix at C
1; and D 1 -

3. Any Investment Expense is based on Invested Assets.

EXHIBIT C

EXPENSE PROCESS OVERVIEW
ALLSTATE INSURANCE GROUP

For purposes of operational analysis and financial reporting, functional expense groups are made up of three primary categories: (1) Loss adjustment expenses, (2) Other underwriting expenses; and (3) Investment expenses. A more detailed description of expense items, which comprise these categories, is provided in Exhibits A and B. These exhibits are the framework for reporting expenses required by the NAIC. The expense categories, in turn, flow into the financial records based on the following cost allocation methods: a direct charge basis; an allocated or shared basis; or in accordance with the terms of one or several reinsurance agreements. The combined expense process ultimately provides for financial records that reflect the financial performance of the business.

On a day-to-day basis, expenses are incurred directly by companies within the Allstate Group. The expenses are charted numerically by account. Formalized procedures are used in order to ensure that the expenses are accurately recorded and allocated to the appropriate office, company, cost center and cost element. Allocations are also provided for various support costs, which include: company, cost center and general ledger account (cost element) level with the objective of providing for an accurate means of tracking expenses..

A brief description of each of the three expense categories follows:

- - Loss adjustment expenses are various costs associated with the claim handling process. These costs, which comprise all aspects of the claims handling function, include: the adjustment, factual investigation, defense and recordkeeping functions. Salaries of claim personnel and allocated executive salaries, as well as other basic costs associated with the claim function (accounting, data processing, rent, utilities, etc.) are grouped in this category. Generally, these expenses may be either direct charged, allocated, or flow to an entity by means of a separate reinsurance agreement.
- - Other underwriting expenses include acquisition, general expenses, taxes, licenses and fees. The larger piece, acquisition expenses, is comprised of agent commissions, various expenses related to underwriting (motor vehicle reports, home inspections, etc.), salaries, marketing and other allocations of expenses which support the production of new and renewal business. General expenses are typically administrative in nature and do not fit cleanly in any other expense grouping. Taxes, licenses and fees pertain to: taxes (income and franchise) and licenses fees levied by state and local government; insurance department expenses; and guaranty fund assessments. These expense categories are charged to an entity in any of the same three methods shown above for Loss adjustment expenses.
- - Investment expenses for research, purchase and sale activities, safekeeping, accounting and data support are the bulk of expenses in this bucket. Generally, these expenses will flow to an entity by direct charges to an entity or on an allocated basis.

The mechanism for recording expenses can occur by means of one of the following three methods:

- - DIRECT CHARGES - This method is used where the expenses are unique to the company incurring them. These types of expenses are not allocated to another Allstate Company due to their unique relationship to the company incurring them. Expense payments are classified to the responsible company through an accounting coding expense system involving charge company, cost center, and cost element (See Exhibits A and B for more detail). By way of example: agents' commissions, taxes, licenses and fees, and bad debt expense are company specific, and therefore, coded directly to the appropriate company.

- - ALLOCATIONS

THE EXPENSE ALLOCATION PROCESS CAN BE DIVIDED INTO 3 SUBCATEGORIES:

1. OFFICE - The objective of this phase of the allocation process is to

properly transfer various support costs performed by one organization to another organization that they directly relate to. The basic justification for this cost transfer is efficiency gain, which is mutually beneficial to both parties. Certain processes are centrally performed on behalf of a number of entities, then allocated to the office/company being supported. Routine expenses of this nature often include support activities from the following functional areas: Accounting; Systems; Investments; Corporate Relations; Law and Regulation; and Human Resources. These costs cannot be directly expensed, it is necessary to provide for an appropriate method of allocation. An example of this method of allocation would relate to the accounting treatment of costs and expenses attributable to Allstate's Internal Audit Department (IAD). As part of the Allstate Corporate Home Office structure, IAD salaries and related expenses are allocated to other Affiliates companies and/or offices (i.e. data and profit centers) based on time and effort studies. The terms for this allocation are delineated in a separate agreement between the parties which is referred to as a Shared Service Agreement (SSA). The SSA is a vehicle which allows the parties to agree in advance on certain essential terms and conditions which include: a description of the services to be provided; the period covered; costs and standards. The SSA concept can be used to transfer expenses between Brands (e.g., Allstate, Indemnity, Life), between Shared Services (e.g., Finance, Investments, Human Resources, Technical) or between a Brand and Shared Service.

The Accounting Department database is programmed to perform the allocation process on a monthly basis. The process begins with the extraction of direct costs for each office, company, cost center and general ledger account. Varying premium and claim statistics (e.g., policies in force, claim counts) as well as other common factors (e.g., number of employees, number of retirees) are then entered into the program. The resulting data provides the bases, or allocation drivers, for transferring expenses from an office/cost center /general ledger account level of detail to other charge offices/cost centers /general ledger accounts. Detail records are generated in order to provide the source and recipient of the allocated expenses.

A separate process has been initiated in order to periodically review the accuracy of the factors or drivers of the allocations. The accuracy of service provider time and effort studies may be taken into account (i.e. projected v. actual). Other factors that may be considered include an inventory of activities and customers in order to ensure that allocations are accurate. Intensive discussions and management agreement between the provider and customer are also an integral part of the process. Flexibility in the overall allocation process must routinely occur to provide for changes in the business activities or organizational structure.

2. COMPANY - This step in the expense allocation process is similar the office expense allocation process described above in that allocations are charged to other affiliates . For instance, both Allstate Insurance Company and Allstate Life Insurance Company incur expenses on a direct

basis for themselves and on behalf of their affiliates. A portion of these expenses may be transferred to the affiliated companies, as appropriate. Fixed factors are normally based on internal time and effort studies, agents' compensation, or statistical criteria such as gross policies issued or claim notice counts.

3. UNIFORM ACCOUNTING TRANSFER (UAT) The next step in the process is to reclassify all of the general office expenses addressed in the direct charges and expense allocation (office and company) sections above, having been recorded on a management basis, to their required statutory expense classifications. The use of a consistent basis for reporting expenses, as dictated by the NAIC, allows the Regulators to better compare various insurance companies' operations. On the property/casualty side, broad expense categories and detail breakouts are required for both the Expense Exhibit in the annual Statutory Statement as well as the Supplemental Expense Filing, which is contained in the Insurance Expense Exhibit. For Life companies, the General Expense and the Taxes, Licenses and Fees Exhibits from the annual Statutory Statement have distinct expense categories. A synopsis of these required expense categories, along with a description of each expense category and the basis of allocation presently used by Allstate is contained in Exhibit A and appendix (Property & Casualty affiliates) and Exhibit B and appendix (Life Company affiliates).

In order to provide for accurate summarization and reporting, each general ledger account (cost element) included in the Chart of Accounts is assigned a statutory expense classification. Loss adjustment, other underwriting and investment expenses are the broad classifications that UAT applies to. By way of example, a systems function, whether relating to claims, sales, or

investments, is initially classified as a general office expense on a management basis. Based on the UAT process, these expenses are reclassified for statutory reporting purposes to loss adjustment, other underwriting or investments. Taxes, licenses and fees, although included in the other underwriting expense category, are not used in the UAT calculation process. These expenses are directly charged to the appropriate statutory classification within company.

REINSURANCE AGREEMENTS Separate arrangements exist between the property/casualty parent, Allstate Insurance Company, and certain affiliates, and the life parent, Allstate Life Insurance Company, and certain affiliates that drive expenses. Terms and conditions relating to methods of expense classification are contained in each of the individual reinsurance agreements. Typically, the reinsurer will be liable for a pre determined pro-rata share of all underwriting related expenses to support the assumed business. However, the reinsurer is not generally liable for the investment expenses.

EXHIBIT D

DEFINITIONS

The following terms shown by "process flow" and "general" categories are commonly used in explanation of the Allstate Group's overall expense process. Presentation of the "process flow" section follows the same hierarchical order of our current expense processing methodology.

PROCESS FLOW

COMPANY - Identifies legal entity that expense is charged to and may be disbursed from. Each entity who is a party to this agreement is assigned a separate three digit company code (e.g., Allstate Insurance Company - 010, Allstate Life Insurance Company - 030). A "charged company" is the Allstate entity charged with the expense under review and whose Statement of Income would be ultimately impacted.

COST CENTERS -- Describe where specific costs were incurred. Cost Centers will be the most common object used. Cost centers are areas of organizational responsibility in which costs are incurred and planned. Identifies administrative grouping within an office and duties as well as the manager responsible. Regional Office Departments include: Underwriting; Sales; Human Resources; and Claims. Each Regional Office is assigned a distinct four digit number.

COST ELEMENTS -- They describe what specific costs have occurred. They are used to plan and incur direct expenses for cost objects representing a unique item or category of expense to the company.

INTERNAL ORDERS -- A short-term cost collector used to collect, identify and allocate costs associated with a process, event or activity.

OFFICE -- Typically, office codes identify high level responsibility for the expenses charged. Office level configuration (by type or geographical location) is a key building block in the accumulation of Allstate's expenses. This data is used in preparing the various expense analyses/reports prepared. A "charged office" is the office within an Allstate entity charged with the expense under review. The decision regarding which office to charge with an expense is based on Statement of Income impact analysis. Offices may include various high level types, such as Profit Centers (Midwest Regional Office - 002), , Data Centers (Atlantic - 136), Shared Services (Human Resources - 204), and Home Offices (Corporate Home Office - 001, PP&C Head Office - 032). Each Office is designated by a three-digit code.

PROFIT CENTER -- Aligns expense to a distribution channel, geographic location and product grouping (i.e. Denver Region, Colorado, Standard Auto). -

GENERAL

ASSESSMENTS/ALLOCATED EXPENSES -- which are incurred by one Allstate Company or office and charged, or allocated, to other companies or offices on the basis of mutual benefit. Examples of the types of allocated expenses include: Loss Adjustment, Other Underwriting and Investment Expenses. These expenses include allocations in Cost Centers from Cost Elements to Secondary Cost Elements and are described in Exhibit C. Criteria for cost allocation "drivers" are based on the implementation of management objectives. The assessments can use all three methods of allocations: Field Percentage; Fixed Amount; and Variable Portions which contain Statistical Key Figures. Additional information is included in the Exhibits and Appendixes

attached. Allocation drivers agreed to by Management are used to allocate expenses, and these are described in detail in the various exhibits and appendixes.

REINSURANCE AGREEMENT -- An agreement between two parties where one insurer spreads its risk (premium, loss and expense) of losses with other insurers.

EXHIBIT E

INVESTMENT SERVICES

A. APPOINTMENT. The Board of Directors of Affiliate (the "Board") has appointed Allstate as the investment advisor and manager of its investment assets (the "Account"). Pursuant to the Service and Expense Agreement of which this is Exhibit E (the "Agreement"), AFFILIATE grants Allstate the power and authority to advise, manage, and direct the investment and reinvestment of the assets of the Account for the period and on the terms and conditions set forth herein, subject to the supervision of the Board. Such Activities shall be conducted subject to and in accordance with the investment objectives, restrictions, and strategies set forth in the of Investment Policy and Investment Plan (the "Policy") adopted by the Board, and in accordance with such other limitations and guidelines as may be established from time to time for the Account by the Board (such investment objectives, restrictions, strategies, limitations, and guidelines herein referred to collectively as the "Investment Guidelines"). Allstate hereby accepts such responsibility and agrees during such period to render the services and to assume the obligations herein set forth.

B. ALLSTATE AS AGENT. Allstate shall, for purposes of this Agreement, be granted and exercise full investment discretion and authority in buying, selling or otherwise disposing of or managing the investment of the assets held in the Account and in the performance of the services rendered hereunder, and shall do so as AFFILIATE's agent only, subject to Allstate's adherence to the policy stated in Item A, above. AFFILIATE hereby authorizes Allstate to exercise all such powers with respect to the assets of the Account as may be necessary or appropriate for the performance by Allstate of its obligations under this Agreement, subject to the supervision of the Board and any limitations contained herein.

C. INVESTMENT ADVISORY SERVICES. In furtherance of the foregoing, and in carrying out its obligations to manage the investment and reinvestment of the assets in the Account, Allstate shall, as appropriate and consistent with the Investment Guidelines:

(a) perform research and obtain and evaluate such information relating to the economics, industries, businesses, markets and new investment structures, techniques, practices, and financial data as Allstate deems appropriate in its discharge of its duties under this Agreement; (b) consult with and furnish to the Board recommendations with respect to overall investment strategies for the Account; (c) seek out and implement specific investment opportunities, consistent with such overall investment strategies approved by the Board, including making and carrying out day-to-day decisions to acquire or dispose of permissible investments, managing the investment of the assets of the Account, and providing or obtaining such services as may be necessary in managing, acquiring or disposing of investments; (d) regularly report to the Board with respect to the implementation of investment strategies and any other activities in connection with management of the Account's assets, including furnishing to the Board, within 45 days after the end of each quarter, a report including a summary of investment activity during the quarter; (e) maintain all required accounts, records, memoranda, instructions or

authorizations relating to the acquisition or disposition of investments for the Account; (f) determine the securities to be purchased or sold by the Account and place orders either directly with the issuer, with any broker-dealer or underwriter that specializes in the securities for which the order is made, or with any other broker or dealer that Allstate selects; and (g) perform the services hereunder in a manner consistent with investment objectives and policies of AFFILIATE as detailed in the Investment Guidelines, as amended from time to time, and in compliance with the applicable provisions of the insurance laws and regulations of AFFILIATE's domicile, as amended and any other applicable insurance laws.

D. ALLOCATION OF BROKERAGE. Allstate is authorized in its sole discretion to select the brokers or dealers that will execute the purchases and sales of securities for the Account. In making such selection, Allstate shall use its best efforts to obtain for the Account the most favorable net price and execution available taking into account all appropriate factors, including price, dealer spread or commission, if any, and size and difficulty of the

transaction.

If, in the judgment of Allstate, AFFILIATE would be benefited by supplemental investment research, Allstate is authorized, but not obligated, to select brokers or dealers on the basis of research information, materials, or services they could furnish to Allstate for potential use in supplementing Allstate's own information and in making investment decisions for the Account. The expenses of Allstate and the charges to AFFILIATE may not necessarily be reduced as a result of receipt of such supplemental information. Subject to the above requirements, nothing shall prohibit Allstate from selecting brokers or dealers with which it or AFFILIATE is affiliated.

E. SERVICE TO OTHER CLIENTS. AFFILIATE acknowledges that Allstate may perform services for clients other than AFFILIATE which are similar to the services to be performed pursuant to this Agreement, and that Allstate is free to do so provided that its services pursuant to this Agreement are not in any way impaired. AFFILIATE agrees that Allstate may provide investment advice to any of its other clients that may differ from advice given to AFFILIATE, or take action with respect to assets owned by it or its other clients that may differ from the action taken with respect to the Account and/or assets held therein, so long as Allstate, to the extent reasonable and practicable, allocates investment opportunities to the Account on a fair and equitable basis relative to Allstate's other clients. It is understood that Allstate shall have no obligation to purchase or sell, or to recommend for purchase or sale for the Account, any security which Allstate, its affiliates, employees or agents may purchase or sell for its or their own accounts or for the account of any other client, if, in the opinion of Allstate, such transaction or investment appears unsuitable, impractical or undesirable for the Account. It is agreed that Allstate may use any supplemental investment research obtained for the benefit of AFFILIATE in providing investment advice to its other clients or its own accounts. Conversely, such supplemental information obtained by the placement of business for Allstate or other entities advised by Allstate will be considered by and may be useful to Allstate in carrying out its obligations to AFFILIATE.

F. ALLOCATION OF TRADES. It is acknowledged that securities held by AFFILIATE may also be held by separate investment accounts or other funds for which Allstate may act as a manager or by Allstate or its other affiliates. If purchases or sales of securities for AFFILIATE or other entities for which Allstate or its affiliates act as investment manager arise for consideration at or about the same time, AFFILIATE agrees that Allstate may make transactions in such securities, insofar as feasible, for the respective entities in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of Allstate during the same period may increase the demand for securities being purchased or the supply of securities being sold, AFFILIATE recognizes that there may be an adverse effect on price.

It is agreed that, on occasions when Allstate deems the purchase or sale of a security to be in the best interests of AFFILIATE as well as other accounts or companies, it may, to the extent permitted by applicable laws and regulations, but will not be obligated to, aggregate the securities to be so sold or purchased for AFFILIATE with those to be sold or purchased for other accounts or companies in order to obtain favorable execution and lower brokerage commissions. In that event, allocation of the securities purchased or sold, as well as the expenses incurred in the transaction, will be made by Allstate in the manner it considers to be most equitable and consistent with its obligations to AFFILIATE and to such other accounts or companies. AFFILIATE recognizes that in some cases this procedure may adversely affect the size of the position obtainable for AFFILIATE.

G. CONTRACTS; AUTHORIZED SIGNATORIES. Allstate shall have the full power, right and authority, as AFFILIATE's agent, in accordance with this Agreement and the Investment Guidelines, to negotiate, apply for, enter into, execute, deliver, amend, modify and/or terminate legal documents of every kind and nature relating to or required by the investment of the assets of the Account. All such documents may be entered into in AFFILIATE's name or in Allstate's name (as agent for AFFILIATE), as Allstate shall determine, and all such documents shall be legally binding on AFFILIATE. Those certain employees and officers of Allstate who are authorized to execute transactions and sign documentation pursuant to the Policies and Procedures and Investment Guidelines adopted pursuant to authorization of the Investment Committee of Allstate, as they may be amended from time to time, shall also be authorized to the same extent to execute transactions and sign documentation on behalf of AFFILIATE and/or Allstate in connection with transactions entered into on behalf of the assets of the Account pursuant to this Agreement.

H. COMPLIANCE WITH LEGAL REQUIREMENTS. Allstate shall make all reasonable efforts to comply with and cause to be complied with all applicable laws, rules, and regulations of the AFFILIATE's domicile, and any federal, state or municipal authority governing this Agreement, the services rendered hereunder, the Account

and the assets held therein. Without limiting the foregoing, Allstate shall comply with all securities laws and other laws applicable to the services provided under this Agreement.

I. TRANSACTION PROCEDURES. The assets of the Account are or will be held in custody by the bank custodian(s) appointed by AFFILIATE from time to time. Allstate shall not act as custodian for the assets of the Account and shall not under any circumstances have or be deemed to have ownership, custody or physical control of any of the assets of the Account. Allstate may, however, issue instructions to, and communicate with, the bank custodian for the Account as may be necessary and appropriate in connection with provision of its services pursuant to this Agreement. At the option of Allstate, instructions by Allstate to the bank custodian may be made orally or by computer, electronic instruction systems or telecommunications terminals. Allstate will confirm that the bank custodian has effected such instructions either by access to the bank's computerized identification system or by telephonic confirmation. The bank custodian will confirm with Allstate receipt of trade instructions orally or by computer for the Account. Allstate will instruct all brokers, dealers and counterparties executing orders on behalf of the assets of the Account to forward to Allstate and AFFILIATE copies of all confirmations.

J. STANDARD OF PERFORMANCE. Allstate shall discharge its duties hereunder at all times in good faith and with that degree of prudence, diligence, care and skill which a prudent person rendering services as an institutional investment manager and adviser would exercise under similar circumstances. The provisions of this Agreement shall not be interpreted to imply any obligation on the part of Allstate to observe any standard of care other than as set forth in this Section J.

K. RECORDKEEPING. Allstate shall keep and maintain an accurate and detailed accounting of each transaction concerning the assets of the Account and of all receipts, disbursements, and other transactions relating to the purchase and sale transactions arising hereunder. Allstate agrees to preserve such records for the greater of (i) six years; (ii) the required period pursuant to the insurance laws of AFFILIATE's domicile and related regulations; or (iii) such other time period that AFFILIATE may from time to time request. Allstate acknowledges that all such records shall be the property of AFFILIATE and shall be made available, within five (5) business days of a written request, to AFFILIATE, its accountants, auditors or other representatives of AFFILIATE for inspection and/or copying (at AFFILIATE's expense) during regular business hours. In addition, Allstate shall provide any materials, reasonably related to the investment advisory services provided hereunder, as may be reasonably requested in writing by the directors or officers of AFFILIATE or as may be required by any governmental agency with jurisdiction hereunder.

Allstate further agrees to prepare and furnish to AFFILIATE and to other persons designated by AFFILIATE, at such regular intervals and other times as may be specified by AFFILIATE from time to time (i) such balance sheets, income and expense statements and other financial statements and reports, and (ii) such other statements, reports and information, in each case regarding the assets of the Account as AFFILIATE shall from time to time reasonably require.

In the event of termination for any reason, all such records or copies thereof shall be returned promptly to AFFILIATE, free from any claim or retention of rights by Allstate.

L. LIABILITY OF ALLSTATE. In the absence of Allstate's willful or negligent misconduct (or the willful or negligent misconduct of its officers, directors, agents, employees, controlling persons, shareholders, and any other person or entity affiliated with Allstate or retained by it to perform or assist in the performance of its obligations under this Agreement), neither Allstate nor any of its officers, directors, employees or agents shall be subject to liability to AFFILIATE for any act or omission in the course of, or connected with, rendering services hereunder.

M. INDEPENDENT CONTRACTOR. Allstate shall for all purposes be deemed to be an independent contractor. Allstate shall have no power or authority to bind AFFILIATE or to assume or create an obligation or responsibility, express or implied, on behalf of AFFILIATE, nor shall it represent to anyone that it has such power or authority, except as expressly provided in this Agreement. Nothing in this Agreement shall be deemed to create a partnership between or among the parties, whether for purposes of taxation or otherwise.

TO INCLUDE A LIST OF AGREEMENTS WHICH WILL TERMINATE AS OF THE EFFECTIVE DATE OF THE MASTER SERVICE AND EXPENSE AGREEMENT./

Investment Advisory and Management Agreement between Allstate Insurance Company and Lincoln Benefit Life Company effective as of January 1, 1996 pursuant to which Allstate Insurance Company provides investment advisory services to Lincoln Benefit Life Company, as amended effective January 1, 1996. (Form D-1 filed with Illinois Insurance Department on April 5, 1996 and Forms D filed in April and May 1996 with the Department of Insurance of Nebraska.)

Investment Advisory and Management Agreement between Allstate Insurance Company and Surety Life Insurance Company effective as of January 1, 1996 pursuant to which Allstate Insurance Company provides investment advisory services to Surety Life Insurance Company, as amended effective January 1, 1996. (Form D-1 filed with Illinois Insurance Department on April 5, 1996 and Forms D filed in April and May 1996 with the Department of Insurance of Utah.)

Investment Advisory and Management Agreement effective as of August 21, 1996 between Allstate Floridian Insurance Company and Allstate Insurance Company, pursuant to which Allstate Insurance Company provides investment advisory and management services to Allstate Floridian. (See Form D-1 dated July 23, 1996 filed with the Illinois Department of Insurance. See also letter dated January 23, 1997 from Florida Department of Insurance.)

Services Agreement executed September 25, 1996 and effective as of June 25, 1996 between Allstate Insurance Company and Allstate Floridian Insurance Company pursuant to which Allstate Insurance provides Allstate Floridian underwriting, claims, actuarial, policy processing, tax, legal, systems, accounting and customer support services. (See Form D-1 dated July 23, 1996 filed with the Illinois Department of Insurance. See also letter dated January 23, 1997 from Florida Department of Insurance.)

Service and Expense Agreement between Allstate Insurance Company and certain of its Subsidiaries and Affiliates effective June 16, 1997. (See Form D-1 filed with the Illinois Department of Insurance in May 1997 and other prior notification forms filed with the insurance departments of California, Nebraska, Texas and Utah in May 1997. Texas HCS# 27286.)

Investment Advisory and Management Agreement effective as of January 1, 1998 between Allstate Insurance Company and Allstate Floridian Indemnity Company pursuant to which Allstate Insurance provides investment services to Allstate Floridian Indemnity.

Investment Advisory and Management Agreement effective as of January 1, 1998 between Allstate Insurance Company and Allstate New Jersey Insurance Company pursuant to which Allstate Insurance provides investment services to Allstate New Jersey.

Investment Advisory and Management Agreement between American Surety and Casualty Company ("ASCC") and Allstate Insurance Company ("Allstate") dated January 1, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and administrative support services to ASCC for those assets so designated by ASCC (Form D-1 filed with Illinois Department of Insurance on November 17, 1998 and accepted pursuant to a letter dated December 3, 1998).

Investment Advisory and Management Agreement between Allstate Insurance Company ("Allstate") and American Heritage Life Insurance Company ("AHL") dated October 31, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and administrative support services to AHL for those assets so designated by AHL (Form D-1 filed with the

Illinois Department of Insurance in October 1999 and other prior notification forms filed with the Florida Department of Insurance in October 1999).

Investment Advisory and Management Agreement between Allstate Insurance Company ("Allstate") and AHL Select HMO Incorporated ("AHL Select") dated October 31, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and administrative support services to AHL Select for those assets so designated by AHL Select (Form D-1 filed with the Illinois Department of Insurance in October 1999 and other prior notification forms filed with the Florida Department of Insurance in October 1999).

Investment Advisory and Management Agreement between Allstate Insurance Company ("Allstate") and First Colonial Insurance Company ("First Colonial") dated October 31, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and

administrative support services to First Colonial for those assets so designated by First Colonial (Form D-1 filed with the Illinois Department of Insurance in October 1999 and other prior notification forms filed with the Florida Department of Insurance in October 1999).

Investment Advisory and Management Agreement between Allstate Insurance Company ("Allstate") and Columbia Universal Life Insurance Company ("Columbia") dated October 31, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and administrative support services to Columbia for those assets so designated by Columbia (Form D-1 filed with the Illinois Department of Insurance in October 1999 and other prior notification forms filed with the Texas Department of Insurance in October 1999).

Investment Advisory and Management Agreement between Allstate Insurance Company ("Allstate") and Concord Heritage Life Insurance Company, Inc. ("Concord") dated October 31, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and administrative support services to Concord for those assets so designated by Concord (Form D-1 filed with the Illinois Department of Insurance in October 1999 and other prior notification forms filed with the New Hampshire Department of Insurance in October 1999).

Investment Advisory and Management Agreement between Allstate Insurance Company ("Allstate") and Keystone Life Insurance Company ("Keystone") dated October 31, 1999 pursuant to which Allstate will provide investment management services, investment advisory services, and certain other operational and administrative support services to Keystone for those assets so designated by Keystone (Form D-1 filed with the Illinois Department of Insurance in October 1999 and other prior notification forms filed with the Pennsylvania Department of Insurance in October 1999).

ADDENDUM TO THE SERVICE AND EXPENSE AGREEMENT
AMONG
ALLSTATE INSURANCE COMPANY,
THE ALLSTATE CORPORATION
AND
CERTAIN INSURANCE SUBSIDIARIES

ALLSTATE INSURANCE COMPAY, an Illinois insurance company ("Allstate"), THE ALLSTATE CORPORATION, a Delaware corporation and parent of Allstate ("Allcorp") and certain insurance company subsidiaries of Allcorp ("Affiliates") entered into a SERVICE AND EXPENSE AGREEMENT as of January 1, 1999 (the "Agreement"). A copy of the Agreement is attached to this Addendum and incorporated by reference herein. The Agreement provides that Allstate will provide certain services and facilities to Allcorp and Affiliates as identified therein.

Pursuant to its status as an Affiliate as referenced above herein, Provident National Assurance Company ("PNAC") has requested the provision of services and facilities under the Agreement. In executing this Addendum, PNAC shall be bound by all terms and conditions reflected in the Agreement. PNAC's status thereunder shall not be inconsistent with the status of the original Affiliate parties to the Agreement.

This Addendum shall become effective as of the date of its execution and Allstate's acceptance thereof.

Provident National Assurance Company

By:

Michael J. Velotta
Secretary

Date: April 2, 2001

Allstate Insurance Company acknowledges that the above listed entity has become a party to the Service and Expense Agreement, subject to all of the terms and conditions as if an original party thereto.

ALLSTATE INSURANCE COMPANY

By:

Samuel H. Pilch
Group Vice President and Controller

Date: April 2, 2001

SERVICE AGREEMENT

This agreement between Allstate Insurance Company, (herein referred to as "Allstate"), and Allstate Life Insurance Company of New York, (herein referred to as "New York"), shall be effective as of July 1, 1989.

WHEREAS, the parties agree that Allstate shall render services to and on behalf of New York; and

WHEREAS, New York agrees to pay Allstate for services and expenses incurred on its behalf:

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Allstate and New York agree that expenses incurred by Allstate on behalf of New York, and expenses and the cost of services provided to New York, will be apportioned on an equitable basis in conformity with generally accepted accounting principles. It is further agreed that the parties will operate at arm's length and that apportionment and classification of expenses incurred or for services rendered shall be in accordance with Section 1505 of the New York Insurance Law and New York Insurance Department Regulation 33. New York agrees to maintain at its Home Office in the State of New York, and Allstate agrees to maintain at its Home Office, records sufficient to disclose clearly and accurately the nature and details of all transactions between the parties, including such accounting information as is necessary to support the apportioned expenses charged to the respective parties.
2. Allstate agrees that the services of such of its personnel, as it may designate from time to time, will be made available to New York at all reasonable times, but upon terms and conditions herein stated.
3. New York agrees to pay Allstate for direct expenses incurred on its behalf. Such direct expenses shall include, but not be limited to, the costs of goods and services purchased from outside vendors, and travel expenses.
4. New York agrees to pay Allstate for the costs of services rendered by Allstate personnel and the use of Allstate equipment. Such services shall include:
 - a. Audit services;
 - b. Creation, development and distribution of national advertising programs;
 - c. Recruitment, training, and contract and compensation administration for soliciting agents;
 - d. Establishment and administration of cash management systems;
 - e. Services related to the purchase and maintenance of supplies, furniture, fixtures and equipment;
 - f. Legal services relating to the preparation and filing of holding company statements and related filings;
 - g. Investment services, including research, selection, processing and administration of investment programs relating to tax-exempt bonds, preferred stocks and common stocks.

The principal allocation basis used for compensation will be time estimates. The bases used for other expenses will include direct charge, job time, work content weights, weighted volume and proportionate distribution of related expenses. Allocation factors will be reviewed at regular intervals and adjusted where necessary.

5. a. New York and Allstate agree that, as to members of the Board of Directors of New York who are also officers or employees of Allstate and who do not receive fees from New York for services performed in their capacities as members of the Board of Directors or the Committees appointed by the Board of Directors of New York, New York shall reimburse Allstate for the costs of such travel and other expenses for attendance at meetings of its Board of Directors or Committees thereof.
- b. Notwithstanding any provision in this paragraph, the parties expressly agree that New York's operations will be directed by its own management and that all final decisions concerning the acceptance or rejection or risks and the payment or nonpayment of claims shall be made by New York.
6. Following each month-end, inter-company listings will be prepared by

Allstate, showing the apportionment of services rendered and the direct expenses incurred on behalf of New York. The preparation of such shall be based on generally accepted accounting principles, records and allocation methods adopted and used by Allstate and New York.

7. Billings for inter-company expenses shall be presented after the month for which such account is rendered. Settlements are due and payable within thirty days after receipt. Settlements are due and payable within thirty days after receipt. The billings presented shall be deemed to be correct unless, prior to the date of payment, New York gives written notice of any alleged inaccuracies therein.
8. The accounting for each monthly period may reflect any necessary adjustment to correct any over or under charges in the prior monthly billings as described in Paragraph 4. No less often than annually, New York shall conduct a review of the performance obligation undertaken on its behalf by Allstate.
9. For the purposes of this agreement, each party shall be deemed to be an independent contractor, and its personnel shall not be deemed to be employees of the other. Records supporting inter-company expense charges and maintained by one party on behalf of the other shall be considered the latter's records and shall be available to the party upon request. All original documents, records and policy files relating to the operations of New York are the property of that company and will be maintained at its home office.
10. Any dispute arising between New York and Allstate relating to the subject matter of this agreement which cannot be amicably resolved by parties will be referred to an Arbitration

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Panel composed of three members. One of the arbitrators shall be chosen by New York, one by Allstate and the third by agreement of the two arbitrators selected by the parties. New York and Allstate agree to accept the decision of the panel of arbitrators as final binding.

11. a. This agreement shall remain in effect until terminated. It may be terminated by either party as of the first day of any calendar month by giving the other party as of the first day of any calendar month by giving the other party at least 30-days prior written notice, and in the event it is terminated, it is agreed that the Superintendent of Insurance of the State of New York shall be so informed in writing.
b. Notwithstanding the foregoing, if Allstate should be the terminating party, New York shall have the option to continue to receive the same systems services as it was receiving immediately prior to the date of termination for a continuing period not to exceed six calendar months from the date of termination. Allstate shall provide such continued systems services on the same terms and conditions as set forth in this agreement as of the date of termination. This option shall be effective only in the event that New York gives Allstate written notice of its intent to exercise the option prior to the date of termination of this agreement.
12. a. Within 90 days of termination, each party will submit to the other a final accounting for the current calendar year reflecting any adjustments to charges made for such calendar year and correcting any over or under charges. The parties agree to pay any amount due pursuant to such final accounting not later than 30 days after that accounting is submitted.
b. If the option referred to in Paragraph 11b above is exercised by New York, then notwithstanding the termination of the other services provided by Allstate under this agreement, Allstate will continue to bill New York for the systems services furnished pursuant to Paragraph 11b in accordance with the terms of Paragraphs 6 and 7 of this agreement, and New York agrees to pay such billings as stated herein.
13. It is understood that the parties have certain obligations under a Commitment Letter to the New York Insurance Department dated December 15, 1983, and it is agreed that no services will be provided under this Agreement in violation of the aforementioned Commitment Letter.

IN WITNESS WHEREOF the parties have caused this agreement to be executed by their duly authorized officers on the date first above written.

Date Executed: 2/27/90

ALLSTATE INSURANCE COMPANY
By: /s/ Bruce W. Clements

BRUCE W. CLEMENTS,
Vice President

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ALLSTATE LIFE INSURANCE
COMPANY OF NEW YORK

Date Executed: 2/27/90

By: /s/ James D. Clements

JAMES D. CLEMENTS, Assistant Vice
President

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ADMINISTRATIVE SERVICES AGREEMENT

This Administrative Services Agreement ("Agreement") is made effective as of 12:01 a.m. Eastern Standard Time, on the 1st day of July, 1999 ("Effective Date") by and among Allstate Insurance Company, an Illinois insurance company ("Allstate") and Intramerica Life Insurance Company, a New York insurance company ("ILIC").

WHEREAS, ILIC is a direct subsidiary of Allstate; and

WHEREAS, Allstate has extensive experience in the operation of the life insurance business; and

WHEREAS, ILIC desires Allstate to provide services to ILIC (collectively, the "services") and desires further to make use in its day-to-day operations of certain property, equipment and facilities (collectively, the "facilities") of Allstate as ILIC may request with respect to the services; and

WHEREAS, Allstate and ILIC contemplate that such an agreement for services will achieve certain operating economies and improve services to the benefit of both of the companies; and

WHEREAS, Allstate and ILIC wish to assure that all charges for services and the use of facilities incurred hereunder are reasonable and in accordance with all applicable legal requirements, including New York Insurance Department Regulation No. 33, and to the extent practicable reflect actual costs and are arrived at in a fair and equitable manner, and that

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estimated costs, whenever used, are adjusted periodically, to bring them into alignment with actual costs; and

WHEREAS, Allstate and ILIC wish to identify the services to be rendered to ILIC by Allstate and the facilities to be used by ILIC, and to provide a method of fixing bases for determining the charges to be made to ILIC;

NOW, THEREFORE, in consideration of the premises and of the mutual promises set forth herein, and intending to be legally bound hereby, Allstate and ILIC agree as follows:

1. PERFORMANCE OF SERVICES AND USE OF FACILITIES. Subject to the terms, conditions and limitations of this Agreement, Allstate agrees to the extent requested by ILIC to perform diligently and in a professional manner such services as set forth in this Agreement as ILIC determines to be reasonably necessary in the conduct of its insurance operations.

Subject to the terms, conditions and limitations of this Agreement, Allstate agrees to the extent requested by ILIC to make available to ILIC such of its facilities as ILIC may determine to be reasonably necessary in the conduct of the portion of its insurance operations specified herein, including data processing equipment, business property (whether owned or leased) and communications equipment.

Allstate agrees at all times to maintain sufficient facilities and trained personnel of the kind necessary to perform this Agreement.

a. CAPACITY OF PERSONNEL AND STATUS OF FACILITIES.

Whenever Allstate utilizes its personnel to perform services for ILIC pursuant to

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this Agreement, such personnel shall at all times remain employees of Allstate subject solely to its direction and control, and Allstate shall alone retain full liability to such employees for their welfare, salaries, fringe benefits, legally required employer contributions and tax obligations.

No facility of Allstate used in performing services for or subject to use by ILIC shall be deemed to be transferred, assigned, conveyed or leased by performance or use pursuant to this Agreement.

b. EXERCISE OF JUDGMENT IN RENDERING SERVICES. In providing any

services hereunder which require the exercise of judgment by Allstate, Allstate shall perform any such service in accordance with any standards and guidelines ILIC develops and communicates to Allstate. In performing any services hereunder, Allstate shall at all times act in a manner reasonably calculated to be in or not opposed to the best interests of ILIC.

c. CONTROL. The performance of services by Allstate for ILIC pursuant to this Agreement shall in no way impair the absolute control of the business and operations of Allstate or ILIC by their respective Boards of Directors. Allstate shall act hereunder so as to assure the separate operating identity of ILIC.

2. SERVICES. The performance of Allstate under this Agreement with respect to the business and operation of ILIC shall at all times be subject to the direction and control of the Board of Directors of ILIC. In providing services with respect to this Agreement, Allstate agrees that any and all personal contact or communication, both oral and written, with

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ILIC's policyholders, insureds, beneficiaries and applicants will be done in the name of and on behalf of ILIC. No mention of Allstate will be made in any such personal contact or communication with ILIC's policyholders, insureds, beneficiaries or applicants. Allstate agrees to use ILIC's letterhead for all such written communication. Allstate further agrees that if any of its employees who have direct contact with ILIC's policyholders, insureds, beneficiaries or applicants perform such services from a location outside the State of New York, Allstate will establish and maintain a toll free 800 telephone number for use by ILIC's policyholders, insureds, beneficiaries and applicants.

Subject to the foregoing and to the terms, conditions and limitations of this Agreement, Allstate shall provide to ILIC, at ILIC's request, insurance-related services typically performed by a life insurance company with respect to individual and group life insurance and annuity products, including the services set forth below with respect to the business of ILIC.

a. ACCOUNTING, DATA PROCESSING, TAX AND AUDITING. Allstate shall process all accounting functions and update all accounting records of ILIC (including, but not limited to, the general ledger, investment ledger, journals, cash book, subsidiary ledgers, and all worksheets supporting annual, quarterly and other statements and reports filed with or submitted to supervising and regulatory authorities). Allstate shall process daily transfers to the appropriate accounts and shall update ILIC's investment and general ledger accounting systems. Allstate shall also provide such assistance as may be required with respect to tax and auditing services. Such auditing services shall include not only review of financial records but may also include review of specific functions and

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activities in order to ensure compliance with ILIC's established policies. This auditing provision shall not apply to ILIC's audit of Allstate's services pursuant to this Agreement.

Allstate shall provide ILIC's home office in Farmingville, New York computer access to the electronic system that generates the electronic records with respect to ILIC's business. Computer access to the electronic data media used to maintain ILIC's accounting records shall be readily available, easily accessible, and in a readable format during all normal business hours. Allstate shall maintain format integrity and compatibility of the electronic records to ensure such records which constitute ILIC's accounting records are current and accessible.

In addition to providing the above described access to ILIC's accounting records, Allstate personnel shall forward acceptable backup (hard copy or another durable medium as long as the means to access the durable medium is also maintained at the home office of ILIC) on a monthly basis. Backup of ILIC's accounting records shall be made on a regular basis from the accounting client server system. A copy will be archived.

If the electronic system being used to maintain the records which comprise ILIC's accounting records is to be replaced by a system incompatible with the existing system, Allstate shall ensure that all pre-existing records are accessible with the new system.

b. FUNCTIONAL SUPPORT SERVICES. Allstate, when requested by ILIC, shall provide functional support services including but not limited to: (i) actuarial services, including rate and profit share analysis, product research and development, counseling on reserving requirements, work required for or in support of rate and/or form submissions, actuarial certifications and advice with respect to reinsurance, (ii) services associated with the establishment, maintenance, registration with appropriate government agencies, and administration of separate accounts, including unit pricing of the separate accounts, (iii) services associated with the generation and mailing of Form 1099, (iv) services in support of ERISA, 403(b) and 401(k) plans, (v) services in connection with the management of bank accounts, (vi) telecommunications services and electronic data processing services, facilities and integration, including software programming and documentation and hardware utilization, (vii) legal services, including representation of ILIC in the prosecution or defense of actions and in the negotiation and preparation of contracts and other documents, product development and drafting and filing of policies and forms, governmental relations and advising on regulatory compliance and rendering opinions on various legal matters, (viii) purchasing, (ix) printing, forms management, distribution, mailings and bulk handling, (x) human resource and employee relations services, including payroll processing, employee benefit plan design and administration, compensation design and administration, and recruiting of personnel other than agents, (xi) reinsurance administration services, and (xii)

other corporate services including but not limited to escheat processing, property and casualty insurance evaluation and procurement, office design services, lease negotiation, library, conference and travel, and purchasing.

c. POLICYHOLDER SERVICE. Allstate, when requested by ILIC, shall provide policyholder services including but not limited to activities involving personal contact or communication with a policyholder or beneficiary, activities relating to policy loan applications and payments, surrender requests including computation of benefits payable, policy conversions, beneficiary changes, policy changes, requests for general information, preparation and mailing of disbursements, preparation and mailing of periodic reports and statements, dividend computations, premium payments, policy lapses, expires, nonforfeitures, reinstatements, consumer complaints and other related policyholder services.

In addition, when requested by ILIC, Allstate shall provide advice on unique or complex policyholder services issues with respect to insurance products transacted by ILIC.

d. COLLECTION SERVICES. With regard to the collection of premiums, deposits and other remittances from policyholders (including payments of principal or interest on contract loans) and from any collection facility, including intermediaries and other persons or institutions that receive remittances with respect to the business of ILIC, ILIC shall either perform these services on its own behalf or shall establish a lock-box bank arrangement in its name for the

deposit of amounts collected. If a lock-box arrangement is used, ILIC employees or officers shall direct the disbursement of funds from the lock-box arrangement.

e. UNDERWRITING AND ISSUE SUPPORT. Allstate, when requested by ILIC, shall provide underwriting functions and services including, but not limited to, product design, preparation and filing of prospectuses, compliance, issuance of quotes and proposals, review of applications for policies and advice with respect to underwriting, review of rates, advice regarding issuance of policies, coverage booklets and amendments, advice with respect to agent compensation and other related services.

With respect to any underwriting services that are provided to ILIC by Allstate pursuant to this Agreement, it is understood that: (i) Allstate shall provide such services in accordance with the

underwriting guidelines and procedures of ILIC; and (ii) ILIC shall retain all final underwriting authority.

f. CLAIMS ASSISTANCE. Allstate, when requested by ILIC, shall assist ILIC by processing, examining and investigating claims. In addition, when requested by ILIC, Allstate shall provide advice to ILIC concerning ILIC's claims. It is understood that: (i) Allstate shall provide such services in accordance with the claims guidelines and procedures of ILIC; and (ii) ILIC shall retain final approval authority for all claims. In performing claims services for ILIC pursuant to this Agreement, Allstate shall obtain and maintain all necessary licenses and permits required in order to comply with applicable laws and regulations.

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g. PUBLIC RELATIONS, ADVERTISING, SALES AND MARKETING PROMOTIONAL SERVICES. Allstate, when requested by ILIC, shall provide marketing assistance and services, including sales aids, rate guides, sales brochures, solicitation materials and such other promotional materials, information, assistance and advice as shall assist the sales, public relations and advertising efforts of ILIC, as well as services in connection with and in support of broker and distributor licensing and appointing, contracts and compensation. In addition, when requested by ILIC, Allstate shall provide to ILIC advice with respect to issues regarding public relations, advertising, sales and marketing. All advertising, sales and marketing material utilized by or on behalf of ILIC shall be subject to the prior approval of ILIC and ILIC shall maintain files of all such material in accordance with New York Insurance Department Regulation 34 and Regulation 34A.

3. CHARGES. ILIC agrees to reimburse Allstate for services and facilities provided by Allstate to ILIC pursuant to this Agreement. The charge to ILIC for such services and facilities shall be at cost. Cost shall mean Allstate's actual costs and expenses fairly attributable to this Agreement, and shall include salaries and benefits, space rental and other overhead expenses, electricity, heat, water, building maintenance services, furniture and other office equipment, supplies and special equipment such as reference libraries, electronic data processing equipment and the like.

Subject to New York Insurance Department Regulation 33, the bases for determining such charges to ILIC shall be those used by Allstate for internal cost distribution

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including, where appropriate, unit costs or time records prepared at least annually for this purpose.

Cost analyses will be made at least annually by Allstate to determine, as closely as possible, the actual cost of services rendered and facilities made available to ILIC hereunder. Allstate shall forward to ILIC the information developed by these analyses, and such information shall be used to develop bases for the distribution of expenses which more currently reflect the actual incidence of costs incurred by Allstate on behalf of ILIC.

4. PAYMENT. Within thirty (30) days after the end of each calendar quarter, Allstate will submit to ILIC, via an intercompany settlement process, a statement of the charges due from ILIC to Allstate in the preceding calendar quarter, including charges not included in any previous statements, and, unless such amount is disputed by ILIC, any balance payable or to be refunded as shown in such statement shall be paid or refunded within thirty (30) days following receipt of such statement by ILIC.

If ILIC objects to any determination of the amount owed by ILIC, it shall so advise Allstate within thirty (30) days of receipt of notice of said determination. Unless the parties can reconcile any such objection, they shall agree to the selection of a firm of independent certified public accountants which shall determine the charges properly allocable to ILIC and shall, within a reasonable time, submit such determination, together with the basis therefor, in writing to Allstate and ILIC, whereupon such determination shall be binding. The expenses of such a determination by a firm of independent certified public accountants shall be borne equally by Allstate and ILIC.

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5. STANDARD OF CARE. The parties shall use that degree of ordinary care and reasonable diligence in the performance of services hereunder that an

experienced and qualified provider of similar services under a similar services agreement would use acting in like circumstances and familiar with such matters and in accordance with such additional standards as may be adopted by ILIC from time to time and communicated to Allstate, including industry standards and applicable laws. Furthermore, the parties agree to maintain backup systems and contingency plans to assure that work stoppages, fires, riots, equipment, utility or transmission failures, shortage or damage, acts of God or other similar occurrences do not jeopardize the integrity of the data maintained on behalf of the other party. Each party warrants it will maintain such systems in conformity with corporate and prudent business standards.

6. ACCOUNTING RECORDS AND DOCUMENTS; AUDIT. Allstate shall be responsible for maintaining full and accurate accounts and records of all services rendered and facilities used pursuant to this Agreement in accordance with applicable laws and regulations, including, but not limited to, New York Insurance Department Regulation 152, and such additional information as ILIC may reasonably request for purposes of its internal bookkeeping and accounting operations. Allstate shall keep copies of such accounts and records insofar as they pertain to the computation of charges hereunder available at its principal offices for audit, inspection and copying (at ILIC's expense) by ILIC and persons authorized by it or any governmental agency having jurisdiction over ILIC during all reasonable business hours and ILIC shall maintain copies of such accounts and records at its home office in New York.

With respect to accounting and statistical records prepared by Allstate by reason of its performance under this Agreement, such records shall be delivered to ILIC within thirty

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(30) days from the end of the month to which the records pertain or otherwise kept available at the offices of ILIC pursuant to New York Insurance Department Regulation 152 (11 NYCRR Part 243).

ILIC and persons authorized by it or any governmental agency having jurisdiction over ILIC shall have the right, at ILIC's expense, to conduct an audit of the relevant books, records and accounts of Allstate upon giving reasonable notice of its intent to conduct such an audit. In the event of such audit, Allstate shall give to the party requesting the audit reasonable cooperation and access to all books, records and accounts necessary to audit.

7. RECORDS AND DOCUMENTS. All books, records, and files established and maintained by Allstate by reason of its performance under this Agreement which, absent this Agreement, would have been held by ILIC, shall: (i) be deemed the property of ILIC; (ii) be maintained in accordance with applicable law and regulation, including, but not limited to, Regulation 152 and (iii) be subject to examination at all times by ILIC and persons authorized by it or any governmental agency having jurisdiction over ILIC.

With respect to documents which would otherwise be held by ILIC and which may be obtained by Allstate in performing under this Agreement, Allstate shall deliver such documents to ILIC within thirty (30) days of their receipt by Allstate or otherwise kept available at the offices of the ILIC pursuant to Regulation 152, except where continued custody of such original documents is necessary to perform hereunder. Allstate shall, at Allstate's expense, deliver to ILIC within 48 hours any and all documents requested by ILIC or by any governmental agency having jurisdiction over ILIC.

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8. RIGHT TO CONTRACT WITH THIRD PARTIES. Nothing herein shall be deemed to grant Allstate an exclusive right to provide services to ILIC, and ILIC retains the right to contract with any third party, affiliated or unaffiliated, for the performance of services or for the use of facilities as are available to or have been requested by ILIC pursuant to this Agreement.

9. CONTACT PERSON(S). ILIC and Allstate each shall appoint one or more individuals who shall serve as contact person(s) for the purpose of carrying out this Agreement. Such contact person(s) shall be authorized to act on behalf of their respective parties as to the matters pertaining to this Agreement. Effective upon execution of this Agreement, the initial contact person(s) shall be those set forth in Appendix A. Each party shall notify the other, in writing, as to the name, address and telephone number of any replacement for any such designated contact person.

10. TERMINATION. This Agreement shall remain in effect until terminated by either Allstate or ILIC upon giving thirty (30) days or more advance written notice, provided that if on the date of termination ILIC is an affiliate of Allstate, ILIC shall have the right to elect to continue to receive

data processing services and/or to continue to utilize data processing facilities and related software so long as it remains an affiliate of Allstate, not to exceed one year from the date of such notice. Upon termination, Allstate shall promptly deliver to ILIC all books and records that are, or are deemed by this Agreement to be, the property of ILIC.

Application software and all copies thereof developed by Allstate for ILIC's use shall become, and that developed by ILIC and provided to Allstate for ILIC's exclusive use shall remain, the property of ILIC in perpetuity. To the extent allowed by applicable law, ILIC shall

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have the same rights as Allstate in any other software or copies thereof obtained by Allstate under license from third party vendors. ILIC may purchase other software or copies thereof from third party vendors for its exclusive use on Allstate's equipment if ILIC so desires. Allstate agrees that any software or copies thereof purchased by ILIC and used by Allstate in connection with this Agreement shall remain the property of ILIC.

11. SETTLEMENT ON COMPLETE TERMINATION. No later than thirty (30) days after the effective date of termination of this Agreement, Allstate shall deliver to ILIC a detailed written statement for all charges incurred and not included in any previous statement to the effective date of termination. The amount owed or to be refunded hereunder shall be due and payable within thirty (30) days of receipt of such statement.

12. ASSIGNMENT. This Agreement and any rights pursuant hereto shall not be assignable by either party hereto, except as set forth herein or by operation of law. Except as and to the extent specifically provided in this Agreement, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto, or their respective legal successors, any rights, remedies, obligations or liabilities, or to relieve any person other than the parties hereto, or their respective legal successors, from any obligations or liabilities that would otherwise be applicable. The representations, warranties, covenants and agreements contained in this Agreement shall be binding upon, extend to and inure to the benefit of the parties hereto, their, and each of their, successors and assigns, respectively.

13. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State without regard to principles of conflict of laws.

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14. ARBITRATION. Any unresolved dispute or difference between the parties arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and the Expedited Procedures thereof. The award rendered by the arbitrator shall be final and binding upon the parties, and judgment upon the award may be entered in any Court having jurisdiction thereof. The arbitration shall take place in New York, New York.

15. INDEMNIFICATION. ILIC and Allstate agree to hold each other harmless and to indemnify each other against any and all extra-contractual liability and any related loss, damage, expense, costs, cause of action, demand, penalty, fine or claim (including cost of litigation or administrative proceeding and counsel fees) arising out of or related to any of the services provided hereunder to the extent the same are caused by the act or failure to act of the indemnifying party.

16. NOTICE. All notices, statements or requests provided for hereunder shall be deemed to have been duly given when delivered by hand to an officer of the other party, or when deposited with the U.S. Postal Service, as first class certified or registered mail, postage prepaid, overnight courier service, telex or telecopier, addressed:

a. If to Allstate, to:

Allstate Life Insurance Company
3100 Sanders Road, Suite M4A
Northbrook, Illinois 60062-7127
Attention: Ronald Johnson
Phone: (847) 402-4101
Facsimile: (847) 402-4361

with a concurrent copy to:

Allstate Insurance Company
2775 Sanders Road, Suite A8
Northbrook, Illinois 60062-7127
Attention: Megan McEnroe
Phone: (847) 402-2356
Facsimile: (847) 402-0158

b. If to ILIC, to:

Intramerica Life Insurance Company
c/o Charter National Life Insurance Company
8301 Maryland Avenue
St. Louis, Missouri 63101
Attention: Sales Miller
Phone: (314) 854-4526
Facsimile: (314) 725-7191

or to such other persons or places as each party may from time to time designate by written notice sent as aforesaid.

17. ENTIRE AGREEMENT. This Agreement, together with such amendments as may from time to time be executed in writing by the parties, constitutes the entire agreement and understanding between the parties in respect of the transactions contemplated hereby.

18. SECTION HEADINGS. Section headings contained herein are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

19. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in triplicate by their respective officers duly authorized to do so, as of the date and year first above written.

ALLSTATE INSURANCE COMPANY

By: /s/ James P. Zils

Name: James P. Zils
Title: Vice President and Treasurer

INTRAMERICA LIFE INSURANCE COMPANY

By: /s/ Kevin R. Slawin

Name: Kevin R. Slawin
Title: Vice President

APPENDIX A

CONTACT PERSON(S) FOR ALLSTATE:

Allstate Life Insurance Company
3100 Sanders Road, Suite M4A
Northbrook, Illinois 60062-7127
Attention: Ronald Johnson
Phone: (847) 402-4101
Facsimile: (847) 402-4361

with a concurrent copy to:

Allstate Insurance Company
2775 Sanders Road, Suite A8
Northbrook, Illinois 60062-7127
Attention: Megan McEnroe
Phone: (847) 402-2356
Facsimile: (847) 402-0158

CONTACT PERSON(S) FOR ILIC:

Intramerica Life Insurance Company
c/o Charter National Life Insurance Company
8301 Maryland Avenue
St. Louis, Missouri 63101
Attention: Sales Miller
Phone: (314) 854-4526
Facsimile: (314) 725-7191

AGREEMENT

AGREEMENT made as of the 1st day of August, 1999, by and between Allstate Insurance Company, an Illinois insurance company, (" Allstate") and LSA Securities, Inc., an Oregon Corporation, ("LSA") and an indirect wholly owned subsidiary of Allstate Insurance Company;

WHEREAS, LSA desires to offer to the public certain variable insurance products and mutual funds ("Products"). The products will be issued by life insurance subsidiaries of Allstate ("Life Insurers") and offered through LSA' s Registered Representatives ("Representatives"). For purposes of this Agreement, the term Representative is limited to those LSA Registered Representatives in the Allstate Agent Division who are also licensed and appointed agents of such Life Insurers and Allstate; and

WHEREAS, Allstate currently acts as paymaster for compensation relating to the sale of certain fixed products payable by the Life Insurers to certain Allstate Agents.

WHEREAS, Allstate Life Insurance Company, an Illinois insurance company and wholly owned subsidiary of Allstate ("Allstate Life") and Lincoln Benefit Life Company have obtained no-action relief from the staff of the Securities and Exchange Commission ("SEC") in a letter dated September 12, 1988, (the "ALIC No-Action Letter") in which the SEC staff indicated it would not recommend enforcement action if, subject to certain conditions, each of them acted as paymaster for an affiliated broker/dealer with respect to contracts issued by them;

WHEREAS, Allstate and Allstate Life shall be directed by essentially the same management.

NOW, THEREFORE, in consideration of their mutual promises, Allstate and LSA hereby agree as follows:

1. PAYMENT OF COMPENSATION AND EXPENSES

- A. COMPENSATION FOR SALE OF PRODUCTS. Allstate shall act as "paying agent" on behalf of LSA for all commissions and other compensation payable by LSA for the sale of Products effected through Representatives.
- B. COMPENSATION TO ALLSTATE. Allstate shall be compensated for actual costs and expenses incurred in performing services under the terms and conditions of this Agreement. Payments for services provided hereunder shall be remitted through the intercompany settlement process. Allstate shall not be entitled to any share of the commission (s) paid as a result of the services provided hereunder.

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2. PERFORMANCE OF SERVICES

- A. RATE OF COMPENSATION. The rate of compensation payable to Representative(s) shall be paid in accordance with the instructions set forth in Exhibit A, which may be amended from time to time pursuant to further written agreement between the parties. Allstate and LSA acknowledge that Representatives shall have no interest in this Agreement or right to any compensation to be paid by or on behalf of LSA hereunder prior to their receipt thereof. LSA may, from time to time, provide Allstate with updated instructions in accordance with the format provided in Exhibit A. Said request shall be in writing and shall be provided to Allstate no less than thirty (30) days prior to the date on which said revised instructions shall take effect. In making payments hereunder, Allstate is providing a clerical and ministerial service to LSA, and Allstate shall not exercise any discretion over the amount or allocation of the payments.
- B. IDENTIFICATION OF COMPENSATION. Compensation to be paid on behalf of LSA under the terms and conditions of this Agreement, may be included with other compensation paid by Allstate, but any compensation attributable to LSA shall be

identified as such on supporting statements provided to payees.

- C. NO RIGHT TO SETTLE. Allstate shall have no right to settle any claim(s) brought by Representative(s) with regard to compensation payable by LSA, except as specifically directed in writing by LSA.
- D. BOOKS AND RECORDS. During the term of this Agreement, and for a period of three (3) years after its expiration, Allstate shall maintain and preserve books and records relating to compensation paid hereunder on behalf of, and as agent for, LSA in compliance with Rules 17a-3 and 17a-4 under the Securities Exchange Act of 1934 (the "1934 Act") and Rule 2820 of the Conduct Rules adopted by the National Association of Securities Dealers, Inc. In addition, compensation payments shall be reflected on the books and records maintained by LSA. Allstate represents that any books or records it maintains on behalf of LSA belong solely to LSA and, at the request of LSA, shall be made available to LSA for its use or for inspection by any state, federal, or other regulator with jurisdiction over LSA. Upon reasonable notice to Allstate, LSA shall have the right during normal business hours and at its own expense, to inspect the books and records relating to the compensation paid hereunder.
- E. SECURITIES ACTIVITIES. LSA has and assumes full responsibility for the securities activities of all persons engaged directly and indirectly in the securities operations, each such person being an "associated person" of LSA, as defined in Section 3(a)(18) of the 1934 Act and, therefore, a person for whom LSA has full responsibility with regard to training, supervision and control, as contemplated by Section 15(b)(4)(E) of the 1934 Act.

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- F. ADDITIONAL REQUIREMENTS. In all dealings with or on behalf of LSA, Allstate shall comply with all applicable provisions of Exchange Act Release No. 8389, the applicable terms and conditions of the ALIC No Action Letter, and the applicable terms and conditions of the TIME INSURANCE CO. No-Action Letter dated October 17, 1989. Copies of these materials are attached as Exhibit B to this Agreement.
- G. RIGHT TO SUBCONTRACT. Subject to LSA's consent, Allstate may subcontract to a Third Party Subcontractor ("Subcontractor") any or all of the services required of it under this Agreement. Prior to any such subcontracting, Allstate shall enter into a written Agreement with Subcontractor in which Subcontractor accepts responsibility for all obligations that would otherwise be performed by Allstate in accordance with the terms of this Agreement.

3. MISCELLANEOUS

- A. INDEMNIFICATION. Allstate shall be responsible for and indemnify, defend and hold LSA harmless for any damages, claims, and/or causes of action brought by third parties arising out of or due to Allstate's failure to perform in accordance with the terms and conditions of this Agreement. Allstate, however, shall not be responsible for any loss of profits, or any other loss, which is indirect, special, incidental or consequential, or punitive damages.
- B. TERM OF AGREEMENT. This Agreement shall become effective as of the date of its execution and shall continue in full force and effect until terminated pursuant to no less than one hundred and twenty (120) days written notice thereof. This Agreement, however, may terminate automatically if Allstate and LSA cease to be affiliated. This Agreement may be amended at any time by mutual written agreement between the parties hereto.
- C. APPLICABLE LAW. This Agreement shall be construed in accordance with the laws of the state of Illinois without regard to conflict of law principles.
- D. COOPERATION WITH REGULATORY AUTHORITIES. The parties agree to cooperate fully in any regulatory examination, investigation, or proceeding or any judicial proceeding arising in connection

with the securities activities of LSA and the Representatives. The parties shall furnish applicable federal, state and self-regulatory authorities with jurisdiction over LSA with any information or reports in connection with the payments made under this Agreement that such authorities may request in order to ascertain whether the securities activities described herein are being conducted in a manner consistent with any applicable law or regulation.

E. ASSIGNMENT. This Agreement and any rights pursuant hereto are not subject to assignment by either party hereto without the prior written consent of the other party, except by operation of law. The representations, warranties, covenants, and agreements contained in this Agreement shall be binding upon, extend to an inure

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to the benefit of the parties hereto, and each of their, successors and assigns respectively.

F. RELATIONSHIP OF PARTIES. Allstate employees performing duties hereunder at all times during the term of this Agreement shall be in the employment, under the supervision and control of Allstate and shall not be deemed employees of LSA or Allstate Life.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their authorized officers designated below as of the date specified above.

ALLSTATE INSURANCE COMPANY

LSA SECURITIES, INC.

By: /s/ James P. Zils

By: /s/Carol S. Watson

Name: James P. Zils

Name: Carol S. Watson

Title: Vice President and Treasurer

Title: President

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EXHIBIT A

[LSA Securities, Inc. Letterhead]

[Letter of Instruction from LSA to Allstate]

Allstate Insurance Company

To Whom It May Concern:

With reference to the Agreement between you and the undersigned regarding the payment of commissions for securities transactions to our registered persons ("Representatives") {DRAFTING NOTE: PREVIOUS REFERENCE HAD BEEN TO "REPS"-I CHANGED TO 'REPRESENTATIVES', IN ORDER TO BE CONSISTENT WITH THE AGREEMENT}, you are hereby directed to follow these instructions:

- o You shall pay commissions to Representatives for the sale of securities affected on behalf of LSA in accordance with the compensation schedule attached as Attachment A hereto.
- o You will be furnished information regarding compensation payable to each Representative for each processing period through downloads into the Ralie system.
- o Funds will be transferred to you via wire or the inter-company process.
- o Payments made to Representatives may be aggregated with other compensation payable for other products and services for which you act as payor.
- o You must furnish a statement to each Representative detailing the compensation paid on behalf of LSA and indicating that such portion is paid on behalf of LSA.
- o You may make deductions from commissions that have been authorized by LSA or by the Representative.
- o In the case of a Representative who is your common law employee, you are authorized to include securities compensation in the base of compensation payable to the Representative, and to make deductions for fringe benefits from such base so long there is no differential in the proportionate amount of securities compensation earned by the

Yes. On the LBL Variable Universal Life product, production credit is given at 4% on any first year payment in excess of the First Year Commission Target Premium.

8. IS PRODUCTION CREDIT ANNUALIZED?

For the LBL Variable Universal Life products, production credit is annualized; however, for the Allstate Variable Annuity and Mutual Funds, production credit is not annualized.

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9. CAN AN ALLSTATE AGENT PARTNER WITH A LIFE SPECIALIST RECEIVE FULL PRODUCTION CREDIT?

It depends. As long as the Allstate Agent meets state licensing requirements as well as Allstate requirements for eligibility to sell.

10. CAN TWO ALLSTATE AGENTS PARTNER ON A POLICY?

Perhaps. Two Allstate Agents can partner on a policy as long as both Agents meet state licensing requirements as well as Allstate requirements for eligibility to sell. Licensed Allstate Agents can split commissions on a policy based on the current split percentages. Only the writing Agent receives production credit.

11. ARE THE NEW PRODUCTS INCLUDED IN MY OFFICE EXPENSE ALLOWANCE?

The LBL Variable Universal Life, the Allstate Variable Annuity, and the Mutual Funds are included in Office Expense Allowance.

12. ARE THE NEW PRODUCTS INCLUDED IN MY PRODUCTION ALLOWANCE?

The LBL Variable Universal Life, the Allstate Variable Annuity, and the Mutual Funds are included in Production Allowance.

13. AM I ABLE TO TRACK THESE POLICIES ON MY ALSTAR?

The Allstate Variable Annuity is included in ALSTAR Inquiry and Endorsement; however, the LBL Variable Universal Life and the Mutual Funds are not.

14. IF MY CUSTOMER ALREADY HAS A UNIVERSAL LIFE PRODUCT AND WISHES TO TERMINATE THAT POLICY AND APPLY FOR AN LBL VARIABLE UNIVERSAL LIFE, DO I RECEIVE PRODUCTION CREDIT AND COMPENSATION?

The Allstate replacement guidelines apply for the new products. Any production credit given is based on the difference between the old policy's first year premium (MAP) and the new policy's first year premium (Commission Target premium).

Compensation is paid on the difference in premium at the existing replacement rates. (Life Specialists are paid on the regular new business rates since they are lower than the replacement rates.) Surrender charges may apply.

15. WHAT IF THE PREMIUM ON THE OLD POLICY IS MORE THAN THE PREMIUM ON THE NEW POLICY?

No new production credit or compensation is given.

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16. IF I HAVE A CUSTOMER WHO ALREADY HAS AN ALLSTATE OR LBL ANNUITY AND WISHES TO TRANSFER THE PREMIUM FROM THE EXISTING ANNUITY AND APPLY FOR AN ALLSTATE VARIABLE ANNUITY, DO I RECEIVE PRODUCTION CREDIT OR COMPENSATION? (SURRENDER CHARGES MAY APPLY.)

Production credit and compensation is not paid on the amount transferred from an existing Allstate or LBL Annuity to any other Allstate or LBL Annuity (including the Allstate Variable Annuity). Production credit and compensation is paid on any new payments to the policy.

17. AM I ABLE TO EARN A BONUS ON THE NEW PRODUCTS?

MUTUAL
FUND BONUS
RATES* ---

---- Level
Plan C /
Life
Specialists
Plan E /
Plan I ---

---- 1 4%
6% -----

2 8% 12% -

----- 3
12% 18% --

----- 4
16% 24% --

R830 and
R1500 6%

- R3000
and
R3001 8%

-

NOTE: Annuities and Mutual Funds do not apply.

27. ARE THE NEW PRODUCTS INCLUDED IN MY RETENTION BONUS?

The LBL Variable Universal Life product is eligible for Retention Bonus; however, the Allstate Variable Annuity and Mutual Funds are not.

28. DO THE NEW PRODUCTS COUNT TOWARDS CROSS LINE SALES?

Yes. The LBL Universal Life, the Allstate Variable Annuity, and the Mutual Funds are included in Cross Line Sales.

29. CAN THE NEW PRODUCTS HELP ME TO ACHIEVE MY YEAR END AWARDS?

Yes. The LBL Universal Life, the Allstate Variable Annuity, and the Mutual Funds are included in all current awards.

30. WHAT IS THE "FAST START BONUS"?

The "Fast Start Bonus" is an additional bonus paid on sales of registered products (variable annuities, mutual funds, and variable universal life) during the first two full

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calendar quarters after a region completes their rollout for AFA. The "Fast Start Bonus" is paid only to agents who produce at the quarterly bonus qualification levels. It does not matter whether you elected the annual or quarterly life production bonus option. If you produce at the quarterly qualification level, the bonus paid on registered products will be increased by 50%!

BONUS EXAMPLE:

Fast Fast
Total Qtr
1 Start
Qtr 2
Start Fast
Start
Bonus
Bonus
Bonus
Bonus
Bonus ----

Registered
Products
\$1,200
\$600

\$1,800
 \$900
 \$1,500
 Non-
 Registered
 Products
 1,200 ---
 1,300 ---
 --- Total
 2,400 600
 3,100 900
 1,500

The "Fast Start Bonus" will be paid at the end of each quarter. Agents on the annual bonus option will continue to receive their regular production bonus in July.

31. AS A REGISTERED REP CAN I PURCHASE MUTUAL FUNDS AT NAV?

Yes, registered reps can purchase mutual funds at NAV (net asset value). Commissions and production credit will not be calculated on funds purchased at NAV.

32. WILL I STILL RECEIVE COMMISSIONS ON THE LBL INVESTOR'S SELECT VARIABLE ANNUITIES THAT WERE SOLD PRIOR TO THE INTRODUCTION OF AFA REGISTERED PRODUCTS?

You will continue to receive commissions from LBL for the existing LBL VA business that was sold prior to AF A registered products becoming available for sale in your region. As in the past, these commissions will not be included in production credit, awards, or benefit calculations.

33. CAN EXISTING SECURITIES BUSINESS THAT WAS WRITTEN PRIOR TO AFFILIATION WITH ALLSTATE BE TRANSFERRED TO LSA?

We will allow transfers of existing business with which LSA has a selling agreement, however, there is no guarantee that the transferring firm will release the funds. There may also be a transfer fee assessed and the registered rep will be responsible for payment. We are providing this opportunity to our registered representative in order to assist them in servicing their existing customer block.

NOTE THAT NO NEW CUSTOMERS CAN BE SOLD PRODUCTS OUTSIDE OF THE AFA GROUP OF PRODUCT OFFERINGS. COMPENSATION ON TRANSFERRED BUSINESS EXCLUDING THE AFA MUTUAL FUND FAMILIES WILL BE PAID AT 50% OF THE AMOUNT RECEIVED BY LSA AND NO PRODUCTION CREDIT WILL BE GIVEN. TRANSFERS WITHIN OUR FIVE MUTUAL FUND FAMILIES WILL RECEIVE TRAILING COMMISSIONS UNDER THE COMMISSION RATE ESTABLISHED FOR AFA. NEW PAYMENTS WILL RECEIVE PRODUCTION CREDIT FOR AWARDS AND BONUS.

AS OF AUGUST 1, 1999, THERE ARE 19 INSURANCE CARRIERS WHO HAVE SELLING AGREEMENTS WITH LSA SECURITIES, INC. THEY ARE AS FOLLOWS:

- Allstate Life Insurance Company
- Allianz Life
- American Scandia
- Fortis Financial
- Glenbrook Life
- Guardian Life
- Harford Life Ins.
- Jackson National
- Life of Virginia
- Security Life of Denver Pacific
- Life Phoenix Home
- Life Transamerica
- Life and Annuity Sun Life
- Assurance Life & Annuity Sun
- America Life Mass Mutual (formerly Conn. Mutual) THE FOLLOWING FUND

FAMILIES ALSO
HAVE SELLING
AGREEMENTS WITH
LSA SECURITIES,
INC.:
AIM Funds Alger
Funds Alliance
Funds Aquila
Management
Calvert Group
American Funds
Chase Vista Funds
Colonial Mutual
Funds Davis Funds
Delaware Funds
Dreyfus Funds
Eaton Vance Funds
Evergreen
Funds/Keystone
Federated/Liberty
Fidelity Advisor
Fortis Investors
FPA Funds
Franklin/Templeton
GAM Funds
Guardian Park
Avenue John
Hancock IDEX
Funds Kemper
Funds Lord Abbett
MFS Funds Morgan
Stanley/Dean
Witter Phoenix
Funds Pilgrim
American Pioneer
Funds Putnam
Funds Seligman
Funds Sun America
Thornburg Funds
Van Eck Funds Van
Kampen

COST SHARING AGREEMENT

This Agreement entered into as of the 12th day of October 2000, by and between Allstate Life Insurance Company ("ALIC"), an Illinois insurance company and Allstate Reinsurance Ltd. ("Allstate Re"), a Bermuda corporation.

WHEREAS, from time to time, ALIC retrocedes to Allstate Re approximately fifty per cent (50%) of certain specified business ceded from Glenbrook Life and Annuity Company ("GLAC"), a wholly owned subsidiary of ALIC.

WHEREAS, the parties have agreed that ALIC shall pay fifty per cent (50%) of the expenses incurred by Allstate Re in connection with the reinsurance transactions referenced above herein.

1. EXPENSES SUBJECT TO REIMBURSEMENT. Expenses subject to reimbursement ("Subject Expenses") shall pertain only to those expenditures related to reinsurance operations in Bermuda. Subject Expenses shall include amounts expended for professional fees for management services and legal services; and official government assessments relating to tax and license charges. From time to time, as they may deem appropriate, the parties may mutually agree that additional expense categories be included.

2. PAYMENT. During the term hereof, Allstate Re will pay all invoices it receives for Subject Expenses. Within thirty (30) days after the end of each calendar quarter, Allstate Re shall submit to ALIC, a statement of the charges due from ALIC in the preceding calendar quarter for Subject Expenses paid by Allstate Re, including charges not included in any previous statements. Unless such amount is disputed by ALIC, it will be paid within thirty (30) days of receipt.

3. TERM. The initial term of this Agreement shall be for a period of twelve (12) months from the effective date listed above and shall automatically renew each anniversary date for successive twelve (12) month terms. This Agreement may be terminated either with or without cause, by either party subject to no less than thirty (30) days prior written notice.

4. BUSINESS TERMINATION. In the event that either party shall cease conducting business in the normal course, become insolvent, make a general assignment for the benefit of creditors, suffer or permit the appointment of a receiver for its business or assets or shall avail itself of, or become subject to, any proceeding under the Federal Bankruptcy Act or any other statute relating to insolvency or the protection of rights of creditors then (at the option of the other party) this Agreement shall terminate and be of no further force and effect.

5. LIMITATION OF LIABILITY. The liability of each party for damages of any kind, whether direct or indirect and regardless of the form of action or theory of liability, will not exceed the

charges paid hereunder. In no event will either party be liable for loss of profits or any other such loss, or any direct or indirect, special, incidental, and/or consequential damages howsoever incurred or designated. No action, regardless of form, arising out of the transaction under this Agreement, may be brought by either party more than one year after the cause of action has accrued, except that an action for non-payment must be brought within one year after the date of the last payment.

6. NOTICE. All notices, statements or requests provided for hereunder shall be sufficient if made by personal delivery or sent by certified mail, return receipt requested, to the parties at the respective addresses set forth below or to such other person or address as the party to receive the notice has designated by notice to the other party.

- a. If to Allstate Re to:
Allstate Reinsurance Ltd.
Victoria Hall
11 Victoria Street
P.O. Box HM 1262
Hamilton HM11, Bermuda
- b. If to ALIC to:
Allstate Life Insurance Company
3100 Sanders Road
Northbrook, IL 60062-7154

7. ASSIGNMENT. This Agreement may not be assigned by either party without the prior written consent of the other party.

8. BOOKS AND RECORDS. Upon reasonable notice to Allstate Re, ALIC shall have the right at all times during business hours and at its own expense to inspect the records pertaining to the Subject Expenses described herein.

9. AMENDMENTS. Any amendment or modifications of this Agreement shall be in writing, signed by both parties.

10. CONTACT PERSONS. ALIC and Allstate Re each shall appoint one or more individuals who shall serve as contact person(s) for the purpose of carrying out this Agreement. Such contact person(s) shall be authorized to act on behalf of the respective party as to the matters pertaining to this Agreement. Each party shall notify the other, in writing, as to the name, address and telephone number of any replacement for any such designated contact person.

11. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois applicable to contracts made and to be performed in that State without regard to conflict of law principles.

12. INVALID PROVISION. Should any part of this Agreement, for any reason, be declared invalid, such decision shall not affect the validity of any remaining portion. Such remaining portion shall remain in force and effect as if this Agreement had been executed with the invalid portion eliminated.

13. SECTION HEADINGS. Section headings have been included in this Agreement merely for reference and shall not affect the terms hereof.

14. SURVIVAL OF TERMS. Following the termination of this Agreement, ALIC and Allstate Re shall be or remain obligated under all provisions herein which by their terms continue after termination or are incidental to the performance of the obligations hereunder.

15. NON-WAIVER. No terms or provision hereof shall be deemed waived and no breach excused, unless such waiver or consent shall be in writing and signed by the party claimed to have waived or consented. Any consent by any party to, or waiver of, a breach by the other, whether express or implied, shall not constitute a consent to, waiver of, or excuse for any other different or subsequent breach.

16. ACKNOWLEDGMENT. EACH PARTY ACKNOWLEDGES THAT IT HAS READ THIS AGREEMENT, UNDERSTANDS IT AND AGREES TO BE BOUND BY ITS TERMS AND FURTHER AGREES THAT IT IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN THE PARTIES, WHICH SUPERSEDES ALL PROPOSALS, ORAL OR WRITTEN AND ALL OTHER COMMUNICATIONS BETWEEN THE PARTIES RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT.

ACCEPTED BY:

ALLSTATE LIFE INSURANCE COMPANY

ALLSTATE REINSURANCE LTD.

By: _____
Title: _____
Date: _____

By: _____
Title: _____
Date: _____

INVESTMENT MANAGEMENT AGREEMENT
AND
AMENDMENT TO CERTAIN SERVICE AND EXPENSE AGREEMENTS

AMONG

ALLSTATE INVESTMENTS, LLC
AND

ALLSTATE INSURANCE COMPANY
AND

THE ALLSTATE CORPORATION
AND

CERTAIN AFFILIATES

This Agreement made and effective as of January 1, 2002, among ALLSTATE INVESTMENTS, LLC, a Delaware limited liability company ("ALLSTATE INVESTMENTS"), ALLSTATE INSURANCE COMPANY, an Illinois insurance company ("Allstate"), THE ALLSTATE CORPORATION, a Delaware corporation and parent of Allstate and ALLSTATE INVESTMENTS ("Allcorp"), and those additional subsidiaries of Allcorp whose signatures appear below (individually an "Affiliate" and collectively with Allstate and Allcorp, the "Allstate Affiliates").

W I T N E S S E T H:

Allstate currently provides investment management services to Allcorp and certain insurance Affiliates pursuant to a Service and Expense Agreement, dated as of January 1, 1999 (the "Insurance Affiliates Service Agreement") and to certain non-insurance Affiliates pursuant to a Service and Expense Agreement, dated as of January 1, 2000 (the "Non-Insurance Affiliates Service Agreement," and, collectively with the Insurance Affiliates Service Agreement, the "Service Agreements").

It has been determined that such investment management services in the future will be more appropriately provided to the Allstate Affiliates by a separate entity performing only investment management activities rather than by a department of Allstate, resulting in benefits to the Allstate Affiliates. Therefore, subject to obtaining all required regulatory approvals, effective January 1, 2002, Allstate's Investment Department will cease providing investment management services pursuant to the Service Agreements. All investment management services will instead be provided to the Allstate Affiliates by ALLSTATE INVESTMENTS, an Allcorp subsidiary.

To accomplish this change, the Allstate Affiliates desire to amend the Service Agreements to terminate the provision of investment management services by Allstate. They also desire to contract with ALLSTATE INVESTMENTS for the rendering of investment management services by ALLSTATE INVESTMENTS subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, it is agreed as follows:

ARTICLE 1
AMENDMENT OF EXISTING SERVICE AGREEMENTS

1.1 INSURANCE AFFILIATES SERVICE AGREEMENT. Allcorp, Allstate, and each insurance Affiliate hereby agree to amend the Insurance Affiliates Service Agreement by deleting Exhibit E and all references thereto such that Allstate no longer provides investment management services to Allcorp or any insurance Affiliate.

1.2 NON-INSURANCE AFFILIATES SERVICE AGREEMENT. Allstate and each non-insurance Affiliate hereby agree to amend the Non-Insurance Affiliates Service Agreement by deleting Exhibit B and all references thereto such that Allstate no longer provides investment management services to any non-insurance Affiliate.

ARTICLE 2
INVESTMENT MANAGEMENT SERVICES

2.1 APPOINTMENT. Each Allstate Affiliate hereby engages ALLSTATE INVESTMENTS as the investment manager of its investment assets and grants ALLSTATE INVESTMENTS the power and authority to advise, manage, and direct the investment and reinvestment of such assets for the period and on the

terms and conditions set forth herein. Such activities shall be conducted subject to and in accordance with the investment objectives, restrictions, and strategies set forth in the Investment Policy and Investment Plan (the "Policy") adopted by the Board of Directors of each such Allstate Affiliate with respect to its respective investment portfolios, and in accordance with such other limitations and guidelines as may be established from time to time for such portfolios by such Boards (such investment objectives, restrictions, strategies, limitations, and guidelines herein referred to collectively as the "Investment Guidelines"). ALLSTATE INVESTMENTS hereby accepts such responsibility and agrees during such period to render the services and to assume the obligations herein set forth, all as more fully described in Exhibit A, attached hereto (the "Services"). Each of the Allstate Affiliates may from time to time reach agreement with ALLSTATE INVESTMENTS that only certain of the listed Services will be provided.

2.2 CHARGES AND EXPENSES. Each Allstate Affiliate agrees to pay ALLSTATE INVESTMENTS a fee for the Services equal to ALLSTATE INVESTMENTS' fully burdened basis point charge for the management of such Allstate Affiliate's portfolio.

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The fully burdened basis point charge is ALLSTATE INVESTMENTS's actual cost of managing the portfolios in which such Allstate Affiliate invests, including the provision of all administrative, reporting or other services required to manage the portfolios and provide the Services. To the extent any of ALLSTATE INVESTMENTS's costs are determined by allocations from any Allstate Affiliate, the allocation shall be made in accordance with the general provisions of the NAIC expense classification and allocation guidelines applicable to all inter-company allocations between Allstate and its insurance affiliates. ALLSTATE INVESTMENTS shall maintain and make available for review by any Allstate Affiliate, or any regulator having jurisdiction over such Allstate Affiliate, documentation showing the calculation of all such charges. Any Allstate Affiliate may request a review of such charges for the Services and such review will occur promptly thereafter. All brokerage commissions and other direct transaction charges payable to third parties shall be in addition to any fees payable to ALLSTATE INVESTMENTS for Services and may be paid on each Allstate Affiliate's behalf from the assets in the such entities portfolio or may be paid by ALLSTATE INVESTMENTS and reimbursed by such Allstate Affiliate.

2.3 PAYMENT. ALLSTATE INVESTMENTS will charge each Allstate Affiliate for the Services via the monthly expense allocation process, and payments will be through the monthly intercompany settlement process. The process will be completed by personnel of ALLSTATE INVESTMENTS and each of the Allstate Affiliates in the most timely and effective method available.

ARTICLE 3 MISCELLANEOUS PROVISIONS

3.1 PREVIOUS AGREEMENTS. Except for the amendments to the Service Agreements pursuant to Article 1 above, nothing in this Agreement shall be deemed to amend any previously executed agreement between the parties.

3.2 SCOPE OF SERVICES. The scope of, and the manner in which, ALLSTATE INVESTMENTS provides the Services to the Allstate Affiliates shall be reviewed periodically by ALLSTATE INVESTMENTS and the Allstate Affiliates.

3.3 STANDARD OF PERFORMANCE. ALLSTATE INVESTMENTS shall discharge its duties hereunder at all times in good faith and with that degree of prudence, diligence, care and skill which a prudent person rendering services as an institutional investment manager would exercise under similar circumstances. The provisions of this Agreement shall not be interpreted to imply any obligation on the part of ALLSTATE INVESTMENTS to observe any standard of care other than as set forth in this Section 3.3.

3.4 BOOKS AND RECORDS. Upon reasonable notice, and during normal business hours, each Allstate Affiliate shall be entitled to, at its own expense, inspect records that pertain to the computation of charges for the Services. ALLSTATE INVESTMENTS shall at all times maintain correct and complete books, records and accounts of all Services. Each

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Allstate Affiliate shall have unconditional right of ownership of any records prepared on its behalf under this Agreement.

3.5 LIABILITY OF ALLSTATE INVESTMENTS. In the absence of ALLSTATE INVESTMENTS's willful or negligent misconduct (or the willful or negligent misconduct of its officers, directors, agents, employees, controlling persons, shareholders, and any other person or entity affiliated with ALLSTATE

INVESTMENTS or retained by it to perform or assist in the performance of its obligations under this Agreement), neither ALLSTATE INVESTMENTS nor any of its officers, directors, employees or agents shall be subject to liability to any Allstate Affiliate for any act or omission in the course of, or connected with, rendering services hereunder.

3.6 INDEPENDENT CONTRACTOR. ALLSTATE INVESTMENTS shall for all purposes be deemed to be an independent contractor. All persons performing duties hereunder at all times during the term of this agreement shall be under the supervision and control of ALLSTATE INVESTMENTS, and shall not be deemed employees of any Allstate Affiliate as a result of this Agreement and the Services provided hereunder. ALLSTATE INVESTMENTS shall have no power or authority to bind any Allstate Affiliate or to assume or create an obligation or responsibility, express or implied, on behalf of any Allstate Affiliate, nor shall it represent to anyone that it has such power or authority, except as expressly provided in this Agreement. Nothing in this Agreement shall be deemed to create a partnership between or among the parties, whether for purposes of taxation or otherwise.

3.7 ASSIGNMENT. ALLSTATE INVESTMENTS shall not assign its obligations or rights under this Agreement without the written consent of each Allstate Affiliate. ALLSTATE INVESTMENTS may terminate this Agreement in its entirety, and each Allstate Affiliate may cancel its participation in the arrangements under this Agreement, each by giving six months written notice to the other parties to this Agreement; provided, however, that in the event that the affiliate relationship ceases to exist with respect to any Affiliate, this Agreement shall terminate immediately with respect to such Allstate Affiliate. Under no circumstances will the initial term of this Agreement exceed five (5) years.

3.8 NOTICES. All communications provided for hereunder shall be in writing, and if to an Allstate Affiliate, mailed or delivered to such Allstate Affiliate at its office at the address listed in such Affiliate's Statutory Annual Statement Blank, Attention: Secretary, or if to an entity not filing a statutory Annual Statement Blank, mailed or delivered to its office at 3075 Sanders Road, Northbrook, Illinois 60062, Attention: Controller, or addressed to any party at the address such party may hereafter designate by written notice to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed as of the day and year above written.

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THE ALLSTATE CORPORATION

By: _____
James P. Zils
Treasurer

ALLSTATE INSURANCE COMPANY

By: _____
James p. Zils
Vice President and Treasurer

ALLSTATE INVESTMENTS, LLC

By: _____
Casey J. Sylla
Chairman of the Board and President

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AHL SELECT HMO, INC.

By: _____
John. Anderson, Jr.
Secretary and Treasurer

ALLSTATE ASSURANCE COMPANY

By: _____
James P. Zils

Treasurer

ALLSTATE COUNTY MUTUAL INSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE ENTERPRISES, INC.

By:

James P. Zils
Vice President and Treasurer

ALLSTATE FINANCIAL, LLC

By:

James P. Zils
Treasurer

ALLSTATE FINANCIAL CORPORATION

By:

James P. Zils
Treasurer

ALLSTATE FIRE AND CASUALTY INSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE FLORIDIAN INDEMNITY COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE FLORIDIAN INSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE HOLDINGS, LLC

By:

James P. Zils
Executive Vice President and Treasurer

ALLSTATE INDEMNITY COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE INTERNATIONAL INC.

By:

James P. Zils
Executive Vice President and Treasurer

ALLSTATE INTERNATIONAL INSURANCE HOLDINGS, INC.

By:

James P. Zils
Executive Vice President and Treasurer

ALLSTATE LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

ALLSTATE MOTOR CLUB, INC.

By: -----
James P. Zils
Vice President and Treasurer

ALLSTATE NEW JERSEY HOLDINGS, LLC

By: -----
James P. Zils
Executive Vice President and Treasurer

ALLSTATE NEW JERSEY INSURANCE COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ALLSTATE NON-INSURANCE HOLDINGS, INC.

By: -----
James P. Zils
Treasurer

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ALLSTATE NORTH AMERICAN INSURANCE COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ALLSTATE PROPERTY AND CASUALTY INSURANCE
COMPANY

By: -----
James P. Zils
Vice President and Treasurer

AMERICAN HERITAGE LIFE INSURANCE COMPANY

By: -----
John K. Anderson, Jr.
Executive Vice President, Treasurer, Chief
Financial Officer and Corporate Secretary

AMERICAN HERITAGE LIFE INVESTMENT CORPORATION

By: -----
James P. Zils
Treasurer

ALLSTATE TEXAS LLOYD'S. INC.

By: -----
James P. Zils
Vice President and Treasurer

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CHARTER NATIONAL LIFE INSURANCE COMPANY

By: -----

James P. Zils
Treasurer

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

By: -----

James P. Zils
Treasurer

CONCORD HERITAGE LIFE INSURANCE COMPANY INC.

By: -----

James P. Zils
Treasurer

DEERBROOK INSURANCE COMPANY

By: -----

James P. Zils
Vice President and Treasurer

DIRECT MARKETING CENTER INC.

By: -----

James P. Zils
Vice President and Treasurer

ENCOMPASS HOLDINGS, LLC

By: -----

James P. Zils
Vice President and Treasurer

ENCOMPASS INDEMNITY COMPANY

By: -----

James P. Zils
Vice President and Treasurer

ENTERPRISES SERVICES CORPORATION

By: -----

James P. Zils
Vice President and Treasurer

FIRST COLONIAL INSURANCE COMPANY

By: -----

John K. Anderson, Jr.
Senior Vice President and Secretary

GLENBROOK LIFE AND ANNUITY COMPANY

By: -----

James P. Zils
Treasurer

IVANTAGE GROUP, LLC

By: -----

James P. Zils
Vice President and Treasurer

IVANTAGE SELECT AGENCY, INC.

By: -----

James P. Zils
Treasurer

IVORY HOLDINGS, LLC

By: -----

John K. Anderson, Jr.
Secretary

KEYSTONE STATE LIFE INSURANCE COMPANY

By: -----

James P. Zils
Treasurer

LINCOLN BENEFIT LIFE COMPANY

By: -----

James P. Zils
Treasurer

NORTHBROOK INDEMNITY COMPANY

By: -----

James P. Zils
Vice President and Treasurer

NORTHBROOK LIFE INSURANCE COMPANY

By: -----

James P. Zils
Treasurer

NORTHBROOK SERVICES, INC.

By: -----

James P. Zils
Treasurer

PEMBRIDGE AMERICA INC.

By: -----

James P. Zils
Vice President and Treasurer

RESCUE EXPRESS, INC.

By: -----

James P. Zils
Vice President and Treasurer

ROADWAY PROTECTION AUTO CLUB, INC.

By: -----

James P. Zils
Vice President and Treasurer

STERLING COLLISION CENTERS, INC.

By: -----

James P. Zils

Treasurer

SURETY LIFE INSURANCE COMPANY

By:

James P. Zils
Treasurer

TECH-COR, INC.

By:

James P. Zils
Treasurer

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THE NORTHBROOK CORPORATION

By:

James P. Zils
Treasurer

USF&G BUSINESS INSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

WILLOW INSURANCE HOLDINGS INC.

By:

James P. Zils
Vice President and Treasurer

WILLOW LAKE HOLDINGS, LLC

By:

James P. Zils
Vice President and Treasurer

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Exhibit A

INVESTMENT SERVICES

A. APPOINTMENT. This Exhibit A details the Services to be provided by ALLSTATE INVESTMENTS pursuant to the Investment Management Agreement among ALLSTATE INVESTMENTS and certain Allstate Affiliates to which this Exhibit A is attached. For purposes of this Exhibit A, the investment portfolio of each Allstate Affiliate will be referred to as an Account

B. ALLSTATE INVESTMENTS AS AGENT. ALLSTATE INVESTMENTS shall be granted and exercise full investment discretion and authority in buying, selling or otherwise disposing of or managing the investment of the assets held in each Account and in the performance of the services rendered hereunder, and shall do so as each Allstate Affiliate's agent only, subject to ALLSTATE INVESTMENTS' adherence to the Policies and Investment Guidelines. Each Allstate Affiliate hereby authorizes ALLSTATE INVESTMENTS to exercise all such powers with respect to the assets of its respective Account as may be necessary or appropriate for the performance by ALLSTATE INVESTMENTS of its obligations under the Agreement, subject to the supervision of the Board of Directors of such Allstate affiliate (the "Board"), and any limitations contained herein.

C. INVESTMENT ADVISORY SERVICES. In furtherance of the foregoing, and in carrying out its obligations to manage the investment and reinvestment of the assets in each Account, ALLSTATE INVESTMENTS shall, as appropriate and consistent with the Investment Guidelines:

(a) perform research and obtain and evaluate such information relating to the economics, industries, businesses, markets and new investment structures,

techniques, practices, and financial data as ALLSTATE INVESTMENTS deems appropriate in the discharge of its duties under this Agreement; (b) consult with and furnish to each Board recommendations with respect to overall investment strategies for each respective Account; (c) seek out and implement specific investment opportunities, consistent with such overall investment strategies approved by each Board, including making and carrying out day-to-day decisions to acquire or dispose of permissible investments, managing the investment of the assets of each Account, and providing or obtaining such services as may be necessary in managing, acquiring or disposing of investments; (d) regularly report to the Boards with respect to the implementation of investment strategies and any other activities in connection with management of each Account's assets, including furnishing to each Board, within 45 days after the end of each quarter, a report concerning investment activity during the quarter; (e) maintain all required accounts, records, memoranda, instructions or authorizations relating to the acquisition or disposition of investments for each Account; (f) determine the securities to be purchased or sold by each Account and place orders either directly with the issuer, with any broker-dealer or underwriter that specializes in the securities for which the order is made, or with any other broker or dealer that ALLSTATE INVESTMENTS selects; and (g) perform the

services hereunder in a manner consistent with investment objectives and policies of each Allstate Affiliate as detailed in the respective Investment Guidelines, as amended from time to time, and in compliance, as appropriate, with the applicable provisions of the insurance laws and regulations of each Allstate Affiliate's domicile, as amended and any other applicable laws.

D. ALLOCATION OF BROKERAGE. ALLSTATE INVESTMENTS is authorized in its sole discretion to select the brokers or dealers that will execute the purchases and sales of securities for each Account. In making such selection, ALLSTATE INVESTMENTS shall use its best efforts to obtain for each Account the most favorable net price and execution available taking into account all appropriate factors, including price, dealer spread or commission, if any, and size and difficulty of the transaction. If, in the judgment of ALLSTATE INVESTMENTS, an Allstate Affiliate would be benefited by supplemental investment research, ALLSTATE INVESTMENTS is authorized, but not obligated, to select brokers or dealers on the basis of research information, materials, or services they could furnish to ALLSTATE INVESTMENTS for potential use in supplementing ALLSTATE INVESTMENTS' own information and in making investment decisions for each Account. The expenses of ALLSTATE INVESTMENTS and the charges to an Allstate Affiliate may not necessarily be reduced as a result of receipt of such supplemental information. Subject to the above requirements, nothing shall prohibit ALLSTATE INVESTMENTS from selecting brokers or dealers with which it or any Allstate Affiliate is affiliated.

E. SERVICE TO OTHER CLIENTS. Each Allstate Affiliate acknowledges that ALLSTATE INVESTMENTS may perform services for clients other than the Allstate Affiliates that are similar to the services to be performed pursuant to this Agreement, and that ALLSTATE INVESTMENTS is free to do so provided that its services pursuant to this Agreement are not in any way impaired. Each Allstate Affiliate agrees that ALLSTATE INVESTMENTS may provide investment advice to any of its other clients that may differ from advice given to such Allstate Affiliate, or take action with respect to assets owned by it or its other clients that may differ from the action taken with respect to any Account and/or assets held therein, so long as ALLSTATE INVESTMENTS, to the extent reasonable and practicable, allocates investment opportunities to each Account on a fair and equitable basis relative to ALLSTATE INVESTMENTS' other clients. It is understood that ALLSTATE INVESTMENTS shall have no obligation to purchase or sell, or to recommend for purchase or sale for any Account, any security that ALLSTATE INVESTMENTS, its affiliates, employees or agents may purchase or sell for its or their own accounts or for the account of any other client, if, in the opinion of ALLSTATE INVESTMENTS, such transaction or investment appears unsuitable, impractical or undesirable for such Account. It is agreed that ALLSTATE INVESTMENTS may use any supplemental investment research obtained for the benefit of an Allstate Affiliate in providing investment advice to its other clients or its own accounts. Conversely, such supplemental information obtained by the placement of business for ALLSTATE INVESTMENTS or other entities advised by ALLSTATE INVESTMENTS will be considered by and may be useful to ALLSTATE INVESTMENTS in carrying out its

obligations to each Allstate Affiliate.

F. ALLOCATION OF TRADES. It is acknowledged that securities held by an Allstate Affiliate may also be held by separate investment accounts or other funds for which ALLSTATE INVESTMENTS may act as a manager. If purchases or sales of securities for an Allstate Affiliate or other entities for which ALLSTATE

INVESTMENTS acts as investment manager arise for consideration at or about the same time, each such Allstate Affiliate agrees that ALLSTATE INVESTMENTS may make transactions in such securities, insofar as feasible, for the respective entities in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of ALLSTATE INVESTMENTS during the same period may increase the demand for securities being purchased or the supply of securities being sold, each Allstate Affiliate recognizes that there may be an adverse effect on price.

It is agreed that, on occasions when ALLSTATE INVESTMENTS deems the purchase or sale of a security to be in the best interests of an Allstate Affiliate as well as other accounts or companies, it may, to the extent permitted by applicable laws and regulations, but will not be obligated to, aggregate the securities to be so sold or purchased for such Allstate Affiliate with those to be sold or purchased for other accounts or companies in order to obtain favorable execution and lower brokerage commissions. In that event, allocation of the securities purchased or sold, as well as the expenses incurred in the transaction, will be made by ALLSTATE INVESTMENTS in the manner it considers to be most equitable and consistent with its obligations to such Allstate Affiliate and to such other accounts or companies. Each Allstate Affiliate recognizes that in some cases this procedure may adversely affect the size of the position obtainable for such Allstate Affiliate.

G. CONTRACTS; AUTHORIZED SIGNATORIES. ALLSTATE INVESTMENTS shall have the full power, right and authority, as each Allstate Affiliate's agent, in accordance with this Agreement and the Investment Guidelines, to negotiate, apply for, enter into, execute, deliver, amend, modify and/or terminate legal documents of every kind and nature relating to or required by the investment of the assets of each Account. All such documents may be entered into in an Allstate Affiliate's name or in ALLSTATE INVESTMENTS' name (as agent for such Allstate Affiliate), as ALLSTATE INVESTMENTS shall determine, and all such documents shall be legally binding on such Allstate Affiliate. Those certain employees and officers of ALLSTATE INVESTMENTS who are authorized to execute transactions and sign documentation pursuant to the Policies and Procedures adopted pursuant to authorization of the ALLSTATE INVESTMENTS' Board of Directors, as they may be amended from time to time, shall also be authorized to the same extent to execute transactions and sign documentation on behalf of any Allstate Affiliate and/or ALLSTATE INVESTMENTS in connection with transactions entered into on behalf of the assets of any Account pursuant to this Agreement.

H. COMPLIANCE WITH LEGAL REQUIREMENTS. ALLSTATE INVESTMENTS

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shall make all reasonable efforts to comply with and cause to be complied with all applicable laws, rules, and regulations of the each Allstate Affiliate's domicile, and any federal, state or municipal authority governing this Agreement, the services rendered hereunder, each Account and the assets held therein. Without limiting the foregoing, ALLSTATE INVESTMENTS shall comply with all securities laws and other laws applicable to the services provided under this Agreement.

I. TRANSACTION PROCEDURES. The assets of each Account are or will be held in custody by the bank custodian(s) appointed by each Allstate Affiliate from time to time. ALLSTATE INVESTMENTS shall not act as custodian for the assets of any Account and shall not, under any circumstances, have or be deemed to have ownership, custody or physical control of any of the assets of any Account. ALLSTATE INVESTMENTS may, however, issue instructions to, and communicate with, the bank custodian for each Account as may be necessary and appropriate in connection with provision of its services pursuant to this Agreement. At the option of ALLSTATE INVESTMENTS, instructions by ALLSTATE INVESTMENTS to the bank custodian may be made orally or by computer, electronic instruction systems or telecommunications terminals. ALLSTATE INVESTMENTS will confirm that the bank custodian has effected such instructions either by access to the bank's computerized identification system or by telephonic confirmation. The bank custodian will confirm with ALLSTATE INVESTMENTS receipt of trade instructions orally or by computer for the Account. ALLSTATE INVESTMENTS will instruct all brokers, dealers and counterparties executing orders on behalf of the assets of an Account to forward to ALLSTATE INVESTMENTS copies of all confirmations.

J. RECORDKEEPING. ALLSTATE INVESTMENTS shall keep and maintain an accurate and detailed accounting of each transaction concerning the assets of each Account and of all receipts, disbursements, and other transactions relating to the purchase and sale transactions arising hereunder. ALLSTATE INVESTMENTS agrees to preserve such records for the greater of (i) six years; (ii) the required period pursuant to the insurance laws of an Allstate Affiliate's domicile and related regulations; or (iii) such other time period that an Allstate Affiliate may from time to time request. ALLSTATE INVESTMENTS acknowledges that all such records shall be the property of each Allstate Affiliate and shall be made available, within five (5) business days of receipt

of a written request, to an Allstate Affiliate, its accountants, auditors or other representatives of the Allstate Affiliate for inspection and/or copying (at such Allstate Affiliate's expense) during regular business hours. In addition, ALLSTATE INVESTMENTS shall provide any materials, reasonably related to the investment advisory services provided hereunder, as may be reasonably requested in writing by the directors or officers of an Allstate Affiliate, or as may be required by any governmental agency with jurisdiction hereunder.

ALLSTATE INVESTMENTS further agrees to prepare and furnish to each Allstate Affiliate and to other persons designated by such Allstate Affiliate, at such regular intervals and other times as may be specified by such Allstate Affiliate from time to time (i) such balance sheets, income and expense statements and other financial

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statements and reports, and (ii) such other statements, reports and information, in each case regarding the assets of its Account as such Allstate Affiliate shall from time to time reasonably require.

In the event of termination of this Agreement for any reason, all such records or copies thereof shall be returned promptly to the respective Allstate Affiliate, free from any claim or retention of rights by ALLSTATE INVESTMENTS.

INVESTMENT ADVISORY AGREEMENT

This Investment Advisory Agreement (this "Agreement") is made as of the 1st day of July, 1999 ("Effective Date"), by and between Allstate Insurance Company, an Illinois insurance company ("Allstate") and Intramerica Life Insurance Company, a New York insurance company ("ILIC").

WHEREAS, ILIC is an indirect subsidiary of Allstate; and

WHEREAS, Allstate has extensive experience in the management of portfolios of insurance companies; and

WHEREAS, Allstate and ILIC desire to contract for the rendering of investment advisory services and advice by Allstate to ILIC with respect to the investment portfolio maintained by ILIC, subject to the terms and conditions hereinafter set forth; and

WHEREAS, Allstate and ILIC contemplate that such an arrangement will achieve certain operating economies and improve services to the benefit of Allstate, ILIC, and ILIC's insureds; and

WHEREAS, Allstate and ILIC wish to assure that all charges for services incurred hereunder are reasonable; and

WHEREAS, Allstate and ILIC wish to identify the services to be rendered to ILIC by Allstate and to provide a formula for determining the charges to be made to ILIC;

NOW, THEREFORE, in consideration of the premises and of the mutual promises set forth herein, and intending to be legally bound hereby, Allstate and ILIC agree as follows.

1. APPOINTMENT. ILIC hereby appoints Allstate as the investment advisor and manager of its investment assets (the "Account") and grants Allstate the power and authority to advise, manage, and direct the investment and reinvestment of the assets of the Account for the period and on the terms and conditions set forth in this Agreement, subject to the supervision of the Board of Directors of ILIC (the "Board"). Such activities shall be conducted subject to and in accordance with the investment objectives, restrictions, and strategies set forth in Exhibit A attached hereto, in investment objectives that are not inconsistent with Exhibit A that are adopted by the Board, and in accordance with such other limitations and guidelines that are not inconsistent with Exhibit A as may be established from time to time for the Account by the Board (such investment objectives, restrictions, strategies, limitations, and guidelines herein referred to collectively as the "Investment Guidelines"). Allstate hereby accepts such responsibility and agrees during such period to render the services and to assume the obligations herein set forth.

2. ALLSTATE AS AGENT. ILIC shall retain responsibility, authority and control with respect to the management and investment of the Account and shall supervise the activities of

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Allstate with respect to the Account. Subject to the foregoing and to the Investment Guidelines, Allstate shall, for purposes of this Agreement, be granted and exercise full investment discretion and authority in buying, selling or otherwise disposing of or managing the investment of the assets held in the Account and in the performance of the services rendered hereunder, and shall do so as ILIC's agent only. ILIC hereby authorizes Allstate to exercise all such powers with respect to the assets of the Account as may be necessary or appropriate for the performance by Allstate of its obligations under this Agreement, subject to the supervision of the Board and the limitations contained herein. All investments made by Allstate on behalf of ILIC shall be in those classes of investments prescribed by Section 1405 of the New York Insurance Law or as otherwise permitted ILIC by law; provided, however, that nothing contained herein shall authorize Allstate to purchase or dispose of on ILIC's behalf without ILIC's prior written approval any mortgages or any interest in real property.

3. INVESTMENT ADVISORY SERVICES. In furtherance of the foregoing, and in carrying out its obligations to manage the investment and reinvestment of the assets in the Account, Allstate shall, as appropriate and consistent with the Investment Guidelines:

(a) perform research and obtain and evaluate such information relating to the economics, industries,

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businesses, markets and new investment structures, techniques, practices, and financial data as Allstate deems appropriate in its discharge of its duties under this Agreement;

(b) consult with and furnish to the Board recommendations with respect to overall investment strategies for the Account;

(c) seek out and implement specific investment opportunities, consistent with such overall investment strategies approved by the Board, including making and carrying out day-to-day decisions to acquire or dispose of permissible investments, managing the investment of the assets of the Account, and providing or obtaining such services as may be necessary in managing, acquiring or disposing of investments;

(d) regularly report to the Board with respect to the implementation of investment strategies and any other activities in connection with management of the Account's assets, including furnishing to the Board, within 15 days after the end of each quarter, a summary of investment activity during the quarter, and a schedule of investments and other assets of the Account as of the end of the quarter;

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(e) maintain all required accounts, records, memoranda, instructions or authorizations relating to the acquisition or disposition of investments for the Account;

(f) determine the securities to be purchased or sold by the Account and place orders either directly with the issuer, with any broker-dealer or underwriter that specializes in the securities for which the order is made, or with any other broker or dealer that Allstate selects; and

(g) perform the services hereunder in a manner consistent with investment objectives and policies of ILIC as detailed in the Investment Guidelines, as amended from time to time, and in compliance with the provisions of the New York Insurance Law, as amended.

4. ALLOCATION OF BROKERAGE. Allstate is authorized in its sole discretion to select the brokers or dealers that will execute the purchases and sales of securities for the Account. In making such selection, Allstate shall use its best efforts to obtain for the Account the most favorable net price and execution available taking into account all appropriate factors, including price, dealer spread or commission, if any, and size and difficulty of the transaction.

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If, in the judgment of Allstate, ILIC should be benefitted by supplemental investment research, Allstate is authorized, but not obligated, to select brokers or dealers on the basis of research information, materials, or service furnished by them to Allstate to use in supplementing Allstate's own information and in making investment decisions for the Account. The expenses of Allstate and the charges to ILIC may not necessarily be reduced as a result of receipt of such supplemental information. Subject to the above requirements, nothing shall prohibit Allstate from selecting brokers or dealers with which it or ILIC are affiliated.

5. SERVICE TO OTHER CLIENTS. ILIC acknowledges that Allstate may perform services for clients other than ILIC which are similar to the services to be performed pursuant to this Agreement, and that Allstate is free to do so provided that its services pursuant to this Agreement are not in any way impaired. ILIC agrees that Allstate may provide investment advice to any of its other clients that may differ from advice given to ILIC, or take action with respect to assets owned by it or its other clients that may differ from the action taken with respect to the Account and/or assets held therein, so long as Allstate, to the extent reasonable and practicable, allocates investment opportunities to the Account on a fair and equitable basis relative to Allstate's other clients. It is understood that Allstate shall have no obligation to purchase or sell, or to recommend for purchase or sale for the Account, any security,

which Allstate, its affiliates, employees or agents may purchase or sell for its or their own accounts or for the account of any other client, if, in the opinion of Allstate, such transaction or investment appears unsuitable, impractical or undesirable for the Account. It is agreed that Allstate may use any supplemental investment research obtained for the benefit of ILIC in providing investment advice to its other clients or its own accounts. Conversely, such supplemental information obtained by the placement of business for Allstate or other entities advised by Allstate will be considered by and may be useful to Allstate in carrying out its obligations to ILIC.

6. ALLOCATION OF TRADES. It is acknowledged that securities held by ILIC may also be held by separate investment accounts or other funds for which Allstate may act as a manager or by Allstate or its other affiliates. If purchases or sales of securities for ILIC or other entities for which Allstate or its affiliates act as investment manager arise for consideration at or about the same time, ILIC agrees that Allstate may make transactions in such securities, insofar as feasible, for the respective entities in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of Allstate during the same period may increase the demand for securities being purchased or the supply of securities being sold, ILIC recognizes that there may be an adverse effect on price.

It is agreed that, on occasions when Allstate deems the purchase or sale of a security to be in the best interests of ILIC as well as other accounts or companies, it may, to the extent permitted by applicable laws and regulations, but will not be obligated to, aggregate the securities to be so sold or purchased for ILIC with those to be sold or purchased for other accounts or companies in order to obtain favorable execution and lower brokerage commissions. In that event, allocation of the securities purchased or sold, as well as the expenses incurred in the transaction, will be made by Allstate in the manner it considers to be most equitable and consistent with its obligations to ILIC and to such other accounts or companies. ILIC recognizes that in some cases this procedure may adversely affect the size of the position obtainable for ILIC.

7. CONTRACTS; AUTHORIZED SIGNATORIES. Allstate shall have the full power, right and authority, as ILIC's agent, in accordance with this Agreement and the Investment Guidelines, to negotiate, apply for, enter into, execute, deliver, amend, modify and/or terminate legal documents of every kind and nature relating to or required by the investment of the assets of the Account. All such documents may be entered into in ILIC's name or in Allstate's name (as agent for ILIC), as Allstate shall determine, and all such documents shall be legally binding on ILIC. Those certain employees and officers of Allstate who are authorized to execute transactions and sign documentation pursuant to the Policies and Procedures and Investment guidelines

adopted by the Investment Committee of Allstate, as they may be amended from time to time, shall also be authorized to the same extent to execute transactions and sign documentation on behalf of ILIC and/or Allstate in connection with transactions entered into on behalf of the assets of the Account pursuant to this Agreement.

8. COMPLIANCE WITH LEGAL REQUIREMENTS. Allstate shall make all reasonable efforts to comply with and cause to be complied with all applicable laws, rules, and regulations of the State of New York, and any federal, state or municipal authority governing this Agreement, the services rendered hereunder, the Account and the assets held therein. Without limiting the foregoing, Allstate shall comply with all securities laws and other laws applicable to the services provided under this Agreement.

9. TRANSACTION PROCEDURES. The assets of the Account are or will be held in custody in the State of New York by the bank custodian(s) appointed by ILIC from time to time. Allstate shall not act as custodian for the assets of the Account and shall not under any circumstances have or be deemed to have ownership, custody or physical control of any of the assets of the Account. Allstate may, however, issue instructions to, and communicate with, the bank custodian for the Account as may be necessary and appropriate in connection with provision of its services pursuant to this Agreement. At the option of Allstate, instructions by

Allstate to the bank custodian may be made orally or by computer, electronic instruction systems or telecommunications terminals. Allstate will confirm that the bank custodian has effected such instructions either by access to the bank's computerized identification system or by telephonic confirmation. The bank custodian will confirm with Allstate receipt of trade instructions orally or by computer for the Account. Allstate will instruct all brokers, dealers and counterparties executing orders on behalf of the assets of the Account to forward to Allstate and ILIC copies of all confirmations. In the event Allstate receives and collects monies for the account of ILIC, Allstate will not commingle such monies with its own, but will deposit such monies in an appropriate ILIC account.

10. STANDARD OF PERFORMANCE. Allstate shall discharge its duties hereunder at all times in good faith and with that degree of prudence, diligence, care and skill which a prudent person rendering services as an institutional investment manager and adviser would exercise under similar circumstances. The provisions of this Agreement shall not be interpreted to imply any obligation on the part of Allstate to observe any standard of care other than as set forth in this Section 10.

11. RECORDKEEPING. Allstate shall keep and maintain an accurate and detailed accounting of each transaction concerning the assets of the Account and of all receipts, disbursements, and other transactions relating to the purchase and sale transactions

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arising hereunder. All such records shall be kept in accordance with applicable laws and regulations, including, but not limited to, New York Insurance Department Regulation 152. Allstate acknowledges that all such records shall be the property of ILIC and shall be made available, within five (5) business days of a written request, to ILIC, its accountants, auditors or other representatives of ILIC for inspection and/or copying (at ILIC's expense) during regular business hours. In addition, Allstate will provide any materials, reasonably related to the investment advisory services provided hereunder, as may be reasonably requested in writing by the directors or officers of ILIC or as may be required by any governmental agency with jurisdiction thereunder.

Allstate further agrees to prepare and furnish to ILIC and to other persons designated by ILIC, at such regular intervals and other times as may be specified by ILIC from time to time (a) such balance sheets, income and expense statements and other financial statements and reports, and (b) such other statements, reports and information, in each case regarding the assets of the Account as ILIC shall from time to time reasonably direct.

In the event of termination for any reason, all such records shall be returned promptly to ILIC, free from any claim or retention of rights by Allstate.

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12. LIABILITY OF ALLSTATE. In the absence of Allstate's willful or negligent misconduct (or the willful or negligent misconduct of its officers, directors, agents, employees, controlling persons, shareholders, and any other person or entity affiliated with Allstate or retained by it to perform or assist in the performance of its obligations under this Agreement), neither Allstate nor any of its officers, directors, employees or agents shall be subject to liability to ILIC for any act or omission in the course of, or connected with, rendering services hereunder.

13. INDEPENDENT CONTRACTOR. Allstate shall for all purposes be deemed to be an independent contractor. Allstate shall have no power or authority to bind ILIC or to assume or create an obligation or responsibility, express or implied, on behalf of ILIC, nor shall it represent to anyone that it has such power or authority, except as expressly provided in this Agreement. Nothing in this Agreement shall be deemed to create a partnership between or among the parties, whether for purposes of taxation or otherwise.

14. CAPACITY OF PERSONNEL AND STATUS OF FACILITIES. Whenever Allstate utilizes its personnel to perform services for ILIC pursuant to this Agreement, such personnel shall at all times remain employees of Allstate subject solely to its direction and control, and Allstate shall alone retain full liability to such employees for their welfare, salaries, fringe

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benefits, legally required employer contributions, and tax obligations. No

facility of Allstate used in performing services for ILIC shall be deemed to be transferred, assigned, conveyed, or leased by performance or use pursuant to this Agreement.

15. FEES. ILIC agrees to reimburse Allstate for services provided by Allstate to ILIC pursuant to this Agreement. The charge to ILIC for such services shall be at cost. Cost shall mean Allstate's actual costs and expenses fairly attributable to this Agreement.

Subject to New York Insurance Department Regulation 33, the bases for determining such charges to ILIC shall be those used by Allstate for internal cost distribution including, where appropriate, time records prepared at least annually for this purpose.

Cost analyses will be made at least annually by Allstate to determine, as closely as possible, the actual cost of services rendered to ILIC hereunder. Allstate shall forward to ILIC the information developed by these analyses, and such information shall be used to develop bases for distribution of expenses which more currently reflect the actual incidence of costs incurred by Allstate on behalf of ILIC.

The fees provided for in this Section 15 are exclusive of any fees charged or to be charged by any custodian under a separate custody agreement. ILIC agrees that Allstate may direct custodians of the Account to make direct payment of fees due hereunder.

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16. PAYMENT. Within thirty (30) days after the end of each month, Allstate shall submit to ILIC, via an intercompany settlement process, a statement of the amount owed by ILIC for services pursuant to this Agreement in that month, and, unless such amount is disputed by ILIC, ILIC shall pay to Allstate within thirty (30) days following receipt of such statement the amount set forth in the statement.

If ILIC objects to any determination of the amount owed by ILIC, it shall so advise Allstate within thirty (30) days of receipt of notice of said determination. Unless the parties can reconcile any such objection, they shall agree to the selection of a firm of independent certified public accountants which shall determine the charges properly allocable to ILIC and shall, within a reasonable time, submit such determination together with the basis therefor, in writing to Allstate and ILIC, whereupon such determination shall be binding. The expenses of such a determination by a firm of independent certified public accountants shall be borne equally by Allstate and ILIC.

17. CONTACT PERSON(S). ILIC and Allstate each shall appoint one or more individuals who shall serve as contact person(s) for the purpose of carrying out this Agreement. Such contact person(s) shall be authorized to act on behalf of their respective parties as to the matters pertaining to this Agreement. Effective upon execution of this Agreement, the initial contact person(s) shall be those set forth in Appendix A.

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Each party shall notify the other, in writing, as to the name, address, and telephone number of any replacement for any such designated contact person.

18. TERMINATION. This Agreement shall remain in effect until terminated by either Allstate or ILIC upon giving thirty (30) days or more advance written notice. Upon termination, Allstate shall promptly deliver to ILIC all books and records that are, or are deemed by this Agreement to be, the property of ILIC.

19. SETTLEMENT ON TERMINATION. No later than thirty (30) days after the effective date of termination of this Agreement, Allstate shall deliver to ILIC a detailed written statement for all fees due and not included in any previous statement to the effective date of termination. The amount owed shall be due and payable within thirty (30) days of receipt of such statement.

20. ASSIGNMENT. This Agreement and any rights pursuant hereto shall not be assignable by either party hereto without the prior written consent of the other party, except as set forth herein or by operation of law. Except as and to the extent specifically provided in this Agreement, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto, or their respective legal successors, any rights, remedies, obligations, or liabilities, or

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to relieve any person other than the parties hereto, or their respective legal successors, from any obligations or liabilities that would otherwise be applicable. The representations, warranties, covenants, and agreements contained in this Agreement shall be binding upon, extend to and inure to the benefit of the parties hereto, their, and each of their, successors and assigns, respectively.

21. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State without regard to principles of conflict of laws.

22. CONFIDENTIALITY. ILIC agrees to give Allstate any information in its possession which ILIC deems relevant to the suitability of the investment strategy implemented by Allstate, including information on ILIC's liabilities, whether this information becomes known before or after the adoption of the strategy. Allstate shall keep any information it obtains about ILIC's business or investment objectives and results in confidence.

23. ARBITRATION. An unresolved dispute or difference between the parties arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American

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Arbitration Association and the Expedited Procedures thereof. The award rendered by the arbitrator shall be final and binding upon the parties, and judgment upon the award may be entered in any court having jurisdiction thereof. The arbitration shall take place in New York, New York.

24. NOTICE. All notices, statements, or requests provided for hereunder shall be deemed to have been duly given when delivered by hand to an officer of the other party, or when deposited with the U.S. Postal Service, as first class certified or registered mail, postage prepaid, overnight courier service, telex or telecopier, addressed

(a) If to Allstate, to:

Allstate Insurance Company
3075 Sanders Road
Northbrook, Illinois 60062-7127
Attention: Investment Law (Suite G5A)
Phone: (847) 402-6146
Facsimile: (847) 402-6649

with concurrent copy to:

Allstate Insurance Company
3075 Sanders Road
Northbrook, Illinois 60062-7127
Attention: Investment Department (Suite G3A)
Phone: (847) 402-7633
Facsimile: (847) 402-3092

(b) If to ILIC, to:

Intramerica Life Insurance Company
c/o Charter National Life Insurance Company
8301 Maryland Avenue
St. Louis, Missouri 63101
Attention: Sales Miller
Phone: (314) 451-4526
Facsimile: (847) 725-7191

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or to such other persons or places as each party may from time to time designate by written notice sent as aforesaid.

25. ENTIRE AGREEMENT. This Agreement, together with such amendments as may from time to time be executed in writing by the parties, constitutes the entire agreement and understanding between the parties in respect of the transactions contemplated hereby.

26. SECTION HEADINGS. Section headings contained herein are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

27. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in duplicate by their respective officers duly authorized to do so, as of the date and year first above written.

ALLSTATE INSURANCE COMPANY

BY /s/ Casey J. Sylla

Name: Casey J. Sylla
Title: Senior Vice President and
Chief Investment Officer

INTRAMERICA LIFE INSURANCE COMPANY

BY /s/ Kevin R. Slawin

Name: Kevin R. Slawin
Title: Vice President

EXHIBIT A

INVESTMENT OBJECTIVE, POLICIES AND RESTRICTIONS

Allstate will have full discretion to invest and reinvest the funds made available to it for that purpose by ILIC as follows:

INVESTMENT OBJECTIVES

ILIC's investment objective is to obtain as high a level of current interest income as is consistent, in the view of Allstate, with preservation of investment capital. There are market risks inherent in all investments in securities, and there can be no assurance that Allstate will achieve this objective. The primary objective of preserving capital will preclude realization of the highest available income yields.

INVESTMENT POLICIES

Allstate will seek to achieve the above-stated objective by investing in a diversified portfolio of securities. In selecting securities for this portfolio, Allstate will seek the highest available yields consistent with the rating standards and other policies stated herein. Portfolio securities will be selected pursuant to the following fundamental investment policies:

1. CASH BALANCES. Cash balances occurring pending permanent investment will be invested in high grade, corporate commercial paper. The corporate paper must have the highest rating by one or more of the nationally recognized rating

organizations. Other acceptable short-term investments include U.S. Treasury bills and notes, certificates of deposit, time deposits, bankers acceptances and money market funds.

2. CORPORATE BONDS. The purchases of corporate bonds will include bonds, notes, debentures and other evidences of indebtedness issued, assumed or guaranteed by a corporation incorporated under the laws of the United States of America, of any state, district or territorial possession thereof or of the Dominion of Canada or any province thereof; provided that the bonds are rated class 1 or 2 by the Securities Valuation Office ("SVO") of the National Association of Insurance Commissioners ("NAIC").
3. GOVERNMENT OBLIGATIONS. The purchase of government obligations will include bonds, notes, bills and other evidences of indebtedness issued, assumed or guaranteed by the U.S. Government, its agencies or instrumentalities or of any state or municipality thereof or of the Dominion of Canada or any province thereof; provided the bonds are rated class 1 or 2 by the SVO of the NAIC.
4. MORTGAGE-BACKED SECURITIES. The purchase of mortgage-backed securities will

include obligations issued by:

- A. The Government National Mortgage Association (GNMA)
- B. The Federal National Mortgage Association (FNMA)
- C. The Federal Home Loan Mortgage Corporation (FHLMC)
- D. FHA and VA insured or guaranteed loans, or any other government guaranteed loans.

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- 5. EQUITY SECURITIES. Equity securities are defined to include preferred stocks, mutual funds shares or common stocks which are traded on a national stock exchange, provided that the preferred stocks are rated class 1 or 2 by the SVO of the NAIC.

INVESTMENT RESTRICTIONS

In the course of its investment management activity for ILIC, Allstate MAY NOT engage in or execute transactions in any of the following:

- 1. Borrow money for any purpose on behalf of ILIC.
- 2. Pledge, mortgage or hypothecate the assets of ILIC.
- 3. Purchase the securities of any non-government issuer if, as a result, more than 10% of the total assets of the portfolio would be invested in the securities of the issuer.
- 4. Invest more than 25% of the portfolio, measured at the time of investment, in a single industry. For the purpose of this restriction, mortgage-backed securities do not constitute an industry.
- 5. Enter into any investment which would violate the New York Insurance Law.

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- 6. Purchase or sell investments, other than portfolio investments listed in policies 1 through 5 under Investment Policies above, without the prior written approval of ILIC.

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Appendix A

CONTACT PERSON(S) FOR ALLSTATE:

(a) If to Allstate, to:

Allstate Insurance Company
3075 Sanders Road
Northbrook, Illinois 60062-7127
Attention: Investment Law (Suite G5A)
Phone: (847) 402-6146
Facsimile: (847) 402-6649

with concurrent copy to:

Allstate Insurance Company
3075 Sanders Road
Northbrook, Illinois 60062-7127
Attention: Investment Department (Suite G3A)
Phone: (847) 402-7633
Facsimile: (847) 402-3092

CONTACT PERSON(S) FOR ILIC:

Intramerica Life Insurance Company
c/o Charter National Life Insurance Company
8301 Maryland Avenue
St. Louis, Missouri 63101
Attention: Sales Miller
Phone: (314) 451-4526
Facsimile: (847) 725-7191

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT, dated as of January 1, 2002 (this "Agreement"), is by and among, Allstate Insurance Company, an Illinois insurance company ("Allstate"), Allstate Investments, LLC, an Illinois limited liability company ("ALLSTATE INVESTMENTS"), and Intramerica Life Insurance Company, a New York insurance company ("ILIC").

WHEREAS, Allstate is a party to an Investment Advisory Agreement with ILIC, dated July 1, 1999 (the "Assigned Agreement");

WHEREAS, Allstate wishes to convey and ALLSTATE INVESTMENTS wishes to assume all of Allstate's right, title, and interest in the Assigned Agreement; and

WHEREAS, ILIC wishes ALLSTATE INVESTMENTS assume all of Allstate's right, title, and interest in the Assigned Agreement.

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Allstate does hereby assign to ALLSTATE INVESTMENTS all right, title, and interest in and to the Assigned Agreement, and ALLSTATE INVESTMENTS hereby assumes all of Allstate's right, title, interests and obligations under the Assigned Agreement. Further, ILIC hereby releases Allstate from any obligations under the Assigned Agreement. It is agreed that any demand made pursuant to the terms of the Assigned Agreement will now be made on ALLSTATE INVESTMENTS.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLSTATE INSURANCE COMPANY

By:

Name: James P. Zils
Title: Vice President and Treasurer

ALLSTATE INVESTMENTS, LLC

By:

Name: Casey J. Sylla
Title: Chairman of the Board and President

INTRAMERICA LIFE INSURANCE COMPANY

By:

Name:
Title:

INVESTMENT ADVISORY AGREEMENT
AND AMENDMENT TO SERVICE AGREEMENT

This Agreement (this "Agreement") is made as of the 1st day of January, 2002 ("Effective Date"), by and between Allstate Insurance Company, an Illinois insurance company ("Allstate"), Allstate Investments, LLC ("ALLSTATE INVESTMENTS") and Allstate Life Insurance Company of ALNY, a ALNY insurance company ("ALNY").

WHEREAS, Allstate currently provides investment management services to ALNY pursuant to a Service Agreement, dated as of July 1, 1989 (the "Service Agreement");

WHEREAS, it has been determined that such services in the future will be more appropriately provided to ALNY by a separate entity performing only investment management activities rather than by a department of Allstate, resulting in benefits to ALNY. Therefore, subject to obtaining all required regulatory approvals, effective January 1, 2002, Allstate's Investment Department will cease providing investment management services pursuant to the Service Agreement. All investment management services will instead be provided to ALNY by ALLSTATE INVESTMENTS; and

WHEREAS, to accomplish this change, ALNY desires to amend the Service Agreement to terminate the provision of investment management services by Allstate. ALNY also desires to contract with ALLSTATE INVESTMENTS for the rendering of investment management services by ALLSTATE INVESTMENTS subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual promises set forth herein, and intending to be legally bound hereby, Allstate, ALLSTATE INVESTMENTS and ALNY agree as follows.

ARTICLE 1

AMENDMENT OF EXISTING SERVICE AGREEMENT

1.1 AMENDMENT. Allstate and ALNY hereby agree to amend the Service Agreement by deleting Section 4(g) and all references thereto such that Allstate no longer provides investment management services to ALNY.

ARTICLE 2

INVESTMENT ADVISORY SERVICES

2.1 APPOINTMENT. ALNY hereby appoints ALLSTATE INVESTMENTS as the investment advisor and manager of its investment assets (the "Account") and grants ALLSTATE INVESTMENTS the power and authority to advise, manage, and direct the investment and reinvestment of the assets of the Account for the period and on the terms and conditions set forth

in this Agreement, subject to the supervision of the Board of Directors of ALNY (the "Board"). Such activities shall be conducted subject to and in accordance with the investment objectives, restrictions, and strategies set forth in Exhibit A attached hereto, in investment objectives that are not inconsistent with Exhibit A that are adopted by the Board, and in accordance with such other limitations and guidelines that are not inconsistent with Exhibit A as may be established from time to time for the Account by the Board (such investment objectives, restrictions, strategies, limitations, and guidelines herein referred to collectively as the "Investment Guidelines"). ALLSTATE INVESTMENTS hereby accepts such responsibility and agrees during such period to render the services and to assume the obligations herein set forth.

2.2 ALLSTATE INVESTMENTS AS AGENT. ALNY shall retain responsibility, authority and control with respect to the management and investment of the Account and shall supervise the activities of ALLSTATE INVESTMENTS with respect to the Account. Subject to the foregoing and to the Investment Guidelines, ALLSTATE INVESTMENTS shall, for purposes of this Agreement, be granted and exercise full investment discretion and authority in buying, selling or otherwise disposing of or managing the investment of the assets held in the Account and in the performance of the services rendered hereunder, and shall do so as ALNY's agent only. ALNY hereby authorizes ALLSTATE INVESTMENTS to exercise all such powers with respect to the assets of the Account as may be necessary or appropriate for the performance by ALLSTATE INVESTMENTS of its obligations under this Agreement, subject to the supervision of the Board and the limitations contained herein. All investments made by ALLSTATE INVESTMENTS on behalf of ALNY shall be in those classes of investments prescribed by Section 1405 of the ALNY Insurance Law or as otherwise permitted ALNY by law; provided, however, that

nothing contained herein shall authorize ALLSTATE INVESTMENTS to purchase or dispose of on ALNY's behalf without ALNY's prior written approval any mortgages or any interest in real property.

2.3 INVESTMENT ADVISORY SERVICES. In furtherance of the foregoing, and in carrying out its obligations to manage the investment and reinvestment of the assets in the Account, ALLSTATE INVESTMENTS shall, as appropriate and consistent with the Investment Guidelines:

- (a) perform research and obtain and evaluate such information relating to the economics, industries, businesses, markets and new investment structures, techniques, practices, and financial data as ALLSTATE INVESTMENTS deems appropriate in its discharge of its duties under this Agreement;
- (b) consult with and furnish to the Board recommendations with respect to overall investment strategies for the Account;
- (c) seek out and implement specific investment opportunities, consistent with such overall investment strategies approved by the Board, including making and carrying out day-to-day decisions to acquire or dispose of permissible investments, managing the investment of the assets of the Account, and providing or obtaining such services as may be necessary in managing, acquiring or disposing of investments;
- (d) regularly report to the Board with respect to the implementation of investment strategies and any other activities in connection with management of the Account's assets, including furnishing to the Board, within 15 days after the end of each quarter, a summary of investment activity during the quarter, and a schedule of investments and other assets of the Account as of the end of the quarter;
- (e) maintain all required accounts, records, memoranda, instructions or authorizations relating to the acquisition or disposition of investments for the Account;
- (f) determine the securities to be purchased or sold by the Account and place orders either directly with the issuer, with any broker-dealer or underwriter that specializes in the securities for which the order is made, or with any other broker or dealer that ALLSTATE INVESTMENTS selects; and
- (g) perform the services hereunder in a manner consistent with investment objectives and policies of ALNY as detailed in the Investment Guidelines, as amended from time to time, and in compliance with the provisions of the ALNY Insurance Law, as amended.

2.4 ALLOCATION OF BROKERAGE. ALLSTATE INVESTMENTS is authorized in its sole discretion to select the brokers or dealers that will execute the purchases and sales of securities for the Account. In making such selection, ALLSTATE INVESTMENTS shall use its best efforts to obtain for the Account the most favorable net price and execution available taking into account all appropriate factors, including price, dealer spread or commission, if any, and size and difficulty of the transaction.

If, in the judgment of ALLSTATE INVESTMENTS, ALNY should be benefited by supplemental investment research, ALLSTATE INVESTMENTS is authorized, but not obligated, to select brokers or dealers on the basis of research information, materials, or service furnished by them to ALLSTATE INVESTMENTS to use in supplementing ALLSTATE INVESTMENTS' own information and in making investment decisions for the Account. The expenses of ALLSTATE INVESTMENTS and the charges to ALNY may not necessarily be reduced as a result of receipt of such supplemental information. Subject to the above requirements, nothing shall prohibit ALLSTATE INVESTMENTS from selecting brokers or dealers with which it or ALNY are affiliated.

2.5 SERVICE TO OTHER CLIENTS. ALNY acknowledges that ALLSTATE INVESTMENTS may perform services for clients other than ALNY which are similar to the services to be performed pursuant to this Agreement, and that ALLSTATE INVESTMENTS is free to do so provided that its services pursuant to this Agreement are not in any way impaired. ALNY agrees that ALLSTATE INVESTMENTS may provide investment advice to any of its other clients that may differ from advice given to ALNY, or take action with respect to assets owned by it or its other clients that may differ from the action taken with respect to the Account and/or assets held therein, so long as ALLSTATE INVESTMENTS, to the extent reasonable and practicable, allocates investment opportunities to the Account on a fair and equitable basis

relative to ALLSTATE INVESTMENTS' other clients. It is understood that ALLSTATE INVESTMENTS shall have no obligation to purchase or sell, or to recommend for purchase or sale for the Account, any security, which ALLSTATE INVESTMENTS, its affiliates, employees or agents may purchase or sell for its or their own accounts or for the account of any other client, if, in the opinion of ALLSTATE INVESTMENTS, such transaction or investment appears unsuitable, impractical or undesirable for the Account. It is agreed that ALLSTATE INVESTMENTS may use any supplemental investment research obtained for the benefit of ALNY in providing investment advice to its other clients or its own accounts. Conversely, such supplemental information obtained by the placement of business for ALLSTATE INVESTMENTS or other entities advised by ALLSTATE INVESTMENTS will be considered by and may be useful to ALLSTATE INVESTMENTS in carrying out its obligations to ALNY.

2.6 ALLOCATION OF TRADES. It is acknowledged that securities held by ALNY may also be held by separate investment accounts or other funds for which ALLSTATE INVESTMENTS may act as a manager or by ALLSTATE INVESTMENTS or its other affiliates. If purchases or sales of securities for ALNY or other entities for which ALLSTATE INVESTMENTS or its affiliates act as investment manager arise for consideration at or about the same time, ALNY agrees that ALLSTATE INVESTMENTS may make transactions in such securities, insofar as feasible, for the respective entities in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of ALLSTATE INVESTMENTS during the same period may increase the demand for securities being purchased or the supply of securities being sold, ALNY recognizes that there may be an adverse effect on price.

It is agreed that, on occasions when ALLSTATE INVESTMENTS deems the purchase or sale of a security to be in the best interests of ALNY as well as other accounts or companies, it may, to the extent permitted by applicable laws and regulations, but will not be obligated to, aggregate the securities to be sold or purchased for ALNY with those to be sold or purchased for other accounts or companies in order to obtain favorable execution and lower brokerage commissions. In that event, allocation of the securities purchased or sold, as well as the expenses incurred in the transaction, will be made by ALLSTATE INVESTMENTS in the manner it considers to be most equitable and consistent with its obligations to ALNY and to such other accounts or companies. ALNY recognizes that in some cases this procedure may adversely affect the size of the position obtainable for ALNY.

2.7 CONTRACTS; AUTHORIZED SIGNATORIES. ALLSTATE INVESTMENTS shall have the full power, right and authority, as ALNY's agent, in accordance with this Agreement and the Investment Guidelines, to negotiate, apply for, enter into, execute, deliver, amend, modify and/or terminate legal documents of every kind and nature relating to or required by the investment of the assets of the Account. All such documents may be entered into in ALNY's name or in ALLSTATE INVESTMENTS' name (as agent for ALNY), as ALLSTATE INVESTMENTS shall determine, and all such documents shall be legally binding on ALNY. Those certain employees and officers of ALLSTATE INVESTMENTS who are authorized to execute transactions and sign documentation pursuant to the Policies and Procedures and Investment guidelines adopted by the Investment Committee of ALLSTATE INVESTMENTS, as they may be amended from time to time, shall also be authorized to the same extent to execute transactions and sign documentation on behalf of ALNY and/or ALLSTATE INVESTMENTS

in connection with transactions entered into on behalf of the assets of the Account pursuant to this Agreement.

2.8 COMPLIANCE WITH LEGAL REQUIREMENTS. ALLSTATE INVESTMENTS shall make all reasonable efforts to comply with and cause to be complied with all applicable laws, rules, and regulations of the State of ALNY, and any federal, state or municipal authority governing this Agreement, the services rendered hereunder, the Account and the assets held therein. Without limiting the foregoing, ALLSTATE INVESTMENTS shall comply with all securities laws and other laws applicable to the services provided under this Agreement.

2.9 TRANSACTION PROCEDURES. The assets of the Account are or will be held in custody in the State of ALNY by the bank custodian(s) appointed by ALNY from time to time. ALLSTATE INVESTMENTS shall not act as custodian for the assets of the Account and shall not under any circumstances have or be deemed to have ownership, custody or physical control of any of the assets of the Account. ALLSTATE INVESTMENTS may, however, issue instructions to, and communicate with, the bank custodian for the Account as may be necessary and appropriate in connection with provision of its services pursuant to this Agreement. At the option of ALLSTATE INVESTMENTS, instructions by ALLSTATE INVESTMENTS to the bank custodian may be made orally or by computer, electronic instruction systems or telecommunications terminals. ALLSTATE INVESTMENTS will confirm that the bank

custodian has effected such instructions either by access to the bank's computerized identification system or by telephonic confirmation. The bank custodian will confirm with ALLSTATE INVESTMENTS receipt of trade instructions orally or by computer for the Account. ALLSTATE INVESTMENTS will instruct all brokers, dealers and counterparties executing orders on behalf of the assets of the Account to forward to ALLSTATE INVESTMENTS and ALNY copies of all confirmations. In the event ALLSTATE INVESTMENTS receives and collects monies for the account of ALNY, ALLSTATE INVESTMENTS will not commingle such monies with its own, but will deposit such monies in an appropriate ALNY account.

2.10 STANDARD OF PERFORMANCE. ALLSTATE INVESTMENTS shall discharge its duties hereunder at all times in good faith and with that degree of prudence, diligence, care and skill which a prudent person rendering services as an institutional investment manager and adviser would exercise under similar circumstances. The provisions of this Agreement shall not be interpreted to imply any obligation on the part of ALLSTATE INVESTMENTS to observe any standard of care other than as set forth in this Section 2.10.

2.11 RECORDKEEPING. ALLSTATE INVESTMENTS shall keep and maintain an accurate and detailed accounting of each transaction concerning the assets of the Account and of all receipts, disbursements, and other transactions relating to the purchase and sale transactions arising hereunder. All such records shall be kept in accordance with applicable laws and regulations, including, but not limited to, ALNY Insurance Department Regulation 152. ALLSTATE INVESTMENTS acknowledges that all such records shall be the property of ALNY and shall be made available, within five (5) business days of a written request, to ALNY, its accountants, auditors or other representatives of ALNY for inspection and/or copying (at ALNY's expense) during regular business hours. In addition, ALLSTATE INVESTMENTS

will provide any materials, reasonably related to the investment advisory services provided hereunder, as may be reasonably requested in writing by the directors or officers of ALNY or as may be required by any governmental agency with jurisdiction thereunder.

ALLSTATE INVESTMENTS further agrees to prepare and furnish to ALNY and to other persons designated by ALNY, at such regular intervals and other times as may be specified by ALNY from time to time (a) such balance sheets, income and expense statements and other financial statements and reports, and (b) such other statements, reports and information, in each case regarding the assets of the Account as ALNY shall from time to time reasonably direct.

In the event of termination for any reason, all such records shall be returned promptly to ALNY, free from any claim or retention of rights by ALLSTATE INVESTMENTS.

2.12 LIABILITY OF ALLSTATE INVESTMENTS. In the absence of ALLSTATE INVESTMENTS' willful or negligent misconduct (or the willful or negligent misconduct of its officers, directors, agents, employees, controlling persons, shareholders, and any other person or entity affiliated with ALLSTATE INVESTMENTS or retained by it to perform or assist in the performance of its obligations under this Agreement), neither ALLSTATE INVESTMENTS nor any of its officers, directors, employees or agents shall be subject to liability to ALNY for any act or omission in the course of, or connected with, rendering services hereunder.

2.13 INDEPENDENT CONTRACTOR. ALLSTATE INVESTMENTS shall for all purposes be deemed to be an independent contractor. ALLSTATE INVESTMENTS shall have no power or authority to bind ALNY or to assume or create an obligation or responsibility, express or implied, on behalf of ALNY, nor shall it represent to anyone that it has such power or authority, except as expressly provided in this Agreement. Nothing in this Agreement shall be deemed to create a partnership between or among the parties, whether for purposes of taxation or otherwise.

2.14 STATUS OF FACILITIES. No facility of ALLSTATE INVESTMENTS used in performing services for ALNY shall be deemed to be transferred, assigned, conveyed, or leased by performance or use pursuant to this Agreement.

2.15 FEES. ALNY agrees to reimburse ALLSTATE INVESTMENTS for services provided by ALLSTATE INVESTMENTS to ALNY pursuant to this Agreement. The charge to ALNY for such services shall be at cost. Cost shall mean ALLSTATE INVESTMENTS' actual costs and expenses fairly attributable to this Agreement.

Subject to New York Insurance Department Regulation 33, the bases for determining such charges to ALNY shall be those used by ALLSTATE INVESTMENTS for internal cost distribution including, where appropriate, time records prepared at least annually for this purpose.

Cost analyses will be made at least annually by ALLSTATE INVESTMENTS to determine, as closely as possible, the actual cost of services rendered to ALNY

hereunder. ALLSTATE INVESTMENTS shall forward to ALNY the information developed by these analyses, and such information shall be used to develop bases for distribution of expenses, which more currently reflect the actual incidence of costs incurred by ALLSTATE INVESTMENTS on behalf of ALNY.

The fees provided for in this Section 2.15 are exclusive of any fees charged or to be charged by any custodian under a separate custody agreement. ALNY agrees that ALLSTATE INVESTMENTS may direct custodians of the Account to make direct payment of fees due hereunder.

2.16 PAYMENT. Within thirty (30) days after the end of each month, ALLSTATE INVESTMENTS shall submit to ALNY, via an intercompany settlement process, a statement of the amount owed by ALNY for services pursuant to this Agreement in that month, and, unless such amount is disputed by ALNY, ALNY shall pay to ALLSTATE INVESTMENTS within thirty (30) days following receipt of such statement the amount set forth in the statement.

If ALNY objects to any determination of the amount owed by ALNY, it shall so advise ALLSTATE INVESTMENTS within thirty (30) days of receipt of notice of said determination. Unless the parties can reconcile any such objection, they shall agree to the selection of a firm of independent certified public accountants, which shall determine the charges properly allocable to ALNY and shall, within a reasonable time, submit such determination together with the basis therefor, in writing to ALLSTATE INVESTMENTS and ALNY, whereupon such determination shall be binding. The expenses of such a determination by a firm of independent certified public accountants shall be borne equally by ALLSTATE INVESTMENTS and ALNY.

2.17 CONTACT PERSON(S). ALNY and ALLSTATE INVESTMENTS each shall appoint one or more individuals who shall serve as contact person(s) for the purpose of carrying out this Agreement. Such contact person(s) shall be authorized to act on behalf of their respective parties as to the matters pertaining to this Agreement. Effective upon execution of this Agreement, the initial contact person(s) shall be those set forth in Appendix A. Each party shall notify the other, in writing, as to the name, address, and telephone number of any replacement for any such designated contact person.

2.18 TERMINATION. This Agreement shall remain in effect until terminated by either ALLSTATE INVESTMENTS or ALNY upon giving thirty (30) days or more advance written notice. Upon termination, ALLSTATE INVESTMENTS shall promptly deliver to ALNY all books and records that are, or are deemed by this Agreement to be, the property of ALNY.

2.19. SETTLEMENT ON TERMINATION. No later than thirty (30) days after the effective date of termination of this Agreement, ALLSTATE INVESTMENTS shall deliver to ALNY a detailed written statement for all fees due and not included in any previous statement to the effective date of termination. The amount owed shall be due and payable within thirty (30) days of receipt of such statement.

2.20 CONFIDENTIALITY. ALNY agrees to give ALLSTATE INVESTMENTS any information in its possession, which ALNY deems relevant to the suitability of the investment strategy implemented by ALLSTATE INVESTMENTS, including information on ALNY's liabilities, whether this information becomes known before or after the adoption of the strategy. ALLSTATE INVESTMENTS shall keep any information it obtains about ALNY's business or investment objectives and results in confidence

ARTICLE 3

MISCELLANEOUS

3.1 ASSIGNMENT. This Agreement and any rights pursuant hereto shall not be assignable by either party hereto without the prior written consent of the other party, except as set forth herein or by operation of law. Except as and to the extent specifically provided in this Agreement, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto, or their respective legal successors, any rights, remedies, obligations, or liabilities, or to relieve any person other than the parties hereto, or their respective legal successors, from any obligations or liabilities that would otherwise be applicable. The representations, warranties, covenants, and agreements contained in this Agreement shall be binding upon, extend to and inure to the benefit of the parties hereto, their, and each of their, successors and assigns, respectively.

3.2 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State without regard to principles of conflict of laws.

3.3 ARBITRATION. An unresolved dispute or difference between the parties arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and the Expedited Procedures thereof. The award rendered by the arbitrator shall be final and binding upon the parties, and judgment upon the award may be entered in any court having jurisdiction thereof. The arbitration shall take place in New York, New York.

3.4 NOTICE. All notices, statements, or requests provided for hereunder shall be deemed to have been duly given when delivered by hand to an officer of the other party, or when deposited with the U.S. Postal Service, as first class certified or registered mail, postage prepaid, overnight courier service, telex or telecopier, addressed

(a) If to ALLSTATE INVESTMENTS, to:

Allstate Investments, LLC
3075 Sanders Road
Northbrook, IL 60062-7127
Attention: Investment Law (suite G5A)
Phone: (847) 402-6146
Facsimile: (847) 402-6649

with concurrent copy to:

Allstate Investments, LLC
3075 Sanders Road
Northbrook, IL 60062-7127
Attention: Investment Department (Suite G3A)
Phone: (847) 402-7633
Facsimile: (847) 402-3902

(b) If to ALNY, to:

Allstate Life Insurance Company of New York
One Allstate Drive
Farmingville, NY 11738
Attention: James Brazda
Phone: (847) 402-5686
Facsimile: (847) 326-5070

or to such other persons or places as each party may from time to time designate by written notice sent as aforesaid.

3.5 ENTIRE AGREEMENT. This Agreement, together with the Service Agreement, as amended herein, and together with such amendments to this Agreement as may from time to time be executed in writing by the parties, constitutes the entire agreement and understanding between the parties in respect of the transactions contemplated hereby.

3.6 SECTION HEADINGS. Section headings contained herein are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

3.7 COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in duplicate by their respective officers duly authorized to do so, as of the date and year first above written.

ALLSTATE INSURANCE COMPANY

By: _____
Name:
Title:

ALLSTATE INVESTMENTS, LLC

By: _____
Name:
Title:

By: _____

Name:

Title:

EXHIBIT A

INVESTMENT OBJECTIVE, POLICIES AND RESTRICTIONS

ALLSTATE INVESTMENTS will have full discretion to invest and reinvest the funds made available to it for that purpose by ALNY as follows:

INVESTMENT OBJECTIVES

ALNY's investment objective is to obtain as high a level of current interest income as is consistent, in the view of ALLSTATE INVESTMENTS, with preservation of investment capital. There are market risks inherent in all investments in securities, and there can be no assurance that ALLSTATE INVESTMENTS will achieve this objective. The primary objective of preserving capital will preclude realization of the highest available income yields.

INVESTMENT POLICIES

ALLSTATE INVESTMENTS will seek to achieve the above-stated objective by investing in a diversified portfolio of securities. In selecting securities for this portfolio, ALLSTATE INVESTMENTS will seek the highest available yields consistent with the rating standards and other policies stated herein. Portfolio securities will be selected pursuant to the following fundamental investment policies:

1. CASH BALANCES. Cash balances occurring pending permanent investment will be invested in high grade, corporate commercial paper. The corporate paper must have the highest rating by one or more of the nationally recognized rating organizations. Other acceptable short-term investments include U.S. Treasury bills and notes, certificates of deposit, time deposits, bankers acceptances and money market funds.
2. CORPORATE BONDS. The purchases of corporate bonds will include bonds, notes, debentures and other evidences of indebtedness issued, assumed or guaranteed by a corporation incorporated under the laws of the United States of America, of any state, district or territorial possession thereof or of the Dominion of Canada or any province thereof; provided that the bonds are rated class 1 or 2 by the Securities Valuation Office ("SVO") of the National Association of Insurance Commissioners ("NAIC").
3. GOVERNMENT OBLIGATIONS. The purchase of government obligations will include bonds, notes, bills and other evidences of indebtedness issued, assumed or guaranteed by the U.S. Government, its agencies or instrumentalities or of any state or municipality thereof or of the Dominion of Canada or any province thereof; provided the bonds are rated class 1 or 2 by the SVO of the NAIC.
4. MORTGAGE-BACKED SECURITIES. The purchase of mortgage-backed securities will include obligations issued by:
 - A. The Government National Mortgage Association (GNMA)
 - B. The Federal National Mortgage Association (FNMA)
 - C. The Federal Home Loan Mortgage Corporation (FHLMC)

 - D. FHA and VA insured or guaranteed loans, or any other government guaranteed loans.
5. EQUITY SECURITIES. Equity securities are defined to include preferred stocks, mutual funds shares or common stocks which are traded on a national stock exchange, provided that the preferred stocks are rated class 1 or 2 by the SVO of the NAIC.

INVESTMENT RESTRICTIONS

In the course of its investment management activity for ALNY, ALLSTATE INVESTMENTS MAY NOT engage in or execute transactions in any of the following:

1. Borrow money for any purpose on behalf of ALNY.
2. Pledge, mortgage or hypothecate the assets of ALNY.
3. Purchase the securities of any non-government issuer if, as a result, more than 10% of the total assets of the portfolio would be invested in the securities of the issuer.
4. Invest more than 25% of the portfolio, measured at the time of investment, in a single industry. For the purpose of this restriction, mortgage-backed securities do not constitute an industry.

5. Enter into any investment which would violate the ALNY Insurance Law.
6. Purchase or sell investments, other than portfolio investments listed in policies 1 through 5 under Investment Policies above, without the prior written approval of ALNY.

APPENDIX A

CONTACT PERSON(S) FOR ALLSTATE INVESTMENTS:

Allstate Investments, LLC
3075 Sanders Road
Northbrook, IL 60062-7127
Attention: Investment Law (suite G5A)
Phone: (847) 402-6146
Facsimile: (847) 402-6649

with concurrent copy to:

Allstate Investments, LLC
3075 Sanders Road
Northbrook, IL 60062-7127
Attention: Investment Department (Suite G3A)
Phone: (847) 402-7633
Facsimile: (847) 402-3902

CONTACT PERSON(S) FOR ALNY:

Allstate Life Insurance Company of New York
One Allstate Drive
Farmingville, NY 11738
Attention: James Brazda
Phone: (847) 402-5686
Facsimile: (847) 326-5070

ALLSTATE FEDERAL SAVINGS BANK
CASH MANAGEMENT SERVICES MASTER AGREEMENT

This AGREEMENT is made as of March 16, 1999 between ALLSTATE INSURANCE COMPANY ("Customer"), operating under tax identification number 36-0719665 and having its principal place of business at 2775 Sanders Road, Northbrook, IL 60062, and ALLSTATE FEDERAL SAVINGS BANK, a Federal savings association ("AFSB"), having its principal place of business at 2775 Sanders Road, Northbrook, IL 60062.

SECTION 1. DESCRIPTION OF CASH MANAGEMENT SERVICES. Subject to the provisions of this Agreement, AFSB agrees to provide the products and services (the "Services") described in Service Supplements (the "Supplements") which are entered into by Customer and AFSB. All references to the term "Agreement" will include all supplements unless otherwise stated. Each Service is subject to the provisions of this Agreement and the Supplement applicable to such Service. When provisions of a Supplement are inconsistent with the provisions of this Agreement, the provisions of the Supplement will apply to the Service covered by that Supplement.

SECTION 2. FEES. The Customer agrees to pay AFSB fees for each Service which will be calculated according to AFSB current fee schedule attached hereto as then in effect. The Customer's payment of fees will be in accordance with the terms of this Agreement. AFSB may amend all fees for Services from time to time upon thirty (30) days' written notice to the Customer.

SECTION 3. FUNDS TRANSFERS.

a) All credits to the Customer's accounts for funds transfers which AFSB receives are provisional until AFSB receives final settlement for the funds according to the rules of the funds transfer system by which such funds have been transmitted. The Customer acknowledges and agrees that AFSB is entitled to a refund of the amount credited to the Customer's account for a transfer if AFSB does not receive final settlement, or if such transfer has been credited in error to the Customer's account.

(b) The periodic statements provided to the Customer by AFSB will notify the Customer of funds transfer payments received by AFSB for credit to the Customer's accounts at AFSB, including wire transfers, ACH credit entries and internal AFSB transfers. The Customer is hereby notified and agrees that AFSB shall not be required to provide any other notice to the Customer of such receipt of payments.

(c) AFSB is not responsible for detecting errors in any payment order issued by the Customer or any other person. The Customer is responsible for the contents of each funds transfer payment order which the Customer sends to AFSB. AFSB may rely on the information contained in any payment order, including the identifying number of any intermediary bank or beneficiary's bank, even if such number does not correspond to the bank identified by name. The beneficiary's bank and any intermediary bank may rely on the beneficiary's account number specified in any payment order originated by the Customer, even if such number does not correspond to the person or account identified by name.

SECTION 4. ELECTRONIC COMMUNICATION AND RELATED SOFTWARE. Some Services allow the Customer to electronically (a) receive information about the balance of, or transactional activity in, the Customer's accounts at AFSB or its affiliates, (b) issue payment orders or other instructions regarding Services or its accounts at AFSB or its affiliates, and (c) initiate certain electronic transactions. Account balances change on a frequent basis, and account information provided electronically to the Customer is subject to updating, verification, and correction. Accordingly, AFSB assumes no responsibility for the

reliance by the Customer on such electronically communicated information which is subsequently updated or corrected. If AFSB furnishes computer software to the Customer in connection with any Services, AFSB warrants to the Customer that on the day such software is delivered or installed by AFSB, it performs substantially according to the detailed specifications that accompany such software. If the Customer discovers that such software does not perform properly, the Customer shall report it promptly and AFSB will repair or replace the software as promptly as practicable. This is the customer's exclusive remedy if such software fails to perform according to this limited warranty. AFSB may recommend certain hardware for use by the Customer in connection with the Services, but AFSB makes no representations or warranties with respect to that

hardware.

SECTION 5. VENDORS. Any third party servicer or vendor hired by the Customer in connection with any Service ("Vendor") shall be the Customer's agent and the Customer will be liable for (a) any Vendor's failure to comply with any security procedures or operating requirements relating to the applicable Service, (b) all fees, costs and expenses owed to each Vendor for its services on behalf of the Customer, and (c) any claims, damages, costs and expenses incurred as a result of any Vendor's failure to perform, or delay or error in performing its services on behalf of the Customer.

SECTION 6. LIMITS AN LIABILITY AND FORCE MAJEURE. AFSB's liability to the Customer for any loss or damage arising from or relating to this Agreement or any of the Services, regardless of the form of action, shall be limited to direct losses attributable to AFSB's gross negligence or willful misconduct, and in no event shall AFSB be liable far any indirect consequential or special damages. Neither the Customer nor AFSB shall incur any liability for any failure or delay in carrying out any of its obligations under this Agreement if failure or delay results from such party's acting in accordance with applicable laws, regulations or rules or from acts of God, strike or stoppage of labor, power failure, equipment failure, adverse weather conditions or any other cause beyond such party's control. AFSB shall have no responsibility and shall incur no liability for any act or failure to act by any other financial institution or any other third party.

SECTION 7. INDEMNITIES. The Customer agrees to indemnify and hold AFSB and AFSB's agents harmless from and against any and all actions, claims, demands, loss, liability or expenses whatsoever, including attorneys' fees and court costs, resulting directly or indirectly from (i) the Customer's breach of any of its representations, warranties or covenants under this Agreement, (ii) AFSB's actions or omissions in connection with Services under this Agreement unless such actions or omissions are determined to result from AFSB's gross negligence or willful misconduct, and (iii) the failure, error, or delay by any Vendor (as defined in Section 5) in performing its services for the Customer. The fees payable by the Customer to AFSB for the Services are net of any sales, use, value added excise or similar taxes, and the Customer shall be responsible for the payment of any such taxes. This Section shall survive the termination of this Agreement.

SECTION 8. REPRESENTATIONS AND WARRANTIES.

(a) In addition to any representations and warranties in the Supplements, the Customer represents and warrants that (i) this Agreement and each Supplement have been authorized by all necessary corporate and governmental action and do not violate any provision of law or of the Customer's charter or by-laws or any other agreement binding upon the Customer, and (ii) the persons signing this Agreement and the Supplements on behalf of the Customer are authorized to do so.

(b) AFSB represents and warrants that (i) this Agreement and each Supplement have been authorized by all necessary corporate and governmental action and do not violate any provision of law or of AFSB's charter or by-laws or any other agreement binding upon AFSB, and (ii) the persons signing this Agreement and the Supplements on behalf of AFSB are authorized to do so. AFSB MAKES NO OTHER REPRESENTATIONS OR WARRANTIES, EITHER EXPRESS OR IMPLIED, OF ANY KIND WITH RESPECT TO ANY SERVICE OR AFSB'S PERFORMANCE OF SERVICES UNDER THIS AGREEMENT, INCLUDING, WITHOUT

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LIMITATION, THOSE OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, EXCEPT AS EXPRESSLY PROVIDED FOR IN A SUPPLEMENT. NO DESCRIPTIONS OR SPECIFICATIONS, WHETHER OR NOT INCORPORATED INTO ANY SUPPLEMENT, SHALL CONSTITUTE REPRESENTATIONS OR WARRANTIES OF ANY KIND.

SECTION 9. CONFIDENTIALITY. The Customer agrees to safeguard all information relating to the security procedures for the Services, including, without limitation, personal identification numbers, codes and passwords used in connection with the security procedures. The Customer agrees that such information will not be disclosed to anyone other than the Customer's employees who the Customer reasonably believes need to have such information, and the Customer agrees to establish appropriate internal policies to ensure such information will be treated as confidential among the Customer's employees and between the Customer and third parties. This Section will survive termination of this Agreement.

SECTION 10. TERMINATION

(a) This Agreement WILL continue in full force and effect until all Services have been terminated. Any Service may be terminated at any time by

either party upon at least thirty (30) days' prior written notice to the other party. Only the Service(s) specified in such notice will be terminated, and no other Services will be affected.

(b) AFSB may terminate this Agreement or any or all Services immediately in the event of (i) Customer's breach of a material obligation under this Agreement, (ii) Customer's insolvency, receivership or voluntary or involuntary bankruptcy, or the institution of any proceeding therefor, or any assignment for the benefit of the Customer's creditors, or if in the opinion of AFSB the financial condition of the Customer has become impaired, or (iii) the Customer's default under any agreement or instrument relating to indebtedness owed by the Customer to AFSB, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of such indebtedness. Even if this Agreement or any or all Services are terminated under this subsection, this Agreement shall continue in full force and effect as to all transactions that AFSB began processing before such termination.

(c) Upon termination of any or all Services under this Agreement, all computer software licenses granted by AFSB to the Customer with respect to those terminated Services under the applicable Supplements shall automatically terminate. The Customer shall immediately return to AFSB the original and all copies made of all computer software programs licensed by AFSB to the Customer and all other documentation or materials provided to the Customer by AFSB in connection with the terminated Services, and the Customer shall promptly pay to AFSB all sums due or to become due under this Agreement relating to such Services which accrued prior to the date of termination.

SECTION 11. NOTICES. Except as may be otherwise specified in a Supplement, all notices and other communications by the Customer or AFSB relating to this Agreement generally shall be in writing and, if to the Customer, addressed to the Customer's primary mailing address as shown on AFSB's records, and if to AFSB, addressed to 2775 Sanders Road, Northbrook, IL 60062, or at such other address as AFSB may specify in writing. Any notice or communication to AFSB will be effective when AFSB has actually received, and has had a reasonable time to act on, any such notice. Any notice or communication to the Customer will be effective either on the date it is actually received or 3 days after it was mailed by first class certified or registered mail, return receipt requested and addressed as provided in this Section (or to such other address the Customer may specify in writing), whichever is earlier.

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SECTION 12. MISCELLANEOUS.

(a) This Agreement (including the Supplements) constitutes the entire agreement of the Customer and AFSB and with respect to the Services (except as otherwise expressly provided in this Agreement or a Supplement), and supersedes and replaces any previously made proposals, representations, warranties or agreements, express or implied, either oral or in writing, between the parties. The Customer agrees that the mutual rights and duties of the parties under this Agreement shall also be governed by the terms and conditions applicable to the Customer's deposit accounts at AFSB, except that in the event of any conflict between this Agreement and such terms and conditions, the provisions of this Agreement will control.

(b) AFSB may amend this Agreement by written notice to the Customer. Any amendment to this Agreement will be effective 30 days after notice of such amendment is sent to the Customer in accordance with Section 11, unless the Customer notifies AFSB in writing within that 30-day period of the Customer's unwillingness to be bound by the amendment. If the Customer is unwilling to be bound by the amendment, either party may terminate this Agreement for any or all Services as provided in Section 10. AFSB may amend the operating instructions for any Service by written notice to the Customer, which amendment will be effective at the time provided in Section 11 above, provided, however, that AFSB will endeavor to give the Customer prior written notice of amendments to operating policies or procedures when practicable.

(c) The Customer may not assign this Agreement without AFSB's prior written consent. AFSB may not assign this Agreement without the Customer's prior written consent, except that AFSB may assign this Agreement, in whole or in part, without such consent to any subsidiary or affiliate of AFSB.

(d) No party's failure or delay in exercising any right or remedy under this Agreement will operate as a waiver of such right or remedy, and no single or partial exercise by a party of any right or remedy under this Agreement will preclude any additional or further exercise of such right or remedy or the exercise of any other right.

(e) Even if a provision of this Agreement is held to be invalid, illegal, or unenforceable, the validity, legality, or enforceability of the other provisions of this Agreement will not be affected or impaired by such holding.

(f) This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective legal representatives, successors and assigns. This Agreement is not for the benefit of any other person, and no other person shall have any right against the Customer or AFSB under this Agreement.

(g) This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois. The Customer hereby irrevocably consents and submits to the jurisdiction of any State Court of Illinois, or the United States District Court for the Northern District of Illinois and the Customer waives any and all objections which it may have to venue in such courts or the issuance of service of process in any such proceedings. The Customer agrees that any legal action or proceeding with respect to this Agreement, whether instituted by AFSB or the Customer

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will be commenced in such courts. AFSB and the Customer each irrevocably waives any right to trial by jury in any proceeding relating to this Agreement.

NOTE: If required by resolution, a second officer must sign below

ALLSTATE INSURANCE COMPANY

Signed: /s/ James P. Zils

By: James P. Zils

Its: Treasurer

Signed: /s/ Nancy M. Bufalino

By: Nancy M. Bufalino

Its: Assistant Treasurer

ALLSTATE FEDERAL SAVINGS BANK

Signed: /s/ Thomas W. Buckley

By: Thomas W. Buckley

Its: President/CEO

Date: 3/25/99

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ALLSTATE FEDERAL SAVINGS BANK
CORPORATE BILLING POLICY
(EFFECTIVE JULY 1, 1998)

Accounts are analyzed on a monthly basis to determine the net excess/deficit allowance. The basis for the net excess/deficit allowance is the monthly Account Analysis Statement. The net excess/deficit allowance is determined by taking the earning allowance less total service charges. A net deficit position will result in an amount owed to Allstate Federal Savings Bank. Payment of the deficit amount will occur according to the following guidelines:

SETTLEMENT CYCLE OPTIONS

The standard settlement cycle is monthly and the standard payment method is a direct debit against the client's account. Options exist for a quarterly billing cycle and receipt of a bill versus a direct debit.

EXCESS COMPENSATION POSITION

An excess position on the Account Analysis Statement will result in no bill or direct debit for the current settlement cycle. Carryover of an excess compensation position is not permitted from one settlement cycle to another. If the settlement cycle is quarterly, an excess compensation position in any month can be used to offset a deficit compensation position for any other month within that quarter. The billing year ends on December 31. Carryover of an excess is not permitted from one calendar year to another.

PAYMENT TERMS FOR BILLED ACCOUNTS

The bill is PAYABLE UPON RECEIPT. If payment is not received within the number of days specified on the bill, a debit for the bill amount will be charged against the client's Key account as identified on the bill. If the Key account is closed, another account within the relationship will be charged. This debit will be clearly identified on the checking account statement as a BALANCE DEFICIENCY CHARGE.

Any additional terms of non-payment are contained on the bill.

CLIENT RESPONSIBILITIES

It is the client's responsibility to review the monthly account analysis statement for accuracy. If a discrepancy is identified, the client has 30 days after generation of the analysis statement or the bill, to notify the bank of a dispute. Failure to notify the bank within the above time frame means the client agrees with the results shown on the Account Analysis Statement, including the net excess/deficit allowance.

Inquiries regarding the Corporate Billing Policy, Account Analysis results, or the billed amount should be referred to your Relationship Manger.

NOTE: No earnings allowance to pay for services occurs on Interest Bearing Accounts since interest is paid on these accounts.

ALLSTATE FEDERAL SAVINGS BANK CASH MANAGER CONCENTRATION MODULE

SECURITY PROCEDURES

SERVICE DESCRIPTION

This Service enables the Customer to initiate Entries between its own Allstate Federal Savings Bank ("AFSB") account and its own or third-party accounts at other banks. AFSB is the "originating" Bank, and the other banks are "receiving" banks. For "on-us" Entries, AFSB is both the originating and receiving bank. The Entries can be ACH Credits (disbursements) to be paid from the Customer's AFSB account, or ACH Debits (collections) for deposit to the Customer's AFSB account. For a receiving bank not eligible to receive an ACH Debit, a paper depository transfer check call be prepared for deposit to the Customer's AFSB account. All bank accounts must be corporate business accounts and not consumer accounts.

The AFSB Cash Manager Concentration Module is used for repetitive Entries only, using the location number which AFSB establishes for each receiving bank account during setup. Each location will be set up to initiate a collection Entry only or a disbursement Entry only. The Customer can access the system by one or more of the following methods. Security procedures apply to each method, as described in this Appendix.

Access methods are:

- - PC or terminal input direct to the AFSB Cash Manager system.
- - Telephone "touch tone" deposit reporting input.
- - Telephone voice deposit reporting instructions.

To initiate an Entry, the Customer inputs or reports Entry Data comprised of a location number and an associated dollar amount, which is processed by AFSB's Computer systems to originate the collection or disbursement Entry. A PC or terminal Customer can also use location numbers to produce various historical transaction reports for its accounts.

The procedures described in this Appendix are a Security Procedure to be used by AFSB to verify the authenticity of input to the Concentration Module in the name of the Customer.

SERVICE SETUP SECURITY PROCEDURES

An Officer(s) authorized by the Customer's corporate resolution on file at AFSB Bank to designate an individual(s) to originate or arrange funds transfers, will specify a person to be the "Designated Contact" to receive all confidential codes and passwords from AFSB. The Designated Contact will issue specific instructions to AFSB for each location to be established, including receiving bank routing number, account number at that bank, and collection or disbursement function for Entries to be originated using that location. The Designated contact will also issue instructions to AFSB for each location to be deleted. Such instructions will be submitted in writing in a form acceptable to AFSB.

In addition to the Designated Contact, the officer(s) authorized by the Customer's corporate resolution may authorize one or more other persons to facilitate ongoing Service operation:

"OPERATIONS CONTACT" for ongoing Service administration, including:

- - to send Entry Data to AFSB
- - to call AFSB with any deletions to Entry Data reversals of Entries
- - to be called by AFSB for Service-related problem resolution.

Such authorization of the Designated Contact and any other persons will be submitted in writing to AFSB in a form acceptable to AFSB. Only the Designated Contact will be authorized to issue new Service instructions to AFSB, or change existing Service instructions. The Designated Contact will be authorized to perform all functions, even if additional persons are specified to serve as the Operations Contact.

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AFSB personnel will set up the Service acting upon instructions received from the Designated Contact. Instructions for Service usage, principally consisting of a service guide, instruction cards, identification codes, passwords, company numbers and location numbers, are sent to the Designated Contact for distribution to the personnel who will use the Service. At each stage of setup, AFSB will treat all Customer information as confidential and handle such information in a secure manner. After delivery by the Bank, the Customer's Designated Contact and other Customer personnel shall treat all service guides, instruction cards, identification codes, passwords, company numbers and location numbers in a confidential and secure manner.

SERVICE OPERATION SECURITY PROCEDURES

PC OR TERMINAL DIALUP - this access method employs a dual-level identification code and password security procedure. A "Customer Identification Code" and a password are issued for the Customer at the company-wide level. An additional "Operator Identification Code" and password is issued for each Service user. The number of such Operator Identification Codes is specified by the Customer, and such Operator Identification Codes are assigned by AFSB for the convenience of the Customer, and AFSB does not assign such Operator Identification Codes to specific Customer employees or other individuals.

The Customer calls into the Bank's telecommunications network provider, and enters the Customer Identification Code and password, followed by the Operator Identification Code and password. If these codes are accepted by the Bank's system, and if the Concentration Module is established for that Operator Identification Code, the Customer gains access to the Service. The Customer is prompted for location code and dollar amount Entry Data. The Customer can also obtain historical transaction information reporting.

Any individual who gains access to the Service using the Customer's Identification Codes and passwords, and using the Customer's location numbers, can initiate Entries for any and all of the Customer's locations. AFSB cannot restrict an Identification Code to usage of only part of the Service. THE CUSTOMER MUST CONTROL INDIVIDUAL ACCESS TO IDENTIFICATION CODES, PASSWORDS AND LOCATION NUMBERS. AFSB shall conclusively presume that all Entry Data input data the Concentration Module, using such Identification Codes and passwords, as having been made by a person authorized to initiate Entries, and AFSB will regard Entry Data input by such a person as being a funds transfer instruction authorized by the Customer.

TELEPHONE "TOUCH-TONE" - the Customer calls the Bank's service bureau and follows an audio response script provided by AFSB. The Customer inputs Entry Data comprised of a Company Number and Identification Number issued by AFSB, and a dollar amount. This access method restricts the Customer to initiating an Entry for the single location identified by the Company Number and Identification Number. Each Customer location set up for this access method will also be set up for the Telephone Voice access method. as described below, to provide a back-up procedure if the audio response system should not be available.

TELEPHONE VOICE REPORTING - the Customer calls AFSB's service bureau and follows a conversation script provided by AFSB. The Customer reports Entry Data to the operator, comprised of a Company Number and Identification Number issued by AFSB, and a dollar amount. This access method restricts the Customer to initiating an Entry for the single location identified by the Company Number and Identification Number.

AFSB shall conclusively presume that any caller to the Bank's Concentration Module service bureau, possessing the appropriate Company Number and Identification Number for a location, is authorized to initiate Entries, and AFSB will regard Entry Data from such a caller as being a funds transfer instruction authorized by the Customer.

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Irrespective of the input method used, AFSB's standard procedure is to issue to the Customer at least one set of Identification Codes and passwords enabling the Customer to access the Service via PC or terminal. This permits the Customer to review today's Entry Data, and change or cancel today's Entry Data for any of the Customer's locations, at the Customer's discretion, up to a pre-established deadline time. THE CUSTOMER MUST CONTROL INDIVIDUAL ACCESS TO IDENTIFICATION CODES, PASSWORDS AND LOCATION NUMBERS.

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ALLSTATE FEDERAL SAVINGS BANK

APPENDIX TO ACH ORIGINATION PAYMENT SERVICE SUPPLEMENT

ACH SECURITY PROCEDURES

The security procedures are to verify the authenticity of Entry Data delivered in the Customer's name to AFSB. The security procedures are not used to detect an error in the transmission, delivery, or content of the Entry Data.

The security procedure which AFSB recommends as commercially reasonable for the origination of ACH transactions is the Computer Transmission of Entry Data files to AFSB, containing Customer Identification Codes and passwords assigned by AFSB. AFSB also requires confirmation of each Entry Data entry file, and recommends the electronic acknowledgment confirmation sent by AFSB to the Customer.

These security procedures are more fully described in the remainder of this document.

SERVICE DESCRIPTION

The Service is being provided to the Customer to facilitate the regular collection or disbursement of payments, whereby the Customer initiates Entries between its own AFSB account and its own or third party accounts at AFSB or at other banks. The Customer delivers Entry Data to AFSB for processing, and based on that Entry Data, AFSB will create electronic credits or debits (credit or debit Entries) to be submitted for Settlement to the Automated Clearing House (ACH) network.

The Customer must comply with all the requirements of the National Automated Clearing House Association (NACHA), including the format specifications for processing Entries through the ACH system. The Customer must deliver the Entry Data to AFSB in the required format as specified by AFSB, including any identification numbers and passwords required for a security procedure. If payments represent consumer transactions, then prenotification may be required. Corporate transactions do not require prenotification. It is the Customer's responsibility to comply with any prenotification requirement.

SERVICE SETUP

The Customer contracts with AFSB to originate or arrange funds transfers on its behalf. AFSB acts upon the instructions from the persons who are authorized to act for the Customer (by resolution, agreement or course of dealing) to set-up and utilize this Service, including all testing, operations, implementation and support not limited to the following:

- - Submit test Entry Data and receive and verify test results.
- - Send Entry Data to AFSB
- - Confirm with AFSB Entry Data Control Totals
- - Call AFSB with any deletions to Entry Data or reversals of Entries
- - Resolve service-related problems.

AFSB will treat all Customer information as confidential and handle such information in a secure manner. AFSB personnel set up the Service acting upon instructions from the Customer. AFSB delivers to the Customer the Identification Code, passwords, instructions, reports, and any information related to the Service for distribution to the Customer personnel involved in using the Service. This Information is under the control of the Customer and must be treated by Customer personnel in a confidential and secure manner. In particular, identification codes required for a security procedure must be restricted to persons using the Service.

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SERVICE OPERATION

AFSB presumes that the Customer will restrict access to the Identification Codes and passwords to only those individuals using the Service, and that those individuals in possession of the Identification Codes and passwords are authorized to act on the Customer's behalf to submit Entry Data and give other instructions. If at any time the Customer determines that its Identification Codes or passwords have been compromised, AFSB should be contacted immediately to assist in changing the affected Identification Codes or passwords.

SUBMISSION OF ENTRY DATA

1. COMPUTER TRANSMISSION: AFSB's communication system identifies the Customer by verifying the Identification Codes and passwords which have been previously established for the Customer. The ACH processing system further interrogates the File/Batch Header Identification Codes to verify that the Customer's file is authorized for processing. AFSB shall conclusively presume that all Entry Data using such Identification Codes have been submitted by a person authorized to initiate Entries, and AFSB will regard that Entry Data as being a funds transfer instruction authorized by the Customer.

2. TAPE DELIVERY: AFSB does not regard the delivery of Entry Data on tape as a commercially reasonable security procedure. If the Customer uses Tape Delivery, then AFSB will inform the Customer of limited security procedures used by some other customers for tape delivery and Customer may choose to use such a procedure. If AFSB accepts such Entry Data or funds transfer instruction in good faith, then the Customer agrees to be bound by such Entry Data or funds transfer instruction, whether or not authorized, and the Customer will be deemed to have refused the security procedures that AFSB offers and recommends as commercially reasonable.

CONFIRMATION PROCEDURES

Following submission of Entry Data, AFSB requires that each Entry Data file be confirmed by the Customer. AFSB recommends the Automated Acknowledgment Confirmation procedure.

If a Customer currently using the Manual Confirmation procedure desires to convert to the recommended Automated Acknowledgment Confirmation procedure, the Customer should request setup information and assistance by calling its assigned AFSB Product Marketing Representative or Implementation Coordinator.

1. AUTOMATED ACKNOWLEDGMENT CONFIRMATION PROCEDURE: AFSB calls the Customer at a telephone number specified in advance by the Customer during service setup. AFSB then transmits control total information from the Customer Entry Data which AFSB has received. The information may be delivered to the Customer as either a data transmission or a telecopy, or both. If the Customer elects to receive a telecopy to their designated number, it is the Customer's responsibility to ensure that the receiving telecopy ("fax") machine is maintained in good working order and in a secure location. The Bank recommends that the Customer protect the confidentiality of the information delivered by either data transmission or fax.

- - For both data transmission and telecopy, the Customer will verify the control total information received from AFSB. The Customer is responsible for reviewing the confirmation to authenticate the funds transfer instruction submitted to AFSB in the Customer's name:
- - If the acknowledgment confirmation does not contain funds transfer instructions submitted by the Customer, or if the Customer detects an error in the funds transfer instructions, the Customer is responsible for notifying AFSB.
- - If the Customer has submitted an Entry Data file to AFSB and has not received an acknowledgment confirmation within the usual and expected time frame, the Customer is responsible for notifying AFSB of non-receipt.
- - If the Customer receives an acknowledgment confirmation and has not submitted an Entry Data file to AFSB, the Customer is responsible for notifying AFSB.

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IN EACH CIRCUMSTANCE, AFSB RECOMMENDS AND URGES THE CUSTOMER TO NOTIFY AFSB IMMEDIATELY OF THE EXCEPTION CONDITION DETECTED BY THE CUSTOMER.

A correct acknowledgment confirmation does not require any response from the Customer. AFSB will presume that by NOT receiving a response from the Customer, that the Customer has verified the correctness of the control total information, and AFSB will proceed with normal ACH processing.

2. MANUAL CONFIRMATION PROCEDURE: If the Customer declines the recommended Automated Acknowledgment Confirmation security procedure, then the Customer WILL

use the Manual Confirmation procedure:

- The Customer will call AFSB at the time of transmission of the Entry Data file, or promptly following transmission of the Entry Data file.
- The Customer will provide file control total information from the Entry Data file submitted to AFSB. This information consists of the dollar value of the payments, intended settlement date(s) and the number of payment transactions. This information will be captured by the Bank, on a recorded telephone line.
- AFSB compares the Entry Data File totals with the information received from the Customer. If the Customer information matches, AFSB will perform normal ACH processing. If the Customer information does not match, AFSB will notify the Customer and suspend file processing until the Customer resolves the inconsistency between the Entry Data File AFSB received and the control total information provided by the Customer.

CANCELLATION OR REVERSAL OF ENTRY DATA

The following Security Procedure applies to Customer instructions to Entry Data not yet released to the ACH, or to REVERSE Entries already completed and released to the ACH:

If the Customer wishes to perform a deletion or reversal, the Customer contacts AFSB ACH operations, at the telephone number specified during the service setup, to initiate the transaction request. The Customer provides AFSB with the appropriate information to complete the request. AFSB will verify, by comparison to the Entry Data File, the deletion or reversal request received from the Customer. If the information does not match the original Customer Entry Data, AFSB will contact the Customer to resolve the problem prior to processing the request. This information is captured on recorded telephone line. NOTE: THIS; PROCEDURE DOES NOT ALLOW FOR THE ADDITION OF NEW TRANSACTIONS, IT ONLY ALLOWS FOR THE DELETION OR REVERSAL OF TRANSACTIONS PREVIOUSLY RECEIVED.

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ACH PRICING

Allstate Federal Savings Bank

Price per Pricing
Categories Unit
DEBIT/CREDIT MEMO:
\$.75 ACH Return
Item \$.25 ACH
Receiver File \$
15.00 ACH
Collections/Credits
Originated: Less
than 1,000,000
items per month \$
0.034 ACH
Collections/Credits
Originated: Over
1,000,000 items
per month \$ 0.0325
Regular Billing
Deadline or
Premium Surcharge
(late delivery) \$
0.01 ACH CCD/PPD
Addenda
Origination \$ 0.02
ACH Pre-Authorized
Check Surcharge \$
0.25 Monthly
Account
Maintenance \$
17.50 ACH Deletes-
Reversals \$ 7.50
Auto Wire-Outgoing
Repetitive \$ 7.00
Auto Wire-Book
Repetitive \$ 2.50
Manual Outgoing
Wire \$ 15.00
Manual Wire-Book
Non-Repetitive \$
5.00 Domestic Wire

Incoming \$ 6.00
January 13, 1999

AMENDMENT NO. 1
TO THE
CASH MANAGEMENT SERVICES MASTER AGREEMENT
BETWEEN
ALLSTATE BANK
AND
ALLSTATE INSURANCE COMPANY

This AMENDMENT No. 1 (the "Amendment") is made and entered into this 5th day of January 2001 by and among Allstate Bank (formerly Allstate Federal Savings Bank, herein the "Bank"), Allstate Insurance Company (herein "AIC"), Allstate Life Insurance Company (herein "ALIC"), Lincoln Benefit Life Company (herein "LBL") and American Heritage Life Insurance Company (herein "AHL").

WHEREAS, Bank and AIC are parties to a Cash Management Services Master Agreement dated March 16, 1999, ("the Agreement"); and

WHEREAS, the parties desire to amend the Agreement to add additional parties to include ALIC, LBL and AHL;

NOW THEREFORE, the parties agree that the Agreement shall hereby be amended as follows:

1. The definition of "Customer" in the first paragraph of the Agreement shall include ALIC, LBL and AHL in addition to AIC.

2. Section 1 is amended to include the following:

Separate Supplements will be developed for each entity that is a Customer. Customer and Bank further agree to comply with the ACH Security Procedures which are attached to this Agreement and incorporated herein.

3. Section 8(a) is amended by adding the following:

(iii) Customer will perform its obligations under this Agreement in accordance with, and will be bound by, all applicable laws and regulations, including the rules of the National Automated Clearing House Network ("NACHA Rules"); (iv) Customer will transmit entries to Bank to the location(s) and in compliance with the formatting and other requirements set forth in the applicable Supplement attached to this Agreement; (v) each party shown on an entry received by Bank from Customer has authorized the initiation and posting of such entry to its account in the amount and the effective entry date shown on such entry; (vi) such authorization is operative at the time of transmittal or crediting by Bank as provide herein; (vii) Customer will obtain all consents and authorizations required under the NACHA Rules and shall retain such consents and authorizations for a period not to exceed two (2) years after the effective expiration date ; (vii) Customer will give written

notice ten (10) business days in advance to Bank for variable debit amounts and billing date changes; and (ix) entries transmitted to Bank by Customer are limited to those types of entries set forth in the Supplement.

4. The following attachments to the Agreement are deleted in their entirety:

- (a) Corporate Billing Policy dated July 1, 1998; and
- (b) Cash Manager Concentration Module Security Procedures.

Except as otherwise amended hereby, the Agreement shall remain unchanged.

IN WITNESS HEREOF, the parties to the Agreement have caused this Amendment to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE BANK

ALLSTATE LIFE INSURANCE COMPANY

By: _____

By: _____

Title: _____

Title: _____

Date: -----

ALLSTATE INSURANCE COMPANY

By: -----

Title: -----

Date: -----

AMERICAN HERITAGE LIFE
INSURANCE COMPANY

By: -----

Title: -----

Date: -----

Date: -----

LINCOLN BENEFIT LIFE COMPANY

By: -----

Title: -----

Date: -----

ALLSTATE INSURANCE COMPANY
HOME OFFICE - NORTHBROOK, ILLINOIS

AGREEMENT OF GENERAL INDEMNITY

KNOW ALL MEN BY THESE PRESENTS, that whereas the undersigned, hereinafter called Indemnitors, have requested and do hereby request Allstate Insurance Company hereinafter referred to as the Surety, to execute or procure the execution of such Bonds, undertakings or recognizances (all of which are hereinafter included within the term "Bond or Bonds") as have been and such as may hereafter be applied for directly or through an agent, attorney or other representative or required, solely or as co-adventurer with others, by any of the Indemnitors or by any person, firm, corporation or association whose name shall, for that purpose, have been furnished to the Surety by any of the Indemnitors, or to refrain from canceling any such Bond or Bonds, it being understood and agreed that this instrument shall cover all Bonds so applied for, executed, continued or renewed, whether or not this instrument is referred to or mentioned in connection therewith.

WHEREAS, the Indemnitors understand that the Surety expressly requires the delivery of this Indemnity Agreement as part of the consideration for the execution by the Surety of such Bonds which may hereafter be furnished, or for the refraining from canceling such Bonds; and

WHEREAS, the Indemnitors have a substantial, material and beneficial interest in the obtaining of Bonds or in the Surety's refraining from canceling such Bonds.

NOW, THEREFORE, in consideration of the premises and of the execution or continuance of such Bonds, the Indemnitors for themselves, their heirs, executors, administrators, successors and assigns, do hereby jointly and severally, covenant and agree with the Surety, its successors and assigns as follows:

PREMIUMS 1. The Indemnitors will pay, when due, all premiums for each of such Bonds in accordance with the Surety's regular manual rates in effect on the date such Bond becomes effective as long as liability thereunder shall continue, and until the Surety is furnished with evidence satisfactory to the Surety of its discharge or release from the Bonds, or of all liability by reason thereof.

INDEMNITY 2. The Indemnitors will indemnify the Surety against any and all liability, loss, costs, damages, fees of attorneys and other expenses which the Surety may sustain or incur by reason of, or in consequence of the execution of such Bonds and any renewal, continuation or successor thereof, including but not limited to, sums paid or liabilities incurred in settlement of, and expenses paid or incurred in connection with claims, suits, or judgments under such Bonds, expenses paid or incurred in enforcing the terms hereof, in procuring or attempting to procure release from liability, or in recovering or attempting to recover losses or expenses paid or incurred, as aforesaid.

The Indemnitors will furnish to the Surety such information as it may request from time to time concerning the financial condition of the Indemnitors, the status of work under any contract covered by a Bond, the condition of the performance of any such contract and the payment of obligations incurred in connection therewith. The Surety may at reasonable times and places and from time to time, examine and copy the books, records and accounts of the Indemnitors. The Surety may obtain information concerning the affairs and operations of the Indemnitors and any transaction between or among the Indemnitors from any banks, depositories, obliges of the Bonds material men, supply houses, credit reporting agencies or other persons, who are hereby expressly authorized to furnish such information to the Surety.

If the Indemnitors become aware of any demand, notice or proceeding which may result in liability to the Surety under any Bond, the Indemnitors shall notify the Surety immediately thereof in writing. The Indemnitors will, at any time upon the request of the Surety, procure the discharge of the Surety from any Bond and from all liability by reason thereof. The Surety may, at any time, take such action as it deems necessary or proper to obtain its release from any and all liability under any Bond. Upon such discharge or release, the Surety shall return to the Principal any portion of any premium paid which is unearned as a result of such discharge or release.

RESERVE FOR LOSS 3. If the Surety shall set up a reserve to cover any liability, claim asserted, suit or judgment under any such Bond, the Indemnitors will, immediately upon demand and whether or not the Surety shall have made any

payment therefore, deposit with the Surety a sum of money equal to such reserve and any increase thereof as collateral security on such Bond, and such sum and any other money or property which shall have been or shall hereafter be pledged as collateral security on any such Bond shall be available, in the discretion of the Surety, as collateral security on all Bonds coming within the scope of this instrument or for any other indebtedness of the Indemnitors to the Surety; and any such collateral security shall be held subject to the terms of the Surety's regular form of receipt for collateral, which is by reference made a part hereof.

The Surety shall have the right to use the deposit, or any part thereof, in payment or settlement of any liability, loss or expense for which the Indemnitors would be obligated to indemnify the Surety under the terms of this Agreement. Surety shall have no obligation to invest, or to provide a return on, the deposit. The Indemnitors shall be entitled to the return of any unused portion of the deposit upon termination of the liability of the Surety on the Bonds and the performance by the Indemnitors of all obligations to the Surety under the terms of this Agreement. The Surety's demand shall be sufficient if sent by Registered or Certified Mail to the Indemnitors at the addresses stated herein, or at the addresses of the Indemnitors last known to the Surety, whether or not actually received.

CHANGE IN CONTRACT-LOANS-POSSESSION 4. If any such Bond be given in connection with a contract, the Surety in its sole discretion is hereby authorized, but not required, (a) to consent to any change in the contract or in the plans and specifications relating thereto; (b) to make or guarantee advances or loans for the purposes of the contract without any obligation to see to the application thereof, and the Indemnitors shall be obligated to indemnify the Surety in accordance with the terms of this Agreement for the amount of all such advances and loans, notwithstanding that the proceeds or any part thereof have not been so used by the Principal; (c) in the event of any default in the performance of the contract, or the breach of this Agreement or of any Bond connected therewith, or the failure to diligently prosecute the work under any contract or pay for labor and materials used in the prosecution of the contract, or in the event work has ceased or been suspended on any contract or contracts covered by any said Bonds, to take possession of the work under the contract, and, at the expense of the Indemnitors, to complete the contract or cause the same to be completed or to consent to the completion thereof, and to take any other action which the Surety may deem appropriate. In the event that the Surety takes possession of the work as above provided, the Indemnitors hereby release and discharge the Surety, in this connection, from all liability for all its actions and omissions except for deliberate malfeasance.

ASSIGNMENT 5. The Indemnitors hereby assign, transfer, pledge and convey to the Surety (effective as of the date of each such Bond, but only in the event of default, breach or failure as referred to in preceding Section 4), as collateral security, to secure the obligations hereunder and any other indebtedness and liabilities of the Indemnitors to the Surety, all of their rights under the contracts, referred to in such Bonds, including their right, title and interest in and to (1) all subcontracts let in connection therewith and such subcontractors' surety Bonds, (2) all machinery, plant, equipment, tools and materials which shall be upon the site or sites of the work or elsewhere for the purposes of the contracts, including all materials ordered for the contracts, and (3) any and all sums due or which may thereafter become due under such contracts and all sums due or to become due on all other contracts, bonded or unbonded, in which any or all of the Indemnitors have an interest.

FILING OR RECORDING 6. The Surety may at its option, file or record this Agreement or any other document executed by any or all of the Indemnitors, individually or jointly, in connection with application, issuance or execution of any Bond or Bonds, as a security Agreement or as part of a financing statement or as notice of its prior interest and assignment under the provisions of the Uniform Commercial Code or any other statute or regulation of any jurisdiction or agency, but that the filing or recording of such document shall be solely at the option of the Surety and that the failure to do so shall not release or impair any of the obligations of the Indemnitors under this Agreement.

ASSIGNMENT OF PROCEEDS 7. If any of the Bonds are executed in connection with a contract which by its terms or by law prohibits assignment of contract proceeds, or any part thereof, the Indemnitors covenant and agree to hold all money or other proceeds of the contract, whether received as payment or loan, as a trust for the benefit of the Surety and to use such money or other proceeds for the purpose of performing the contract and discharging the obligation of the Bond, and for no other purpose, until the Bond is completely exonerated.

CLAIMS-PAYMENTS 8. The Surety shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought against the Surety or the Indemnitors or any one of them on any such Bond shall or shall

not be paid, compromised, resisted, defended, tried or appealed, and the Surety's decision thereon, if made in good faith shall be final and binding upon the Indemnitors, unless the Indemnitors shall request the Surety to litigate such claim or demand, or to defend such suit, or to appeal from such judgment, and shall deposit with the Surety, at the time of such request, cash or collateral satisfactory to the Surety in kind and amount, to be used in paying any judgment or judgments rendered or that may be rendered, with interest, costs, expenses and attorneys fees, including those of the Surety. An itemized statement of payments made by the Surety for any of the purposes specified herein, sworn to by an officer of the Surety, or the voucher or vouchers for such payments, shall be prima facie evidence of the liability of the Indemnitors to reimburse the Surety for such payments, with interest.

CHANGES IN BONDS 9. The Indemnitors hereby authorize the Surety in its sole discretion to do the following: (a) from time to time to make or consent to any change in, or issue any substitute for or renewal of, any such Bond, or in any contract referred to in any such Bond, and this instrument shall apply to such substituted or changed Bond or renewal; (b) if any such Bond be given in an action or proceeding in any court, to recognize any attorney of record in such action or proceeding for any party thereto at the date of the execution of such Bond as the authorized representative of such party until the Surety shall have been fully discharged from liability under such Bond; (c) to take such steps as the Surety may deem necessary or proper to obtain release from liability from any such Bond.

NOTICE TO INDEMNITORS 10. The Indemnitors hereby waive notice of the execution of any such Bonds or of any act, fact or information coming to the notice or knowledge of the Surety concerning or affecting its rights or liabilities under any such Bond or rights or liabilities of the Indemnitors hereunder, notice of all such being hereby expressly waived.

PROTECTION TO REINSURER AND CO-SURETY 11. If the Surety shall procure any other company or companies to execute or join with it in executing, or to reinsure, any such Bonds, this instrument shall inure to the benefit of such other company or companies, its or their successors and assigns, so as to give to it or them a direct right of action against the Indemnitors to enforce this instrument and, in that event, the word "Surety", wherever used herein, shall be deemed to include such company or companies, as their respective interests may appear.

SEVERABILITY OF INDEMNITORS 12. The liability of the Indemnitors hereunder shall not be affected by the failure of any party to sign any such Bond nor by any claim that other indemnity or security was to have been obtained nor by the release of any indemnity, or Indemnitor, nor the return or exchange of any collateral that may have been obtained; and if any party signing this instrument is not bound for any reason this obligation shall still be binding upon each and every other party.

SUITS 13. Separate suits may be brought hereunder as causes of action accrue, and suit may be brought against any or all of the Indemnitors; and suit or suits upon one or more causes of action, or against one or more of the Indemnitors, shall not prejudice or bar subsequent suits against any other or all of the Indemnitors on the same or any other cause or causes of action, whether theretofore or thereafter accruing.

The Surety is hereby expressly authorized to settle any claim based upon this Agreement with any one or more of the Indemnitors individually, and such settlement or compromise shall not affect the liability of any of the rest of the Indemnitors. If any proceeding is brought against the Surety in which the Surety desires to join any one of the Indemnitors by reason of the undertakings in this Agreement, each of the Indemnitors agrees that he will, upon written notice of the Surety to do so voluntarily appear in such proceedings and accept service of process and other papers either personally or by an attorney of the Indemnitors' choice. If any of the Indemnitors fail upon such notice from the Surety so to appear, such Indemnitors hereby designate the Secretary of the State or territory in which such proceedings are pending as his agent for the service of process in any such proceedings.

With respect to any action brought by the Surety on this Agreement in a jurisdiction in which one or more of the Indemnitors reside, are domiciled, are doing business or are found, each of the Indemnitors not in the jurisdiction hereby designates each of the Indemnitors in such jurisdiction as his agent to receive on his behalf service of process in such action.

PRIOR BONDS 14. The Indemnitors waive any defense that this instrument was executed subsequent to the date of any such Bond, admitting and covenanting that such Bond was executed pursuant to the Indemnitors' request and in reliance on the Indemnitors' promise to execute this instrument.

DECLINE EXECUTION 15. The Surety, at its option, may decline to execute or

participate in or procure the execution of any such Bonds, without incurring any liability whatever to the Indemnitors. If the Surety shall execute a bid or proposal Bond, or any similar undertaking, it may nevertheless decline to execute any and all Bonds that may be required in connection with any award made on the proposal for which the Bond or undertaking is given, and the Principal shall have the right to procure from another surety any Bonds that may be required in connection with any award under the proposal for which the Bond or undertaking is given.

DEFINITIONS 16. As used in this Agreement, words in the singular include the plural and words in the plural include the singular. The masculine pronoun shall be read as feminine or neuter as circumstances require. The word "person" shall mean and include individuals, partnerships, corporations and associations.

The terms "contract" shall include all documents comprising the contract documents including general and special conditions, specifications and drawings.

The word "Bond" shall mean a contract of suretyship, guaranty or indemnity, an agreement or consent to provide such a contract and the continuation, extension, alteration, renewal or substitution of such a contract, agreement or consent.

NOMINEE 17. The Indemnitors hereby irrevocably nominate, constitute, appoint and designate the Surety or its designee as their Attorney in Fact with the right, but not the obligation, to exercise all of the rights of Indemnitors assigned, transferred and set over to the Surety in this Agreement, and in the name of the Indemnitors or any of them to make, execute and deliver any and all additional or other assignments, documents or papers, including but not limited to the execution of instruments referred to in Section 5, and the endorsement of checks or other instruments representing payment of contract monies, deemed necessary and proper by the Surety in order to give full effect not only to the intent and meaning of the within assignments, but also to the full protection intended to be herein given to the Surety under all other provisions of this Agreement. The

Indemnitors hereby ratify and affirm all acts and actions taken and done by the Surety or its designee as such Attorney in Fact.

WAIVE EXEMPTIONS 18. The Indemnitors hereby waive and abandon, so far as their respective obligations under this agreement are concerned, all rights to claim any of the property, including the respective homesteads, as exempt from levy, execution, sale or other legal process under the laws of any country, state, province, territory or possession.

TERMINATION 19. The obligation of the Indemnitors hereunder shall be continuous; provided, however, that any of the Indemnitors may give the Surety not less than thirty days written notice by registered mail of his desire to terminate this agreement but any such notice of termination shall not operate to modify, bar, discharge, limit, affect or impair his liability hereunder on or by reason of any such Bond executed prior to the termination of such thirty days, or with respect to Bonds executed after the date of such termination (i) upon the award of a contract to the Principal on a bid or proposal with respect to which the Surety has executed a bid or proposal Bond or similar undertaking prior to such date, or (ii) which the Surety has become obligated, prior to such date, to execute. Further, such notice of termination shall operate only with respect to those of the Indemnitors upon whose behalf such notice of termination shall have been given.

CHANGES 20. This Agreement may not be changed or modified orally. No change or modification shall be effective unless specifically agreed in writing.

SEVERABILITY AND ELECTION OF REMEDY 21. All rights and remedies of the Surety under this Agreement shall be cumulative, and the exercise of or failure to exercise, any right or remedy at any time shall not be an election of remedy or a waiver of any other right or remedy. Failure of the Surety to pursue any remedy against any one or more of the Indemnitors shall not release or waive any right against any other of the Indemnitors.

The Surety is not required to exhaust its remedies or rights against the Principal or to await receipt of any dividends from the legal representatives of the Principal before asserting its rights under this Agreement against the Indemnitors.

The rights, powers and remedies given to the Surety by this Agreement shall be and are an addition to, and not in lieu of, any and all other rights, powers, and remedies which the Surety may have or acquire against the Indemnitors or others whether by the terms of any other agreement, by operation of law or otherwise.

In the event any part of this indemnity Agreement shall be void under the law of the place governing the construction hereof, then such part only shall be

considered as deleted and the remainder of this Agreement shall endure in full force and effect.

OTHER INDEMNITY 22. The Indemnitors shall continue to remain bound under this Agreement even though the Surety may, from time to time and with or without notice to or knowledge of the Indemnitors, have heretofore accepted or released, or shall hereafter accept or release, other Agreements of indemnity or collateral in connection with the execution of the Bonds from the Indemnitors or from others.

23. THE INDEMNITORS HAE READ THIS AGREEMENT OF INDEMNITY CAREFULLY. THERE ARE NO SEPARATE AGREEMENTS OR UNDERSTANDINGS WHICH IN ANY WAY LESSEN THE OBLIGATIONS AS ABOVE SET FORTH. THE INDEMNITORS FURTHER AGREE TO EXECUTE AND DELIVER TO THE SURETY SUCH FURTHER INSTRUMENTS AS THE SURETY DEEMS NECESSARY TO GIVE EFFECT TO THE TERMS OF THIS AGREEMENT.

24. In compliance with Public Law 91-508 this constitutes notice that an investigation may be made as to the character, general reputation, personal characteristics and mode of living of any non-business applicant or indemnitor. Information as to nature and scope of any investigation requested will be furnished upon written request.

IN TESTIMONY WHEREOF, the Indemnitors, intending to be legally bound hereby, have hereunto set their hands and affixed their seals this _____ day of _____, 19 ____.

By _____ (Seal)

Address

----- (Seal)
Address

By _____ (Seal)

Address

----- (Seal)
Address

----- (Seal)
Address

----- (Seal)

INDIVIDUAL(S) ACKNOWLEDGMENT

STATE OF _____
COUNTY OF _____ ss:

On this _____ day of _____,
19 ____, before me personally came _____,
_____, to me known and known to me to be the
individual(s) who executed the foregoing instrument, and acknowledged that ___
he ___ executed same.

(Notary Public)

PARTNER(S) ACKNOWLEDGMENT

STATE OF _____
COUNTY OF _____ ss:

On this _____ day of _____ ,
19 ____ , before me personally came _____ ,
_____ , to me known, and stated that ___ he ___ is
(are) partner(s) in the firm of _____

and acknowledged that ___ he ___ executed the foregoing instrument as the act of
the said firm.

(Notary Public)

CORPORATE ACKNOWLEDGMENT(S)

STATE OF _____
COUNTY OF _____ ss:

On this _____ day of _____ ,
19 ____ , before me personally came _____ ,
_____ , to me known, who, being by me duly sworn, did
depose and say that he resides in _____ that he is the _____ of
the _____

the corporation which executed the foregoing instrument; that he knows the seal
of the said corporation; that the seal affixed to the said instrument is such
corporate seal; that it was so affixed by order of the Board of Directors of the
said corporation, and that he signed his name to the said instrument by like
order.

(Notary Public)

STATE OF _____
COUNTY OF _____ ss:

On this _____ day of _____ ,
19 ____ , before me personally came _____ ,
_____ , to me known, who, being by me duly sworn, did
depose and say that he resides in _____ that he is the _____ of
the _____

the corporation which executed the foregoing instrument; that he knows the seal
of the said corporation; that the seal affixed to the said instrument is such
corporate seal; that it was so affixed by order of the Board of Directors of the
said corporation, and that he signed his name to the said instrument by like
order.

(Notary Public)

STATE OF _____
COUNTY OF _____ ss:

On this _____ day of _____ ,
19 ____ , before me personally came _____ ,
_____ , to me known, who, being by me duly sworn, did
depose and say that he resides in _____ that he is the _____ of
the _____

the corporation which executed the foregoing instrument; that he knows the seal
of the said corporation; that the seal affixed to the said instrument is such
corporate seal; that it was so affixed by order of the Board of Directors of the
said corporation, and that he signed his name to the said instrument by like
order.

(Notary Public)

STIPULATION

To be attached to and form part of the Agreement of General Indemnity between Allstate Settlement Corporation and ALLSTATE INSURANCE COMPANY dated February _____, 1991.

WHEREAS, it is the desire of both parties to amend said Agreement as hereinafter provided.

NOW, THEREFORE, It Is UNDERSTOOD AND AGREED that the Agreement of General Indemnity hereinbefore described is hereby amended as follows:

CHANGE IN CONTRACT-LOANS-POSSESSION 4. is deleted in its entirety and replaced by the following:

CHANGE IN CONTRACT 4. On bonds given in connection with Qualified Assignments, the Surety at its sole discretion is hereby authorized, but not required (a) to consent to any change in the Assignments; (b) in the event of any default in the performance of any Assignments, or the breach of this Agreement or of any bond connected therewith to take any action which the Surety may deem appropriate.

ASSIGNMENT 5 is deleted in its entirety and replaced by the following:

ASSIGNMENT 5: The Indemnitors hereby assign, transfer, pledge, and convey to the Surety (effective as of the date of each such bond, but only in the event of default or beach as referred to in the preceding Section 4), as collateral security, to secure the obligations hereunder and any other indebtedness and liabilities of the Indemnitors to the Surety, all of their rights under the qualified funding asset, referred to in each such bonds, including their right, title, and interest in and to any and all sums due or which may thereafter become due under such qualified funding asset.

IT IS FURTHER UNDERSTOOD AND AGREED that nothing herein contained shall vary, alter or modify any of the terms and conditions of said Agreement except as herein expressly modified.

SIGNED, SEALED AND DATED this _____ day of February, 1991.

ALLSTATE SETTLEMENT CORPORATION

By: /s/ Joseph J. Doucette

Joseph Doucette
Title: -----

ALLSTATE INSURANCE COMPANY

By: /s/ Martin J. Mulvihill

Martin J. Mulvihill
Attorney-in-Fact

TAX SHARING AGREEMENT

This Tax Sharing Agreement (the "Agreement"), dated as of this 12th day November, 1996, and effective for consolidated federal income tax returns filed after June 30, 1996, is entered into by and among The Allstate Corporation ("Parent") and the undersigned corporations, as includible corporations in the affiliated group (the "Allstate Group") of which Parent is the common parent (as such terms are used or defined in section 1504 of the Internal Revenue Code of 1986 (the "Code")).

WHEREAS the Allstate Group has filed a consolidated federal income tax return for the taxable year ended December 31, 1995 and intends to continue filing consolidated federal income tax returns in subsequent years; and

WHEREAS the parties hereto desire to enter into this agreement to fairly allocate among themselves the federal tax liabilities, credits, refunds, benefits, and similar items related to the consolidated federal income tax return for the taxable year ended December 31, 1995 and subsequent years;

NOW, THEREFORE, in consideration of their mutual promises, the parties agree as follows:

ARTICLE I - REGULAR TAX

1.1 Subject to the adjustments provided in section 1.2 of this Agreement, the regular federal income tax liability of each member shall be determined pursuant to the principles used to determine earnings and profits under section 1552(a)(2) of the Code and Treasury Regulation section 1.1502-33(d)(3) using a fixed percentage of one hundred. Accordingly, each member shall, subject to the adjustments in section 1.2, generally be liable for the amount of tax it would ordinarily pay on a separate return basis.

1.2 In determining the separate return tax liability of each member for purposes of this Article, only the regular tax liability (without regard to the alternative minimum tax or alternative minimum tax credits) shall be taken into account. Additionally, items of income, deductions, credits and other similar items that may be limited or recharacterized on a consolidated basis (e.g., foreign tax credits, charitable contributions, section 1231 gains, etc.) shall be included in the determination of separate return liability as so limited or recharacterized. For purposes of this determination, any item that is limited on a consolidated basis shall be allocated to each member according to the ratio of (i) the amount of such item

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generated by a member to (ii) the total amount of such items generated by the Allstate Group.

ARTICLE II - ALTERNATIVE MINIMUM TAX

2.1 If the Allstate Group has an alternative minimum tax ("AMT") liability for any year, such liability shall be allocated to each member according to the ratio of (i) the excess of any member's separate return tentative minimum tax for the year (whether such amount is positive or negative) over the member's separate return regular tax for such year (whether such amount is positive or negative) to (ii) the sum of such excess amounts for all members of the group. In determining each member's tentative minimum tax and regular tax, the adjustments provided in section 1.2 of this Agreement shall be made.

2.2 AMT credits originating in a tax year shall be allocated to each member according to the amount of AMT liability allocated for such year. Utilization of such credits shall be determined on a FIFO basis (i.e., AMT credits from the earliest available year shall be deemed utilized before credits from a later year are utilized). If only part of the amount of AMT paid for any year is utilized as a credit, such amount shall be allocated to the members in proportion to the amounts of AMT liability allocated to members for such year.

ARTICLE III - OTHER TAXES AND CREDITS

Other taxes (e.g., the environmental tax), credits (e.g., the foreign tax credit or the general business credit) or similar items paid, incurred or received by the Allstate Group shall be allocated to each member according to the ratio of the amount of any such item generated by the member on a separate return basis to the total of such item generated on a separate return basis by all members of the Allstate Group.

4.1 As agent for the Allstate Group, Parent shall have the right to control in its sole discretion any audit of returns filed by the Group. However, Parent shall, in its reasonable discretion, permit any member that might have a liability or refund as a result of an adjustment to participate in the proceedings relating to such issue. In the event any member of the group wishes to amend its portion of any filed return, Parent shall have discretion, taking into account the consequences to the entire group, to file an amended return, to present the adjustments to be included on such amended return at the audit of the consolidated return to which the adjustments relate, or to take any other reasonable action.

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4.2 In the event of adjustments to taxes (as a result of audits, filing of amended returns, carrybacks, or other similar items), allocations under this Agreement shall be redetermined as if the adjustments were included in the returns as originally filed. Interest or penalties related to such adjustments shall be allocated to the member which generated the adjustment.

4.3 In the event an adverse adjustment with respect to income or items of one member is offset by a favorable adjustment for another member, thereby resulting in either a smaller deficiency for the Allstate Group or smaller refund for the group, the member with the adverse adjustment shall pay interest at the overpayment rate specified in section 6621(a)(1) to the member with the favorable adjustment to compensate the member with the favorable adjustment for interest not received from the Government as a result of the adverse adjustment.

4.4(a) Any member may make a deposit or payment of any tax liability to stop the running of interest by paying such amount to Parent and providing written directions to transfer the amount to the Government. Parent shall transfer the amount as so directed as soon as practical but in no event later than fifteen business days after the amount has been received by Parent. Notwithstanding the foregoing, Parent may refuse to deposit any such amount with the Government if Parent determines in its sole discretion that it is not in the best interest of the group, taken as a whole, to make such a deposit. In such an event, Parent shall inform the member of its decision and return the amount received within fifteen business days of receipt.

(b) In the event a member which has made a deposit in the nature of a cash bond (the "original depositing member") wishes to secure a return of such deposit, such member shall notify Parent of its desire to have the deposit returned. Within ten business days of such notification, Parent shall determine whether other members of the Allstate group might utilize such deposit. Parent shall within such period notify any members who might have use of such deposit, and, if such members desire to assume all or any portion of the deposit, the members shall inform Parent within ten business days of notification of the amount of the deposit they wish to assume. Parent shall allocate the deposit among the members wishing to assume the deposit within twenty-five business days of the receipt of the notice from the original depositing member. If more than one member wishes to assume all or part of the deposit and the amounts requested to be assumed exceed the amount of the available deposit, Parent shall allocate the deposit to members in its reasonable discretion. Within five business days after allocation of the deposit to assuming members, such members shall pay to the original depositing member the respective portion of the deposit they assumed. Thereafter, the assuming member shall be treated as the original depositing member with respect to the

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portion of the deposit assumed. To the extent a deposit is not assumed under this procedure, Parent shall within thirty business days of the receipt of the notice from the original depositing member take steps to secure the return of the deposit, and shall pay to the original depositing member the amount returned from the Government within three business days of receipt by Parent. Parent shall not be liable for any failure to identify a member as a potential user of the original depositing member's deposit or for any delays in securing the return of a deposit.

(c) In the event a deposit is applied by the Government to a liability of the Allstate Group without the consent of the original depositing member (such event is hereinafter referred to as a "misapplication" of the deposit), the member receiving the benefit of the misapplication of the deposit shall within fifteen business days of receipt of the earlier of actual knowledge of the misapplication of the deposit or notice from Parent of the misapplication of the deposit pay to the original depositing member (i) the amount of the deposit so misapplied and (ii) any interest saved by such member as a result of the misapplication of the deposit. If the member whose deposit was misapplied incurs

additional interest costs (in excess of the interest paid pursuant to the previous sentence) that would not have been incurred absent the misapplication of the deposit, the member receiving the benefit of the misapplication shall also be liable to the original depositing member for such additional interest costs. The amount of such interest shall not exceed the interest incurred for the period from the time the deposit was originally made until the payment was made to the original depositing member pursuant to the first sentence of this subparagraph.

ARTICLE V - CARRYFORWARDS

The utilization of any carryforwards available to the Allstate Group and not expressly covered elsewhere in this Agreement shall be determined under the principles of the consolidated return regulations in effect at the time the carryforwards are used by the group.

ARTICLE VI - RETURNS AND PAYMENTS

6.1 Information required from members for the completion of tax returns (including estimated payments, extensions of time, and other required filings) shall be provided by each member according to the schedule reasonably determined by Parent. Payments of tax or liabilities allocated hereunder shall be made at the time and in the manner reasonably determined by Parent. Settlements of tax payments or refunds hereunder may at the reasonable discretion of Parent be made on an estimated basis, but final settlement for any return filed shall be made no later than 30 days after such return is filed except that, where a refund is due from the Government to the Parent, payment by the

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parent to the appropriate member shall be made within 5 business days of the receipt of the refund. Parent may, in the interest of convenience, net payments due to and from a member or make payment to a member's direct or indirect parent, which shall then promptly make payment to the appropriate member. All payments shall be made in immediately available funds.

6.2 To the extent permitted by law, all tax returns shall be filed using accounting methods and practices consistent with those used in prior periods.

ARTICLE VII - ALLSTATE LIFE OF NEW YORK

7.1 This article shall apply solely with respect to the allocation and settlement of federal tax liabilities between Parent and Allstate Life Insurance Company of New York ("ALICNY"). The other provisions of this Agreement shall continue to apply to ALICNY except to the extent they are inconsistent with the provisions of this Article VII.

7.2 The method of allocating tax liability provided in other articles of this Agreement are intended to comply with part (B) of paragraph 3 of New York Insurance Department Circular Letter No. 33 (the "Circular"). To the extent the other articles of this Agreement result in a tax charge to ALICNY greater than the amount ALICNY would have paid if it had filed a separate return (as defined in paragraph 4 of the Circular), the amount due from ALICNY shall be limited to the separate return amount. To the extent the other articles of this Agreement provide for a payment to ALICNY for credits (as defined in part B of paragraph 3 of the Circular) generated by ALICNY in an amount less than the savings actually generated by the use of such credits on a consolidated basis, such payment shall be increased to the amount of the savings generated on a consolidated basis.

7.3 In order to help assure ALICNY's right to recoup federal taxes in the event of future net losses, Parent shall establish and maintain an escrow account consisting of assets eligible as an investment by ALICNY in an amount equal to the excess of the amount paid hereunder by ALICNY to Parent for any year over the actual payment made by Parent to the Government for such year. Escrow assets may be released to Parent at such time as the permissible period for loss carrybacks has expired.

7.4 All settlements under this Agreement shall be in cash or securities (at market value) eligible as investments for ALICNY. ALICNY agrees to record on its books payments received hereunder as contributed surplus.

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7.5 This Agreement shall be terminated with respect to ALICNY if (a) the parties agree in writing to such termination, (b) ALICNY's membership in the affiliated group or consolidated group ceases or is terminated for any reason, or (c) the affiliated group fails to file a consolidated return for any taxable year. Notwithstanding the termination of the Agreement, the provisions of this Agreement shall remain in effect for any time period during the taxable year in

which termination occurs for which the income of the terminating party must be included in the consolidated return. Additionally, notwithstanding the termination of this agreement, all materials, including, but not limited to, returns, supporting schedules, workpapers, correspondence and other documents related to the consolidated return shall be made available to and by ALICNY during regular business hours.

7.6 This Agreement shall not be assignable without the prior written consent of the other parties hereto.

7.7 ALICNY and Parent agree to negotiate in good faith to settle any dispute involving the interpretation of this Agreement. If any such dispute cannot be settled, such dispute shall be submitted to binding arbitration as follows:

- (a) Parent and ALICNY shall select an arbitrator, who is a partner at a national accounting firm that has not represented either party in the preceding five years. If the parties are unable to agree upon an arbitrator, Parent's independent accountant shall select as the arbitrator a partner at a national accounting firm that has not represented either party in the preceding five years.
- (b) The arbitration shall be conducted pursuant to the rules of the American Arbitration Association.
- (c) The decision of the arbitrator shall be final and binding on Parent and ALICNY.
- (d) Parent and ALICNY agree to pay their own costs of the arbitration proceeding, except that costs and fees of the arbitrator shall be shared equally.

7.8 To the extent that this Agreement pertains to ALICNY, it shall be governed under the laws of the State of New York.

ARTICLE VIII - MISCELLANEOUS

8.1 Any dispute with respect to the interpretation of this Agreement or the treatment of any tax item not expressly covered by this Agreement shall be conclusively determined by Parent

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according to the basic principles of this Agreement.

8.2 All parties shall cooperate in the exchange of information needed to fulfill the purposes of this Agreement. Each member agrees to cause its proper officers and employees to execute documents, statements, elections, certificates, schedules, and other similar items deemed necessary by Parent in order to carry out the intent of the provisions of applicable law and regulations.

8.3 This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. No assignment, however, shall relieve any party's obligations hereunder without the consent of the other parties.

8.4 Each member that acquires after the date of this Agreement an ownership interest in an entity that results in such entity becoming a member of the Allstate Group shall promptly cause such entity to adopt the provisions of this Agreement.

8.5 This Agreement may be modified only by written agreement of members affected by the modification. This Agreement shall be terminated with respect to any member as of the end of the day on which such member ceases to be a member of the Allstate Group, provided, however, that such member shall be subject to the obligations, duties and other terms and conditions of this Agreement for any period in which the terminating member's items were included in the consolidated federal income tax return of the Allstate Group. To the extent a company whose items of income and loss were included in the consolidated federal income tax return of the Allstate Group is determined not to be an includible member of the Allstate Group, this Agreement shall not apply to such company for any period in which it is not an includible member, and any payments, liabilities incurred, benefits received and other similar items under this Agreement shall be redetermined and repaid in a fair and equitable manner.

8.6 This Agreement shall be governed under the laws of the State of Illinois, except as provided otherwise in section 7.8 of this Agreement.

8.7 This Agreement may be executed in counterparts, each of which shall

be considered an original.

IN WITNESS HEREOF, the parties have executed this Agreement on the date indicated:

The Allstate Corporation

By _____ Date _____

Allstate Insurance Company

By _____ Date _____

Allstate Life Insurance Company

By _____ Date _____

Allstate Texas Lloyd's, Inc.

By _____ Date _____

AEI Group, Inc. (Name changed to Allstate Enterprises, Inc.)

By _____ Date _____

Allstate Investment Management Company

By _____ Date _____

Allstate Motor Club, Inc.

By _____ Date _____

Rescue Express, Inc.

By _____ Date _____

Roadway Protection Auto Club, Inc.

By _____ Date _____

Direct Marketing Center, Inc.

By _____ Date _____

Enterprises Services Corporation

By _____ Date _____

General Underwriters Agency, Inc.

By _____ Date _____

Tech-Cor, Inc.

By _____ Date _____

Allstate International, Inc.

By _____ Date _____

Forty-Fifth & Main Redevelopment Corporation

By _____ Date _____

Omnitrus Merging Corporation

By _____ Date _____

Truswal Systems Corporation

By _____ Date _____

Merlyn Industries, Inc.

By _____ Date _____

Karelian Timber Associates, Inc.

By _____ Date _____

Allstate Settlement Corporation

By _____ Date _____

Allstate Life Financial Services, Inc. (Name changed to ALFS, Inc.)

By _____ Date _____

Lincoln Benefit Financial Services, Inc. (Name changed to AFD, Inc.)

By _____ Date _____

The Northbrook Corporation

By _____ Date _____

Laughlin Group Holdings, Inc.

By _____ Date _____

The Laughlin Group, Inc. (Name changed to AFDW, Inc.)

By _____ Date _____

Bank Insurance Services, LLC

By _____ Date _____

Florence Financial Services, Inc.

By _____ Date _____

Investors Financial Services, Inc.

By _____ Date _____

Key Investor Services, Inc. (WV)

By _____ Date _____

Key Investor Services, Inc. (PA)

By _____ Date _____

Key Investor Services, Inc. (MD)

By _____ Date _____

Laughlin Analytics, Inc.

By _____ Date _____

Laughlin Educational Services, Inc.

By _____ Date _____

Laughlin Group Advisors, Inc.

By _____ Date _____

Lee Financial Services, Inc.

By _____ Date _____

Security Financial Network, Inc. (GA)

By _____ Date _____

Security Financial Network, Inc. (FL)

By _____ Date _____

Laughlin Direct Advantage Agency, Inc.

By _____ Date _____

Provest Insurance Services, Inc. (IN)

By _____ Date _____

Provest Insurance Services, Inc. (KY)

By _____ Date _____

Provest Insurance Services, Inc. (PA)

By _____ Date _____

Lifemark Insurance Services of California, Inc.

By _____ Date _____

Lifemark Financial & Insurance Services, LLC.

By _____ Date _____

Lifemark Financial & Insurance Services, Inc.

By _____ Date _____

After Six Holding Corporation

By _____ Date _____

A. S. Licensing Corporation
By ----- Date -----

After Six, Ltd.
By ----- Date -----

Allstate Indemnity Company
By ----- Date -----

Allstate Property & Casualty Insurance Company
By ----- Date -----

Allstate Holdings, Inc. (Changed to Allstate Holdings, LLC)
By ----- Date -----

Allstate Floridian Insurance Company
By ----- Date -----

Forestview Mortgage Insurance Company (Name changed to Allstate Fire
and Casualty Insurance Company)
By ----- Date -----

Pinebrook Mortgage Insurance Company
By ----- Date -----

Allstate Texas Lloyds
By ----- Date -----

Glenbrook Life Insurance Company
By ----- Date -----

Deerbrook Insurance Company
By ----- Date -----

Northbrook Life Insurance Company
By ----- Date -----

Allstate Life Insurance Company of New York
By ----- Date -----

Surety Life Insurance Company
By ----- Date -----

Lincoln Benefit Life Company
By ----- Date -----

Allstate New Jersey Holdings, Inc. (Changed to Allstate New Jersey Holdings, LLC)

By _____ Date _____

Allstate New Jersey Insurance Company

By _____ Date _____

Allstate Floridian Indemnity Company

By _____ Date _____

Allstate International Insurance Holdings, Inc.

By _____ Date _____

Glenbrook Life and Annuity Company

By _____ Date _____

Northbrook Services, Inc.

By _____ Date _____

Allstate Federal Savings Bank (Name changed to Allstate Bank)

By _____ Date _____

CNL, Inc.

By _____ Date _____

Allstate Reinsurance Ltd.

By _____ Date _____

Pembridge America, Inc.

By _____ Date _____

American Surety & Casualty Company (Name changed to Encompass Indemnity Company)

By _____ Date _____

American Heritage Life Investment Corporation

By _____ Date _____

Florida Associated Services, Inc.

By _____ Date _____

Realty Advisors Corporation

By _____ Date _____

American Heritage Service Company

By _____ Date _____

Amherst Investment Company

By _____ Date _____

American Heritage Insurance Services (a/k/a ERJ Insurance Group, Inc.)

By _____ Date _____

Colonial Reinsurance, Ltd.

By _____ Date _____

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Willow Insurance Holdings, Inc. (Name changed to Ivantage Group, LLC)

By _____ Date _____

Kennett Capital, Inc.

By _____ Date _____

Allstate Non-Insurance Holdings, Inc.

By _____ Date _____

Willow Lake Holdings, LLC

By _____ Date _____

Encompass Holdings, LLC

By _____ Date _____

Northbrook Indemnity Company

By _____ Date _____

Allstate Assignment Company

By _____ Date _____

Allstate North American Insurance Company

By _____ Date _____

USF&G Business Insurance Company

By _____ Date _____

Allstate Financial, LLC

By _____ Date _____

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Allstate Financial Corporation

By _____ Date _____

Allstate Investments, LLC

By _____ Date _____

LSA Asset Management, LLC

By -----

Date -----

Allstate Financial Advisors, LLC

By -----

Date -----

Allstate Financial Services, LLC

By -----

Date -----

Deerbrook General Agency, Inc.

By -----

Date -----

Ivantage Select Agency, Inc.

By -----

Date -----

Sterling Collision Center, Inc.

By -----

Date -----

Bob Thompson Enterprises, Inc.

By -----

Date -----

Pacific Painters, Inc.

By -----

Date -----

Champions Pride Electronics & Trim, Inc.

By -----

Date -----

JSI Collision Centers, Inc.

By -----

Date -----

Westborn Collision, Inc.

By -----

Date -----

REINSURANCE AGREEMENT

BETWEEN THE

ALLSTATE INSURANCE COMPANY, NORTHBROOK, ILLINOIS
(HEREINAFTER "ALLSTATE")

AND

ALLSTATE LIFE INSURANCE COMPANY, NORTHBROOK, ILLINOIS
(HEREINAFTER "ALLSTATE LIFE")

ARTICLE I
BASIS OF REINSURANCE

1. One-hundred percent (100%) of the net benefits (defined in Article II, Paragraph 1), under all eligible policies (defined in Schedule A) of ALLSTATE, will be reinsured with ALLSTATE LIFE.
2. This reinsurance will be ceded to ALLSTATE LIFE on an automatic coinsurance basis.
3. In no event will reinsurance under this Agreement be in force unless the corresponding coverage issued by ALLSTATE, or the reinsurance accepted by ALLSTATE, as the case may be, is in force.

ARTICLE II
REINSURANCE BENEFITS

1. Net benefits are defined as follows:

For coverage issued directly by ALLSTATE and reinsured under this Agreement, net benefits are the actual benefits payable by ALLSTATE to insureds, less any amounts payable to ALLSTATE by another reinsurer with respect to the policy. These payments include credit disability and credit hospitalization benefits.
2. With respect to coverage issued directly or reinsured by ALLSTATE after the Effective Date of this Agreement, ALLSTATE LIFE'S liability for net benefits will begin simultaneously with that of ALLSTATE.
3. ALLSTATE LIFE'S liability under this Agreement will continue as long as ALLSTATE remains liable on the underlying coverage, and will terminate simultaneously with ALLSTATE'S termination of liability.

ARTICLE III
SETTLEMENTS

1. While this Agreement is in effect, ALLSTATE shall pay to ALLSTATE LIFE no less frequently than weekly, with respect to coverage reinsured under this Agreement, a reinsurance premium equal to (or the accounting equivalent of).

Gross premiums (direct and reinsurance assumed) collected by ALLSTATE.

Less

Gross premiums refunded by ALLSTATE to insureds.
2. While this Agreement is in effect, ALLSTATE LIFE shall pay to ALLSTATE no less frequently than weekly a benefit and expense allowance equal to (or the accounting equivalent of) the sum of Items (a), (b), (c) and (d) below, with respect to the policies reinsured under this Agreement, as applicable for the period since the date of ALLSTATE LIFE'S last payment to ALLSTATE.
 - (a) Net benefits (as defined in Article II) paid by ALLSTATE.
 - (b) Commissions and other sales compensation paid by ALLSTATE.
 - (c) General insurance expenses paid by ALLSTATE.
 - (d) Insurance taxes, licenses and fees (excluding Federal Income Tax) paid by ALLSTATE.

ARTICLE IV

OVERSIGHTS

ALLSTATE LIFE shall be bound as ALLSTATE is bound, and it is expressly understood and agreed that if failure to reinsure or failure to comply with any terms of this Agreement is shown to be unintentional and the result of misunderstanding or oversight on the part of either ALLSTATE or ALLSTATE LIFE, both ALLSTATE and ALLSTATE LIFE shall be restored to the positions they would have occupied had no such error or oversight occurred.

ARTICLE V POLICY CHANGES

If any change is made in coverage reinsured under this Agreement ALLSTATE shall notify ALLSTATE LIFE.

ARTICLE VI INSPECTION OF RECORDS

ALLSTATE and ALLSTATE LIFE shall have the right, at any reasonable time, to examine at the office of the other, any books, documents, reports or records which pertain in any way to the policies reinsured under this Agreement.

ARTICLE VII INSOLVENCY

1. In the event of the insolvency of ALLSTATE, reinsurance under this Agreement is payable by ALLSTATE LIFE on the basis of its liability hereunder without diminution because of the insolvency of ALLSTATE.
2. Further, in the event of the insolvency of ALLSTATE, the liquidator, receiver or statutory successor of the statutory successor of the insolvent ALLSTATE shall give written notice to ALLSTATE LIFE of the pendency of an obligation of the insolvent ALLSTATE on any policy reinsured, whereupon ALLSTATE LIFE may investigate such claim and interpose at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to ALLSTATE or its liquidator or statutory successor. The expense thus incurred by ALLSTATE LIFE shall be chargeable, subject to court approval, against the insolvent ALLSTATE as part of the expenses of liquidation to the extent of a proportionate share of the benefit which may accrue to ALLSTATE solely as a result of the defense undertaken by ALLSTATE LIFE.
3. All monies due ALLSTATE or ALLSTATE LIFE under this Agreement shall be offset against each other, dollar for dollar, regardless of any insolvency of either party.

ARTICLE VIII ARBITRATION

Any dispute arising with respect to this Agreement, which is not settled by mutual agreement of the parties shall be referred to arbitration. Within twenty (20) days from receipt of written notice from one party that an arbitrator has been appointed, the other party will also name an arbitrator. The two arbitrators will choose a third arbitrator and will forthwith notify the contracting parties of such choice. Each arbitrator should be a present or former officer of a life insurance company and should have no present or past affiliation with this Agreement or with either party. The arbitrators will consider this Agreement as an honorable engagement rather than merely as a legal obligation, and will be relieved of all judicial formalities. The decision of the arbitrators will be final and binding upon the parties hereto. Each party shall bear the expenses of its own arbitrator and shall jointly and equally bear the expenses of the third arbitrator and of the arbitration. Any such arbitration will take place at the Home Office of ALLSTATE, unless some other location is mutually agreed upon.

ARTICLE IX PARTIES TO AGREEMENT

This Agreement is solely between ALLSTATE and ALLSTATE LIFE. The acceptance of reinsurance hereunder does not create any right or legal relation whatever between ALLSTATE LIFE and any party in interest under any policy reinsured hereunder. ALLSTATE shall be and remain solely liable to any such party under any policy reinsured hereunder.

ARTICLE X DURATION OF AGREEMENT

This Agreement will be effective as of June 1, 1992, and will be unlimited as to its duration; provided, however, it may be terminated with respect to the reinsurance of new business by either party giving sixty (60) days prior written notice of termination to the other party.

IN WITNESS WHEREOF, the parties to this Agreement have caused it to be duly executed in duplicate by their respective officers on the date shown below.

ALLSTATE INSURANCE COMPANY OF Northbrook, Illinois

By /s/ Paul M. Feightner

Title Paul M. Feightner, Assistant Vice President

Date July 20, 1992

ALLSTATE LIFE INSURANCE COMPANY of Northbrook, Illinois

By /s/ Charles F. Thalheimer

Title Charles F. Thalheimer, Assistant Vice President

Date July 02, 1992

REINSURANCE AGREEMENT

BETWEEN

ALLSTATE INSURANCE COMPANY, NORTHBROOK, ILLINOIS
(HEREAFTER "ALLSTATE")

AND

ALLSTATE LIFE INSURANCE COMPANY, NORTHBROOK, ILLINOIS
(HEREAFTER "ALLSTATE LIFE")

SCHEDULE A

ELIGIBLE AND INELIGIBLE POLICIES

This Agreement covers all hospitalization and disability insurance issued directly by ALLSTATE under Master Policy Number LGU 10041 after the Effective Date of this Agreement.

AMENDMENT TO
REINSURANCE AGREEMENT

BETWEEN THE

ALLSTATE INSURANCE COMPANY, NORTHBROOK, ILLINOIS
(HEREINAFTER "ALLSTATE")

AND

ALLSTATE LIFE INSURANCE COMPANY, NORTHBROOK, ILLINOIS
(HEREINAFTER "ALLSTATE LIFE")

This Amendment to the Reinsurance Agreement between ALLSTATE and ALLSTATE LIFE dated June 1, 1992 (hereinafter "Agreement"), shall be effective as of January 1, 1993.

This Agreement is hereby amended as follows:

- 1. Schedule A is replaced by the following:

ELIGIBLE AND INELIGIBLE POLICIES

This Agreement covers all hospitalization and disability insurance issued directly by ALLSTATE under Master Policy Number LGU 10041 after the Effective Date of this Agreement, except for coverage Issued in the state of New York.

- 2. Nothing in this Amendment shall be construed as changing the terms of the Agreement, other than those specifically set out in this Amendment; provided, however, that any provision of Agreement that may be in conflict with the terms of this Amendment, shall be construed such that it conforms to this Amendment.

IN WITNESS WHEREOF, the parties to this Agreement have caused it to be duly executed in duplicate by their respective officers on the date shown below.

ALLSTATE INSURANCE COMPANY of Northbrook, Illinois

By /s/ Paul Feightner

Title Vice President
Date April 22, 1993

ALLSTATE LIFE INSURANCE COMPANY of Northbrook, Illinois

By /s/ Charles F. Thalheimer

Title Assistant Vice President
Date April 19, 1993

REINSURANCE AGREEMENT

BETWEEN

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

AND

ALLSTATE LIFE INSURANCE COMPANY

RECITALS

This Reinsurance Agreement (hereinafter "Agreement") is made and entered into by and between COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Texas (hereinafter "Ceding Company") and ALLSTATE LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Illinois (hereinafter the "Reinsurer").

WHEREAS, the Ceding Company desires to cede to the Reinsurer, and the Reinsurer desires to accept on a modified coinsurance basis 100% of the Ceding Company's Net Ceded Liabilities (as defined in Article I, below) under certain life and health insurance policies and certificates, as provided in this Agreement;

NOW THEREFORE, the Ceding Company and the Reinsurer mutually agree to reinsure on the terms and conditions stated in this Agreement.

ARTICLE I
DEFINITIONS

Unless otherwise defined herein, as used in this Agreement the following terms shall have the meanings ascribed to them below:

- A. "Annual Statement" shall mean the Ceding Company's Life and Accident and Health Companies 1999 Annual Statement for the General Account.
- B. "Code" shall mean the Internal Revenue Code of 1986, as amended.
- C. "Commission and Expense Allowance" shall have the meaning set forth in Exhibit B.
- D. "Effective Date" shall mean the effective date of this Agreement, which shall be July 1, 2000.
- E. "Excluded Liabilities" shall mean (i) Extra-Contractual Obligations, and (ii) liabilities ceded by Ceding Company under Third-Party Reinsurance Agreements.
- F. "Extra-Contractual Obligations" shall mean all liabilities and obligations for consequential, extra-contractual, exemplary, punitive, special or similar damages or any other amounts due or alleged to be due (other than those arising under the express terms and conditions of the Policies) which arise from any real or alleged act, error or omission, whether or not intentional, in bad faith or otherwise, including without limitation, any act, error or omission relating to: (i) the marketing, underwriting, production, issuance, cancellation or administration of the Policies; (ii) the handling of claims in connection with the Policies; or (iii) the failure to pay or the delay in payment of benefits or claims, under or in connection with the Policies.
- G. "Interest Maintenance Reserve" shall mean the value which will be reported on the Ceding Company's Annual Statement Balance Sheet.
- H. "Invested Assets" shall mean the assets, including policy loans, held by the Ceding Company in an internally segmented investment portfolio for the Net Ceded Liabilities, as set forth in Article IV, Paragraph A.
- I. "Modified Coinsurance Reserve" shall mean the statutory reserves held by the Ceding Company with respect to the Policies. The statutory reserves will be determined by using the valuation procedures as prescribed or permitted by the Texas Department of Insurance for statutory financial statement filings.
- J. "Modified Coinsurance Reserve Adjustment" shall have the meaning set forth in Article V.

- K. "Net Benefits" shall mean the actual amounts paid or incurred by the Ceding Company with respect to the Policies for all surrenders, withdrawals (full and partial), death benefits, annuitizations, and payments on supplemental contracts, net of Excluded Liabilities.
- L. "Net Capital Gains" shall mean realized capital gains less realized capital losses from the sale or maturity on Invested Assets plus the unrealized capital gains less the unrealized capital losses from the change in statutory book value and admitted value on Invested Assets, minus the additions to (which may be positive or negative) and plus the amortization of (which may be positive or negative) the Interest Maintenance Reserve on

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Invested Assets.

- M. "Net Ceded Liabilities" shall mean any and all liabilities of the Ceding Company arising under the Policies, but shall not include Excluded Liabilities.
- N. "Net Premiums" shall mean the premiums due the Ceding Company with respect to the Policies.
- O. "Policy or Policies" shall mean the insurance contracts defined in Exhibit A which are underwritten or reinsured by the Ceding Company. For the avoidance of doubt, "Policies" refers to all life insurance and health insurance policies and certificates which are in-force on the Effective Date or issued after the Effective Date, including (i) any supplemental agreements or benefits arising out of the Policies, (ii) premium deposit funds, (iii) policies, or portions thereof, recaptured by the Ceding Company under Third-Party Reinsurance Agreements, and (iv) policies reinsured by Ceding Company.
- P. "Reinsurance Settlement" shall have the meaning set forth in Article IV.
- Q. "Terminal Accounting and Settlement" shall have the meaning set forth in Article XIV.
- R. "Third-Party Reinsurance Agreements" shall mean any written reinsurance agreements under which Ceding Company has ceded liabilities with respect to the Policies, other than this Agreement.

ARTICLE II
BASIS OF REINSURANCE

The Ceding Company agrees to cede and the Reinsurer agrees to accept Net Ceded Liabilities. The reinsurance provided hereunder shall be on a 100% modified coinsurance basis.

ARTICLE III
LIABILITY OF REINSURER; MODIFIED COINSURANCE PROVISIONS

- A. All of the Net Ceded Liabilities shall be reinsured pursuant to the terms of this Agreement as of the Effective Date.
- B. The liability of the Reinsurer with respect to Policies in force on the Effective Date will begin on the Effective Date. The liability of the Reinsurer with respect to any application received or any contract issued after the Effective Date and reinsured hereunder will begin simultaneously with that of the Ceding Company. The Reinsurer's liability with respect to any Policy will terminate on the date the Ceding Company's liability on such contract terminates or the date this Agreement is terminated, whichever is earlier.

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However, termination of this Agreement will not terminate the Reinsurer's liability for Net Benefits prior to the date of termination. If any of the Policies are reduced or terminated by payment of a death benefit, withdrawal or surrender, the reinsurance will be reduced proportionately or terminated.

- C. The reinsurance provided under this Agreement is subject to the same limitations and conditions as set forth in the Policies.
- D. Ceding Company shall not make any changes after the Effective Date in the provisions and conditions of a Policy except with Reinsurer's prior written consent and/or to the extent that any change is required in the reasonable

judgment of Ceding Company, under any law, rule or regulation. Reinsurer and Ceding Company shall fully cooperate with each other to effect any such changes in the provisions and conditions of a Policy in compliance with any applicable law, rule or regulation.

- E. Some of the Policies ceded under this Agreement provide that the Ceding Company may in its discretion, from time to time, as provided in the policy or contract, declare interest rates, cost of insurance rates, premium payments or other non-guaranteed elements that are or affect required premium payments or are used to determine policy or contract values. The Ceding Company agrees, while this Agreement is in effect, to set such discretionary interest rates, cost of insurance rates, premium rates or other non-guaranteed elements to be declared on the Policies and the effective dates thereof, taking into account the recommendations of the Reinsurer with respect thereto. After giving due consideration to Reinsurer's recommendations, Ceding Company may, in its discretion, either follow or reject such recommendations. The Ceding Company and Reinsurer agree to fully cooperate in obtaining any required regulatory approvals in connection with setting or changing such discretionary interest rates, cost of insurance rates, premium rates or other non-guaranteed elements.
- F. Ceding Company shall submit to Reinsurer for its approval, which approval shall not be unreasonably withheld, any proposed changes in its investment policy with respect to the Policies.

ARTICLE IV SETTLEMENT AND REPORTING

- A. On the Effective Date, the Ceding Company shall internally segment Invested Assets on behalf of the Reinsurer with a statutory book value equal to Items (a) and (b) less Items (c) and (d) below. In exchange, the Reinsurer shall accept the future results of the Net Ceded Liabilities and the Invested Assets.

(a) Liabilities related to the Net Ceded Liabilities determined as Total Liabilities less

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Asset Valuation Reserve less Interest Maintenance Reserve, as currently included respectively in Annual Statement page 3, Lines 28, 24.1 and 11.4.

(b) Allocation of Interest Maintenance Reserve related to Net Ceded Liabilities.

(c) Allocation of non-invested assets related to Net Ceded Liabilities determined as Total Assets less Cash and Invested Assets less Investment Income Due and Accrued, as currently included respectively in Annual Statement page 2, Lines 25, 11 and 17.

(d) Allocation of Investment Income Due and Accrued related to Net Ceded Liabilities.

- B. While this Agreement is in effect, a reinsurance settlement shall be payable between the Ceding Company and the Reinsurer at least each calendar quarter with respect to the Net Ceded Liabilities ("Reinsurance Settlement"). The Reinsurance Settlement shall be equal to Item (1) less the sum of Items (2) through (4) below.

(1) Earned Premiums ceded (defined consistent with the Annual Statement line items referenced in this subparagraph) to the Reinsurer by the Ceding Company under this Agreement, and as currently represented on Annual Statement page 4, Lines 1 through 3A before the adjustments needed to reflect this Agreement with respect to the Ceding Company.

(2) Commission and Expense Allowances calculated in accordance with Exhibit B.

(3) The Modified Coinsurance Reserve Adjustment as currently represented on Annual Statement page 4, Line 5A calculated in accordance with Article V.

(4) Incurred Benefits ceded (defined consistent with the Annual Statement line items referenced in this subparagraph) to the Reinsurer by the Ceding company under this Agreement, and as currently represented on Annual Statement page 4, Lines 8 through 16A and Line 28 before the adjustments needed to reflect this Agreement with respect to the Ceding Company.

If the Reinsurance Settlement amount for the quarter is positive, the Ceding Company shall remit such amount within forty-five (45) days after the end of the calendar quarter. If the Reinsurance Settlement amount for the quarter is negative, the Reinsurer shall remit such amount to the Ceding Company within forty-five (45) days following the end of the calendar quarter.

- C. The Ceding Company will provide the Reinsurer with accounting reports no less frequently than quarterly within fifteen (15) business days after the end of each calendar quarter. These reports will contain sufficient information about the Policies to enable the Reinsurer to prepare its quarterly and annual financial reports.

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ARTICLE V QUARTERLY RESERVE ADJUSTMENTS

While this Agreement is in effect, a Modified Coinsurance Reserve Adjustment with respect to the Policies shall be made at least quarterly and used in the calculation of the Reinsurance Settlement required under Article IV. The Modified Coinsurance Reserve Adjustment shall be equal to Item (a) less Items (b) and (c) below:

- (a) The change in Modified Coinsurance Reserves defined consistent with Annual Statement page 4, Lines 17, 17A, 18 and 24.
- (b) Net investment income on Invested Assets as currently included in Annual Statement page 4, Line 4 of the Ceding Company.
- (c) Net Capital Gains on Invested Assets as currently included in Annual Statement page 4, Lines 4a, 32 and 36.

ARTICLE VI TAX MATTERS

- A. On a basis no less frequent than quarterly, the Ceding Company and the Reinsurer shall settle the federal income tax consequences relating to the reinsurance of the Policies hereunder. Such settlement shall be determined by comparing (a) the Ceding Company's separate return tax liability (or refund), determined as set forth below and calculated prior to taking into account any settlement under this paragraph (the "Actual Tax Liability"), with (b) the Ceding Company's separate return tax liability (or refund) that would have been incurred if the Policies were written directly by the Reinsurer and the Invested Assets and related reserves were held by the Reinsurer (the "Pro Forma Tax Liability"). If the Actual Tax Liability exceeds the Pro Forma Tax Liability, the Reinsurer shall pay to the Ceding Company such amount (grossed-up to take into account the tax on such payment, determined at the highest federal corporate income tax rate); if the Actual Tax Liability is less than the Pro Forma Tax Liability, the Ceding Company shall pay to the Reinsurer such amount (grossed-up to take into account the tax on such payment, determined at the highest federal corporate income tax rate). For this purpose, the Actual Tax Liability shall be computed as follows: (i) if the Ceding Company is not a member of the same consolidated tax group as the Reinsurer, the Actual Tax Liability shall be determined as if the Ceding Company filed a separate federal income tax return and all the income on such return were taxed at the highest federal corporate income tax rate; (ii) if the Ceding Company is a member of the same consolidated tax group as the Reinsurer, the Actual Tax Liability of the Ceding Company shall be the amount of consolidated group's tax allocable to the Ceding Company under any tax sharing

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agreements with members of the group. The Pro Forma Tax Liability shall be determined under similar principles.

- B. With respect to this Agreement, the Ceding Company and the Reinsurer hereby make the election as set forth in Exhibit C and as provided for in section 1.848-2(g)(8) of the Treasury Regulations. Each of the parties hereto agrees to take such further actions as may be necessary to ensure the effectiveness of such election.

ARTICLE VII RESERVE CREDIT

The Reinsurer shall, to the extent necessary, together with all its subsequent retrocessionaires, establish adequate net reserves, and shall agree in good faith to take any other steps necessary, pursuant to the requirements of Texas

or any other state or jurisdiction in which the Ceding Company is licensed or accredited, for the Ceding Company to take statutory credit for reinsurance ceded to an unadmitted, unauthorized or unaccredited reinsurer, up to the full amount of the reserve that the Ceding Company would have established for the Policies if it had retained the Policies.

ARTICLE VIII OVERSIGHTS

The Reinsurer shall be bound as the Ceding Company is bound, and it is expressly understood and agreed that if failure to reinsure or failure to comply with any terms of this Agreement is shown to be unintentional and the result of misunderstanding or oversight on the part of either the Ceding Company or the Reinsurer, both the Ceding Company and the Reinsurer shall be restored to the positions they would have occupied had such error or oversight not occurred.

ARTICLE IX INSPECTION OF RECORDS

The Ceding Company and the Reinsurer shall have the right, upon reasonable prior notice and at any reasonable time, to examine at the office of the other, any books, documents, reports or records which pertain in any way to the contracts reinsured under this Agreement.

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ARTICLE X INSOLVENCY

- A. The portion of any risk or obligation assumed by the Reinsurer, when such portion is ascertained, shall be payable on demand of the Ceding Company at the same time as the Ceding Company shall pay its net retained portion of such risk or obligation, and the reinsurance shall be payable by the Reinsurer on the basis of the liability of the Ceding Company under the Policies without diminution because of the insolvency of the Ceding Company. In the event of the insolvency of the Ceding Company and the appointment of a conservator, liquidator or statutory successor of the Ceding Company, such portion shall be payable to such conservator, liquidator or statutory successor immediately upon demand, on the basis of claims allowed against the Ceding Company by any court of competent jurisdiction or, by any conservator, liquidator or statutory successor of the Ceding Company having authority to allow such claims, without diminution because of such insolvency or because such conservator, liquidator or statutory successor has failed to pay all or a portion of any claims. Payments by the Reinsurer as above set forth shall be made directly to the Ceding Company or its conservator, liquidator or statutory successor.
- B. Further, in the event of the insolvency of the Ceding Company, the liquidator, receiver or statutory successor of the insolvent Ceding Company shall give written notice to the Reinsurer of the pendency of any obligation of the insolvent Ceding Company on any Net Ceded Liability, whereupon the Reinsurer may investigate such claim and interpose at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to the Ceding Company or its liquidator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the insolvent Ceding Company as part of the expenses of liquidation to the extent of a proportionate share of the benefit which may accrue to the Ceding Company solely as a result of the defense undertaken by the Reinsurer.
- C. In the event of the Reinsurer's insolvency, this treaty will terminate, and the Terminal Accounting and Settlement described in Article XIV will occur. Any payments due the Reinsurer from the Ceding Company pursuant to the terms of this Agreement will be made directly to the Reinsurer or its conservator, liquidator, receiver or statutory successor.

ARTICLE XI ARBITRATION

Any dispute arising with respect to this Agreement which is not settled by mutual agreement of the parties shall be referred to arbitration. Within twenty (20) days from receipt of written notice from one party that an arbitrator has been appointed, the other party shall also name an arbitrator. The two arbitrators shall choose a third arbitrator within twenty (20) days following the appointment of the second arbitrator, and shall forthwith notify the contracting parties of such choice. Each arbitrator shall be a present or former officer of a life insurance company or life reinsurance company and should have no present or past affiliation with this Agreement or with either party. The

than merely as a legal obligation, and shall be relieved of all judicial formalities; provided, however, the arbitration shall be governed pursuant to the rules of the American Arbitration Association and the laws of Illinois. The decision of the arbitrators shall be final and binding upon the parties hereto, and may not be appealed to any court or other forum. The decision of the arbitrators shall be handed down within forty-five (45) days of the date on which the arbitration is concluded. Each party shall bear the expenses of its own arbitrator and shall jointly and equally bear the expenses of the third arbitrator and of the arbitration. Any such arbitration shall take place at the Home Office of the Reinsurer, unless some other location is mutually agreed upon.

ARTICLE XII
PARTIES TO AGREEMENT

This Agreement is solely between the Ceding Company and the Reinsurer. The acceptance of reinsurance hereunder shall not create any right or legal relation whatever between the Reinsurer and any party in interest under any Policy. Ceding Company shall be and remain solely liable to any insured, contract owner, or beneficiary under any contract reinsured hereunder.

ARTICLE XIII
DURATION OF AGREEMENT AND TERMINATION

- A. DURATION. This agreement will be effective as of the Effective Date, and will be unlimited as to its duration except as provided otherwise herein.
- B. TERMINATION OF REINSURER'S LIABILITY. The Reinsurer's liability with respect to a Net Ceded Liability will terminate on the earliest of: (1) the date such Net Ceded Liability is recaptured in accordance with paragraph C below; (2) the date the Ceding Company's liability on the underlying Policy is terminated; or (3) the date this Agreement is terminated pursuant to paragraph D of this Article XIII. Termination of the Reinsurer's liability is subject to payments in respect of such liability in accordance with the provisions of Article XIV.
- C. TERMINATION BY CEDING COMPANY. At any time after the occurrence (or nonoccurrence, as the case may be) of any of the following, the Ceding Company shall have the right, at its option, upon delivery of written notice to the Reinsurer, to terminate this Agreement and recapture any and all of the Net Ceded Liabilities:
 - (1) if the Reinsurer materially breaches any provision of this Agreement, which breach is not cured within sixty (60) days after receipt by the Reinsurer of notice thereof from the Ceding Company;
 - (2) if the Ceding Company provides thirty (30) days prior written notice to the reinsurer.

- D. TERMINATION BY THE REINSURER. This Agreement may be terminated by the Reinsurer: (1) if the Ceding Company materially breaches this Agreement, which breach is not cured within sixty (60) days after receipt by the Ceding Company of written notice from the Reinsurer describing such breach; or (2) if the Ceding Company fails to pay any amounts due the Reinsurer pursuant to this Agreement within sixty (60) days following the end of any specified period, upon thirty (30) days prior written notice to the Ceding Company.
- E. TERMINATION FOR NEW BUSINESS. This Agreement may be terminated with respect to the reinsurance of new business by either party giving the other party ninety (90) days written notice of termination to the other party.
- F. SETTLEMENT. In the event of termination and recapture under paragraphs C or D of this Article XIII, there shall be a Terminal Accounting and Settlement pursuant to Article XIV of this Agreement.

ARTICLE XIV
TERMINAL ACCOUNTING AND SETTLEMENT

- A. TERMINAL ACCOUNTING. In the event that this Agreement is terminated in accordance with paragraphs C or D of Article XIII above, a Terminal Accounting and Settlement will take place.

- B. DATE. The terminal accounting date will be the earliest of: (1) the effective date of termination pursuant to any notice of termination given under this Agreement, or (2) any other date mutually agreed to by the parties in writing.
- C. SETTLEMENT. The Terminal Accounting and Settlement will consist of the Reinsurance Settlement as provided in Article IV, computed as of the terminal accounting date as if this Agreement were still in effect. If the calculation of the Terminal Accounting and Settlement produces an amount owing to the Ceding Company, such amount will be paid by the Reinsurer to the Ceding Company within thirty (30) days from the date of termination. If the calculation of the Terminal Accounting and Settlement produces an amount owing to the Reinsurer, such amount will be paid by the Ceding Company to the Reinsurer within thirty (30) days from the date of termination.
- D. SUPPLEMENTARY ACCOUNTING AND SETTLEMENT. Within forty five (45) days after the end of the quarter following the Terminal Accounting and Settlement as provided above, a supplementary accounting will take place in accordance with Paragraph C above. Any amount owed to the Ceding Company or to the Reinsurer, as the case may be, by reason of such supplementary accounting will be paid promptly upon the completion thereof.

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ARTICLE XV
GENERAL PROVISIONS

- A. ENTIRE AGREEMENT. This Agreement constitutes the entire contract between the Reinsurer and the Ceding Company with respect to the Policies. No variation, modification or changes to this Agreement shall be binding unless in writing and signed by an officer of each party.
- B. NOTICES. Any notice or communication given pursuant to this Agreement must be in writing and (1) delivered personally, (2) sent by facsimile transmission, (3) delivered by overnight express, or (4) sent by registered or certified mail, postage prepaid, as follows

If to the Reinsurer: Allstate Life Insurance Company
 3100 Sanders Rd.
 Northbrook, Illinois 60062
 Attn: Steve Verney, Vice President, Finance
 Facsimile No.: (847) 326-5054

If to the Ceding Company: Columbia Universal Life Insurance Company
 11211 Taylor Draper Lane, Suite 200
 Austin, Texas 78759
 Attn: Zack G. Athens
 Facsimile No.: (512) 346-8757

All notices and other communications required or permitted under the terms of this Agreement that are addressed as provided in this Article XV shall: (1) if delivered personally or by overnight express, be deemed given upon delivery; (2) if delivered by facsimile transmission, be deemed given when electronically confirmed; and (3) if sent by registered or certified mail, be deemed given when received. Any party from time to time may change its address for notice purposes by giving a similar notice specifying a new address, but no such notice shall be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

- C. EXPENSES. Except as may be otherwise expressly provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each of the parties hereto shall pay its own costs and expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby.
- D. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.
- E. NO THIRD PARTY BENEFICIARY. Except as otherwise provided herein, the terms and

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provisions of this Agreement are intended solely for the benefit of the

parties hereto, and their respective successors or permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other person, and no such rights shall be conferred upon any person or entity not a party to this Agreement.

- F. AMENDMENT. This Agreement may only be amended or modified by a written instrument executed on behalf of both parties hereto.
- G. ASSIGNMENT; BIND EFFECT. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by any of the parties hereto without the prior written consent of the other party, which consent shall not be unreasonably withheld, and any such assignment that is attempted without such consent shall be null and void. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties and their respective successors and permitted assigns.
- H. INVALID PROVISIONS. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any present or future law, and if the rights or obligations of the parties hereto under this Agreement will not be materially and adversely affected thereby, (1) such provision shall be fully severable; (2) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and (3) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.
- I. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the Laws of Illinois, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.
- J. WAIVER. Any term or condition of this Agreement may be waived in writing at any time by the party that is entitled to the benefit thereof. A waiver on one occasion shall not be deemed to be a waiver of the same or any other breach or nonfulfillment on a future occasion. All remedies, either under the terms of this Agreement, or by law or otherwise afforded, shall be cumulative and not alternative, except as otherwise provided by law.
- K. HEADINGS, ETC. The headings used in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement. Unless the context of this Agreement otherwise requires, (1) words using the singular or plural number also include the plural or singular number, respectively; (2) the terms "HEREOF," "HEREIN," "HEREBY," "HERETO," "HEREUNDER," and derivative or similar words refer to this entire Agreement (including the exhibits hereto); (3) the term "ARTICLE" refers to the specified Article of this Agreement; (d) the term "EXHIBIT" refers to the specified Exhibit attached to this Agreement; and (e) the term "PARTY" means, on the one hand, the Ceding Company, and on the other hand, the Reinsurer.

- L. OFFSET. Any debits or credits incurred after the Effective Date in favor of or against either the Ceding Company or the Reinsurer with respect to this Agreement are deemed mutual debits or credits, as the case may be, and shall be set off against each other dollar for dollar.
- M. COMPLIANCE WITH LAWS. The parties hereto shall at all times comply with all applicable laws in performing their obligations under this Agreement.
- N. ERRORS AND OVERSIGHTS. Each party to this Agreement will act reasonably in all matters within the terms of this Agreement. Clerical errors and oversights occasioned in good faith in carrying out this Agreement will not prejudice either party, and will be rectified promptly on an equitable basis.

IN WITNESS HEREOF, the parties to this Agreement have caused it to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE LIFE INSURANCE COMPANY

By _____

Title _____

Date _____

By _____

Title _____

Date _____

EXHIBIT A

POLICIES ELIGIBLE FOR REINSURANCE

Policies eligible for reinsurance under this Agreement are defined as all life and health insurance policies and certificates assumed or issued by the Ceding Company. For the avoidance of doubt, this Agreement is intended to include all policies and certificates assumed or issued by the Ceding Company, EXCEPT FOR policies covered under the Reinsurance Agreement between the parties dated June 30, 2000, under which Ceding Company's annuity and supplemental business is reinsured on a 100% coinsurance basis.

EXHIBIT B

COMMISSION AND EXPENSE ALLOWANCE

While this Agreement is in effect, with respect to the Policies, a Commission and Expense Allowance shall be made quarterly and used in the calculation of the Reinsurance Settlement required under Article IV of this Agreement. The Commission and Expense Allowance shall be equal to the sum of Items (a) through (d) less Item (e) below before the adjustments needed to reflect this Agreement on the Ceding Company:

- (a) Commissions on premiums (direct business only), as currently represented on Annual Statement page 4, Line 20.
- (b) Commissions and expense allowances on reinsurance assumed, as currently represented on Annual Statement page 4, Line 21.
- (c) General insurance expenses, as currently represented on Annual Statement page 4, Line 22, less the expense allowance included in Exhibit B (c) of the Reinsurance Agreement between the parties dated June 30, 2000, under which Ceding Company's annuity and supplemental business is reinsured on a 100% coinsurance basis.
- (d) Insurance taxes, licenses and fees, excluding federal income taxes, as currently represented on Annual Statement page 4, Line 23.
- (e) Commissions and expense allowances under reinsurance ceded under Third-Party Reinsurance Agreements, as currently represented on Annual Statement page 4, Line 5.

EXHIBIT C

TAX ELECTION

The Ceding Company and the Reinsurer hereby make an election pursuant to Treasury Regulations Section 1.848-2(g)(8). This election shall be effective for the tax year during which the Effective Date falls and all subsequent taxable years for which this Agreement remains in effect. Unless otherwise indicated, the terms used in this Exhibit are defined by reference to Treasury Regulations Section 1.848-2 as in effect on the date hereof. As used below, the term "PARTY" or "PARTIES" shall refer to the Ceding Company or the Reinsurer, or both, as appropriate.

1. The party with the Net Positive Consideration (as defined in Section 848 of the Code and related Treasury Regulations) with respect to the transactions contemplated under this Agreement for any taxable year covered by this election will capitalize specified policy acquisition expenses with respect to such transactions without regard to the general deductions limitation of Section 848(c)(1) of the Code.
2. The parties agree to exchange information pertaining to the amount of Net

Consideration (as defined in Section 848 of the Code and related Treasury Regulations) under this Agreement each year to ensure consistency or as is otherwise required by the Internal Revenue Service. The exchange of information each year will follow the procedures set forth below:

- (a) By April 1 of each year, the Ceding Company will submit a schedule to the Reinsurer of its calculation of the Net Consideration for the preceding calendar year. This schedule of calculations will be accompanied by a statement signed by an authorized representative of the Ceding Company stating the amount of the Net Consideration the Ceding Company will report in its tax return for the preceding calendar year.
- (b) Within thirty (30) days of the Reinsurer's receipt of the Ceding Company's calculation, the Reinsurer may contest such calculation by providing an alternative calculation to the Ceding Company in writing. If the Reinsurer does not notify the Ceding Company that it contests such calculation within said 30-day period, the calculation will be presumed correct and the Reinsurer shall also report the Net Consideration as determined by the Ceding Company in the Reinsurer's tax return for the preceding calendar year.
- (c) If the Reinsurer provides an alternative calculation of the Net Consideration pursuant to clause (b), the parties will act in good faith to reach an agreement as to the correct amount of Net Consideration within thirty (30) days of the date the Ceding Company receives the alternative calculation from the Reinsurer. When the Ceding Company and the Reinsurer reach agreement on an amount of Net Consideration, each party shall report the applicable amount in their respective tax returns for the preceding calendar year.

REINSURANCE AGREEMENT

BETWEEN

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

AND

ALLSTATE LIFE INSURANCE COMPANY

RECITALS

This Reinsurance Agreement (hereinafter "Agreement") is made and entered into by and between COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Texas (hereinafter "Ceding Company") and ALLSTATE LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Illinois (hereinafter the "Reinsurer").

WHEREAS, the Ceding Company desires to cede to the Reinsurer, and the Reinsurer desires to accept on a coinsurance basis 100% of the Ceding Company's Net Ceded Liabilities (as defined in Article I below) under annuity contracts and supplemental agreements, as specified in this Agreement;

NOW THEREFORE, the Ceding Company and the Reinsurer mutually agree to reinsure on the terms and conditions stated in this Agreement.

ARTICLE I
DEFINITIONS

Unless otherwise defined herein, as used in this Agreement the following terms shall have the meanings ascribed to them below:

- A. "Annual Statement" shall mean the Ceding Company's Life and Accident and Health Companies Annual Statement for the General Account as filed with the Texas Insurance Department.
- B. "Code" shall mean the Internal Revenue Code of 1986, as amended.
- C. "Commission and Expense Allowance" shall have the meaning set forth in Exhibit B.
- D. "Effective Date" shall mean the effective date of this Agreement, which shall be June 30, 2000.
- E. "Excluded Liabilities" shall mean (i) Extra-Contractual Obligations, and (ii) liabilities ceded by Ceding Company under Third-Party Reinsurance Agreements.
- F. "Extra-Contractual Obligations" shall mean all liabilities and obligations for consequential, extra-contractual, exemplary, punitive, special or similar damages or any other amounts due or alleged to be due (other than those arising under the express terms and conditions of the Policies) which arise from any real or alleged act, error or omission, whether or not intentional, in bad faith or otherwise, including without limitation, any act, error or omission relating to: (i) the marketing, underwriting, production, issuance, cancellation or administration of the Policies; (ii) the handling of claims in connection with the Policies; or (iii) the failure to pay or the delay in payment of benefits or claims, under or in connection with the Policies.
- G. "Initial Settlement Date" shall have the meaning set forth in Article IV of this Agreement.
- H. "Net Benefits" shall mean the actual amounts paid or incurred by the Ceding Company with respect to the Policies for all surrenders, withdrawals (full and partial), death benefits, annuitizations, and payments on supplemental contracts, net of Excluded Liabilities.
- I. "Net Ceded Liabilities" shall mean any and all liabilities of the Ceding Company arising under the Policies, but shall not include Excluded Liabilities.
- J. "Net Premiums" shall mean the premiums due the Ceding Company with respect to the Policies.

- K. "Net Statutory Reserves" shall have the meaning set forth in Article IV of this Agreement.
- L. "Policy or Policies" shall mean the insurance contracts defined in Exhibit A which are underwritten or reinsured by the Ceding Company. For the avoidance of doubt, "Policies" refers to annuity contracts which are in-force on the Effective Date or issued after the Effective Date, including (i) any supplemental agreements or benefits arising out of the Policies, (ii) policies, or portions thereof, recaptured by the Ceding Company under Third-Party Reinsurance Agreements, and (iii) Policies reinsured by Ceding Company.
- M. "Reinsurance Settlement" shall have the meaning set forth in Article V of this Agreement.
- N. "Terminal Accounting and Settlement" shall have the meaning set forth in Article XIV of this Agreement.

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- O. "Third-Party Reinsurance Agreements" shall mean any written reinsurance agreements under which Ceding Company has ceded liabilities with respect to the Policies, other than this Agreement.

ARTICLE II BASIS OF REINSURANCE

The Ceding Company agrees to cede and the Reinsurer agrees to accept Net Ceded Liabilities. The reinsurance provided hereunder shall be on a 100% coinsurance basis.

ARTICLE III LIABILITY OF REINSURER; COINSURANCE PROVISIONS

- A. All of the Net Ceded Liabilities shall be reinsured pursuant to the terms of this Agreement as of the Effective Date.
- B. The liability of the Reinsurer with respect to Policies in force on the Effective Date will begin on the Effective Date. The liability of the Reinsurer with respect to any application received or any contract issued after the Effective Date and reinsured hereunder will begin simultaneously with that of the Ceding Company. The Reinsurer's liability with respect to any Policy will terminate on the date the Ceding Company's liability on such contract terminates or the date this Agreement is terminated, whichever is earlier. However, termination of this Agreement will not terminate the Reinsurer's liability for Net Benefits prior to the date of termination. If any of the Policies are reduced or terminated by payment of a death benefit, withdrawal or surrender, the reinsurance will be reduced proportionately or terminated.
- C. The reinsurance provided under this Agreement is subject to the same limitations and conditions as set forth in the Policies.
- D. Ceding Company shall not make any changes after the Effective Date in the provisions and conditions of a Policy except with Reinsurer's prior written consent and/or to the extent that any change is required in the reasonable judgment of Ceding Company, under any law, rule or regulation. Reinsurer and Ceding Company shall fully cooperate with each other to effect any such changes in the provisions and conditions of a Policy in compliance with any applicable law, rule or regulation.
- E. Some of the Policies ceded under this Agreement provide that the Ceding Company may in its discretion, from time to time, as provided in the policy or contract, declare interest rates, cost of insurance rates, premium payments or other non-guaranteed elements that are or affect required premium payments or are used to determine policy or contract values. The Ceding Company agrees, while this Agreement is in effect, to set such

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discretionary interest rates, cost of insurance rates, premium rates or other non-guaranteed elements to be declared on the Policies and the effective dates thereof, taking into account the recommendations of the Reinsurer with respect thereto. After giving due consideration to Reinsurer's recommendations, Ceding Company may, in its discretion, either follow or reject such recommendations. The Ceding Company and Reinsurer agree to fully cooperate in obtaining any required regulatory approvals in connection with setting or changing such discretionary interest rates, cost

of insurance rates, premium rates or other non-guaranteed elements.

ARTICLE IV
RESERVE TRANSFERS

- A. On June 30, 2000, an estimate shall be made of the net statutory reserves as calculated in B(i) below ("Net Statutory Reserves"). After receiving approval from all necessary regulatory authorities, assets consisting of policy loans, cash and investments (at market value) including accrued investment income and net of unearned investment income shall be transferred by the Ceding Company to the Reinsurer in an amount equal to the Net Statutory Reserves.
- B. Within ninety (90) days following the Effective Date ("Initial Settlement Date"), Ceding Company shall pay to Reinsurer, or receive from Reinsurer, as the case may be, cash in an amount equal to (i) less (ii), where (i) and (ii) are as defined below. Ceding Company shall also pay to Reinsurer, or receive from Reinsurer, as the case may be, interest on such amount at the rate specified in (iii) below.
- (i) Net Statutory Reserves determined as the portion of the following items (a) through (e), minus items (f) and (g) attributable to the Policies (or portion of such policies) ceded to Reinsurer under this Agreement. The applicable portion of these items will be calculated as of the Effective Date and will be based on the corresponding items from Ceding Company's Annual Statement.

ITEM	NAIC STATEMENT REFERENCE*	DESCRIPTION
(a)	Page 3, Line 1	Aggregate reserve for life policies and contracts
(b)	Page 3, Line 3	Supplementary contracts without life contingencies
(c)	Page 3, Lines 4.1 & 4.2	Policy and contract claims
(d)	Page 3, Line 9	Premium and annuity considerations
		4
		received in advance
(e)	Page 3, Lines 11.1, 11.2 & 11.3	Policy and contract liabilities not included elsewhere
(f)	Page 2, Line 15	Life insurance premiums and annuity considerations deferred and uncollected
(g)	Page 40, Column 3, Line 32	Interest Maintenance Reserve adjustment for current year's liability gains\losses released from the reserves resulting from this transaction

*References herein are to the 1999 NAIC Statutory Statement. Appropriate adjustments will be made for changes, if any, in the NAIC Statutory Statement on or after the Effective Date.

(ii) The amount transferred under Paragraph A of this Article IV.

(iii) Interest on cash transferred at an effective rate of seven percent (7%) per annum, simple rate, from the Effective Date to the Initial Settlement Date.

- C. Within ninety (90) days following the recapture by Ceding Company of any business ceded under Third-Party Reinsurance Agreements, Ceding Company shall pay to Reinsurer assets with statutory book value equal to (i) X $[1+(ii)(iii)/365]$, where (i) through (iii) are as defined below:
- (i) Net Statutory reserves, as defined in Paragraph A, Item (i) of this Article IV, attributable to the policies recaptured. The applicable portion of these items will be calculated as of the end of the month following the date of recapture.
- (ii) The 90-day Treasury Bill rate on the effective date of the recapture.
- (iii) The number of days between the end of the month following the date of recapture and the date when payment is made.

ARTICLE V
SETTLEMENT AND REPORTING

- A. While this Agreement is in effect, in addition to the periodic cash transfers related to policy cash flows, a reinsurance settlement shall be payable between the Ceding Company and the Reinsurer at least each calendar quarter with respect to the Net Ceded Liabilities ("Reinsurance Settlement"). The Reinsurance Settlement shall be equal to Item (i) less the sum of Items (ii) through (iv) below.
- (i) Earned Premiums ceded (defined consistent with the Annual Statement line items referenced in this subparagraph) to the Reinsurer by the Ceding Company under this Agreement, and as currently represented on Annual Statement page 4, Lines 1 through 3A before the adjustments needed to reflect this Agreement with respect to the Ceding Company.
 - (ii) Commission and Expense Allowances calculated in accordance with Exhibit B.
 - (iii) Incurred Benefits ceded (defined consistent with the Annual Statement line items referenced in this subparagraph) to the Reinsurer by the Ceding company under this Agreement, and as currently represented on Annual Statement page 4, Lines 8 through 16A and Line 28 before the adjustments needed to reflect this Agreement with respect to the Ceding Company.
 - (iv) Periodic cash transfers related to policy cash flows made during the settlement period.

If the Reinsurance Settlement amount for the quarter is positive, the Ceding Company shall remit such amount within forty-five (45) days after the end of the calendar quarter. If the Reinsurance Settlement amount for the quarter is negative, the Reinsurer shall remit such amount to the Ceding Company within forty-five (45) days following the end of the calendar quarter.

- B. The Ceding Company will provide the Reinsurer with accounting reports no less frequently than quarterly within fifteen (15) business days after the end of each calendar quarter. These reports will contain sufficient information about the Policies to enable the Reinsurer to prepare its quarterly and annual financial reports.

ARTICLE VI
TAX MATTERS

- A. On a basis no less frequent than quarterly, the Ceding Company and the Reinsurer shall settle the federal income tax consequences relating to the reinsurance of the Policies hereunder. Such settlement shall be determined by comparing (a) the Ceding Company's separate return tax liability (or refund), determined as set forth below and calculated prior to taking into account any settlement under this paragraph (the "Actual Tax Liability"), with (b) the Ceding Company's separate return tax liability (or refund) that would have been incurred if the Policies were written directly by the Reinsurer and the invested assets and related reserves were held by the Reinsurer (the "Pro Forma Tax Liability"). If the Actual Tax Liability exceeds the Pro Forma Tax Liability, the Reinsurer shall pay to the Ceding Company such amount (grossed-up to take into account the tax on such payment, determined at the highest federal corporate income tax rate); if the Actual Tax Liability is less than the Pro Forma Tax Liability, the Ceding Company shall pay to the Reinsurer such amount (grossed-up to take into account the tax on such payment, determined at the highest federal corporate income tax rate). For this purpose, the Actual Tax Liability shall be computed as follows: (i) if the Ceding Company is not a member of the same consolidated tax group as the Reinsurer, the Actual Tax Liability shall be determined as if the Ceding Company filed a separate federal income tax return and all the income on such return were taxed at the highest federal corporate income tax rate; (ii) if the Ceding Company is a member of the same consolidated tax group as the Reinsurer, the Actual Tax Liability of the Ceding Company shall be the amount of consolidated group's tax allocable to the Ceding Company under any tax sharing agreements with members of the group. The Pro Forma Tax Liability shall be determined under similar principles.
- B. With respect to this Agreement, the Ceding Company and the Reinsurer hereby make the election as set forth in Exhibit C and as provided for in section 1.848-2(g)(8) of the Treasury Regulations. Each of the parties

hereto agrees to take such further actions as may be necessary to ensure the effectiveness of such election.

ARTICLE VII
RESERVE CREDIT

The Reinsurer shall, to the extent necessary, together with all its subsequent retrocessionaires, establish adequate net reserves, and shall agree in good faith to take any other steps necessary, pursuant to the requirements of Texas or any other state or jurisdiction in which the Ceding Company is licensed or accredited, for the Ceding Company to take statutory credit for reinsurance ceded to an unadmitted, unauthorized or unaccredited reinsurer, up to the full amount of the reserve that the Ceding Company would have established for the Policies if it had retained the Policies.

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ARTICLE VIII
OVERSIGHTS

The Reinsurer shall be bound as the Ceding Company is bound, and it is expressly understood and agreed that if failure to reinsure or failure to comply with any terms of this Agreement is shown to be unintentional and the result of misunderstanding or oversight on the part of either the Ceding Company or the Reinsurer, both the Ceding Company and the Reinsurer shall be restored to the positions they would have occupied had such error or oversight not occurred.

ARTICLE IX
INSPECTION OF RECORDS

The Ceding Company and the Reinsurer shall have the right, upon reasonable prior notice and at any reasonable time, to examine at the office of the other, any books, documents, reports or records which pertain in any way to the contracts reinsured under this Agreement.

ARTICLE X
INSOLVENCY

- A. The portion of any risk or obligation assumed by the Reinsurer, when such portion is ascertained, shall be payable on demand of the Ceding Company at the same time as the Ceding Company shall pay its net retained portion of such risk or obligation, and the reinsurance shall be payable by the Reinsurer on the basis of the liability of the Ceding Company under the Policies without diminution because of the insolvency of the Ceding Company. In the event of the insolvency of the Ceding Company and the appointment of a conservator, liquidator or statutory successor of the Ceding Company, such portion shall be payable to such conservator, liquidator or statutory successor immediately upon demand, on the basis of claims allowed against the Ceding Company by any court of competent jurisdiction or, by any conservator, liquidator or statutory successor of the Ceding Company having authority to allow such claims, without diminution because of such insolvency or because such conservator, liquidator or statutory successor has failed to pay all or a portion of any claims. Payments by the Reinsurer as above set forth shall be made directly to the Ceding Company or its conservator, liquidator or statutory successor.
- B. Further, in the event of the insolvency of the Ceding Company, the liquidator, receiver or statutory successor of the insolvent Ceding Company shall give written notice to the Reinsurer of the pendency of any obligation of the insolvent Ceding Company on any Net Ceded Liability, whereupon the Reinsurer may investigate such claim and interpose at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to the Ceding Company or its liquidator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the insolvent Ceding Company as part of the expenses of liquidation to the extent of a proportionate share of the benefit which may accrue to the Ceding Company solely as a result of the defense undertaken by the Reinsurer.

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- C. In the event of the Reinsurer's insolvency, this treaty will terminate, and the Terminal Accounting and Settlement described in Article XIV will occur. Any payments due the Reinsurer from the Ceding Company pursuant to the terms of this Agreement will be made directly to the Reinsurer or its conservator, liquidator, receiver or statutory successor.

ARTICLE XI
ARBITRATION

Any dispute arising with respect to this Agreement which is not settled by mutual agreement of the parties shall be referred to arbitration. Within twenty (20) days from receipt of written notice from one party that an arbitrator has been appointed, the other party shall also name an arbitrator. The two arbitrators shall choose a third arbitrator within twenty (20) days following the appointment of the second arbitrator, and shall forthwith notify the contracting parties of such choice. Each arbitrator shall be a present or former officer of a life insurance company or life reinsurance company and should have no present or past affiliation with this Agreement or with either party. The arbitrators shall consider this Agreement as an honorable engagement rather than merely as a legal obligation, and shall be relieved of all judicial formalities; provided, however, the arbitration shall be governed pursuant to the rules of the American Arbitration Association and the laws of Illinois. The decision of the arbitrators shall be final and binding upon the parties hereto, and may not be appealed to any court or other forum. The decision of the arbitrators shall be handed down within forty-five (45) days of the date on which the arbitration is concluded. Each party shall bear the expenses of its own arbitrator and shall jointly and equally bear the expenses of the third arbitrator and of the arbitration. Any such arbitration shall take place at the Home Office of the Reinsurer, unless some other location is mutually agreed upon.

ARTICLE XII
PARTIES TO AGREEMENT

This Agreement is solely between the Ceding Company and the Reinsurer. The acceptance of reinsurance hereunder shall not create any right or legal relation whatever between the Reinsurer and any party in interest under any Policy. Ceding Company shall be and remain solely liable to any insured, contract owner, or beneficiary under any contract reinsured hereunder.

ARTICLE XIII
DURATION OF AGREEMENT AND TERMINATION

A. DURATION. This agreement will be effective as of the Effective Date, and will be unlimited as to its duration except as provided otherwise herein.

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B. TERMINATION OF REINSURER'S LIABILITY. The Reinsurer's liability with respect to a Net Ceded Liability will terminate on the earliest of: (1) the date such Net Ceded Liability is recaptured in accordance with paragraph C below; (2) the date the Ceding Company's liability on the underlying Policy is terminated; or (3) the date this Agreement is terminated pursuant to paragraph D of this Article XIII. Termination of the Reinsurer's liability is subject to payments in respect of such liability in accordance with the provisions of Article XIV.

C. TERMINATION BY CEDING COMPANY. At any time after the occurrence (or nonoccurrence, as the case may be) of any of the following, the Ceding Company shall have the right, at its option, upon delivery of written notice to the Reinsurer, to terminate this Agreement and recapture any and all of the Net Ceded Liabilities:

(1) if the Reinsurer materially breaches any provision of this Agreement, which breach is not cured within sixty (60) days after receipt by the Reinsurer of notice thereof from the Ceding Company;

(2) if the Ceding Company provides thirty (30) days prior written notice to the reinsurer.

D. TERMINATION BY THE REINSURER. This Agreement may be terminated by the Reinsurer: (1) if the Ceding Company materially breaches this Agreement, which breach is not cured within sixty (60) days after receipt by the Ceding Company of written notice from the Reinsurer describing such breach; or (2) if the Ceding Company fails to pay any amounts due the Reinsurer pursuant to this Agreement within sixty (60) days following the end of any specified period, upon thirty (30) days prior written notice to the Ceding Company.

E. TERMINATION FOR NEW BUSINESS. This Agreement may be terminated with respect to the reinsurance of new business by either party giving the other party ninety (90) days written notice of termination to the other party.

F. SETTLEMENT. In the event of termination and recapture under paragraphs C or D of this Article XIII, there shall be a Terminal Accounting and Settlement pursuant to Article XIV of this Agreement.

ARTICLE XIV
TERMINAL ACCOUNTING AND SETTLEMENT

- A. TERMINAL ACCOUNTING. In the event that this Agreement is terminated in accordance with paragraphs C or D of Article XIII above, a Terminal Accounting and Settlement will take place.
- B. DATE. The terminal accounting date will be the earliest of: (1) the effective date of termination pursuant to any notice of termination given under this Agreement, or (2) any other date mutually agreed to by the parties in writing.
- C. SETTLEMENT. The Terminal Accounting and Settlement will consist of the Reinsurance Settlement as calculated consistent with Article III and Article IV after the final settlement under Article IV has been completed, as of the terminal accounting date as if this Agreement were still in effect. If the calculation of the Terminal Accounting and Settlement produces an amount owing to the Ceding Company, such amount will be paid by the Reinsurer to the Ceding Company within thirty (30) days from the date of termination. If the calculation of the Terminal Accounting and Settlement produces an amount owing to the Reinsurer, such amount will be paid by the Ceding Company to the Reinsurer within thirty (30) days from the date of termination.
- D. SUPPLEMENTARY ACCOUNTING AND SETTLEMENT. Within forty five (45) days after the end of the quarter following the Terminal Accounting and Settlement as provided above, a supplementary accounting will take place in accordance with Paragraph C above. Any amount owed to the Ceding Company or to the Reinsurer, as the case may be, by reason of such supplementary accounting will be paid promptly upon the completion thereof.

ARTICLE XV
GENERAL PROVISIONS

- A. ENTIRE AGREEMENT. This Agreement constitutes the entire contract between the Reinsurer and the Ceding Company with respect to the Policies. No variation, modification or changes to this Agreement shall be binding unless in writing and signed by an officer of each party.

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- B. NOTICES. Any notice or communication given pursuant to this Agreement must be in writing and (1) delivered personally, (2) sent by facsimile transmission, (3) delivered by overnight express, or (4) sent by registered or certified mail, postage prepaid, as follows:

If to the Reinsurer: Allstate Life Insurance Company
 3100 Sanders Rd.
 Northbrook, Illinois 60062
 Attn: Stephen C. Verney, Vice President, Finance
 Facsimile No.: (847) 326-5054

If to the Ceding Company: Columbia Universal Life Insurance Company
 11211 Taylor Draper Lane, Suite 200
 Austin, Texas 78759
 Attn: Zack G. Athens
 Facsimile No.: (512) 346-8757

All notices and other communications required or permitted under the terms of this Agreement that are addressed as provided in this Article XV shall: (1) if delivered personally or by overnight express, be deemed given upon delivery; (2) if delivered by facsimile transmission, be deemed given when electronically confirmed; and (3) if sent by registered or certified mail, be deemed given when received. Any party from time to time may change its address for notice purposes by giving a similar notice specifying a new address, but no such notice shall be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

- C. EXPENSES. Except as may be otherwise expressly provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each of the parties hereto shall pay its own costs and expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby.
- D. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall

constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

- E. NO THIRD PARTY BENEFICIARY. Except as otherwise provided herein, the terms and provisions of this Agreement are intended solely for the benefit of the parties hereto, and their respective successors or permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other person, and no such rights shall be conferred upon any person or entity not a party to this Agreement.
- F. AMENDMENT. This Agreement may only be amended or modified by a written instrument executed on behalf of both parties hereto.

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- G. ASSIGNMENT; BIND EFFECT. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by any of the parties hereto without the prior written consent of the other party, which consent shall not be unreasonably withheld, and any such assignment that is attempted without such consent shall be null and void. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties and their respective successors and permitted assigns.
- H. INVALID PROVISIONS. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any present or future law, and if the rights or obligations of the parties hereto under this Agreement will not be materially and adversely affected thereby, (1) such provision shall be fully severable; (2) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and (3) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.
- I. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the Laws of Illinois, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.
- J. WAIVER. Any term or condition of this Agreement may be waived in writing at any time by the party that is entitled to the benefit thereof. A waiver on one occasion shall not be deemed to be a waiver of the same or any other breach or nonfulfillment on a future occasion. All remedies, either under the terms of this Agreement, or by law or otherwise afforded, shall be cumulative and not alternative, except as otherwise provided by law.
- K. HEADINGS, etc. The headings used in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement. Unless the context of this Agreement otherwise requires, (1) words using the singular or plural number also include the plural or singular number, respectively; (2) the terms "HEREOF," "HEREIN," "HEREBY," "HERETO," "HEREUNDER," and derivative or similar words refer to this entire Agreement (including the exhibits hereto); (3) the term "ARTICLE" refers to the specified Article of this Agreement; (d) the term "EXHIBIT" refers to the specified Exhibit attached to this Agreement; and (e) the term "PARTY" means, on the one hand, the Ceding Company, and on the other hand, the Reinsurer.
- L. OFFSET. Any debits or credits incurred after the Effective Date in favor of or against either the Ceding Company or the Reinsurer with respect to this Agreement are deemed mutual debits or credits, as the case may be, and shall be set off against each other dollar for dollar.
- M. COMPLIANCE WITH LAWS. The parties hereto shall at all times comply with all applicable laws in performing their obligations under this Agreement.

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- N. ERRORS AND OVERSIGHTS. Each party to this Agreement will act reasonably in all matters within the terms of this Agreement. Clerical errors and oversights occasioned in good faith in carrying out this Agreement will not prejudice either party, and will be rectified promptly on an equitable basis.

IN WITNESS HEREOF, the parties to this Agreement have caused it to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE LIFE INSURANCE COMPANY

By: -----

Title: Vice President

Date: -----

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

By: -----

Title: -----

Date: -----

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EXHIBIT A
ELIGIBLE AND INELIGIBLE POLICIES

Policies eligible for reinsurance under this Agreement are defined as all annuity contracts and supplementary contracts with and without life contingencies, assumed or issued by the Ceding Company

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EXHIBIT B
COMMISSION AND EXPENSE ALLOWANCE

While this Agreement is in effect, a Commission and Expense Allowance attributable to the Policies ceded to the Reinsurer under this agreement shall be made quarterly and used in the calculation of the Reinsurance Settlement required under Article IV of this Agreement. The Commission and Expense Allowance shall be equal to the sum of Items (a) through (d) less Item (e) below before the adjustments needed to reflect this Agreement on the Ceding Company:

- (a) Commissions on premiums, annuity considerations and deposit types (direct business only), as currently represented on Annual Statement page 4, Line 20.
- (b) Commissions and expense allowances on reinsurance assumed, as currently represented on Annual Statement page 4, Line 21.
- (c) General insurance expenses allocated to Net Ceded Liabilities, calculated in accordance with the following:
 - (i) \$30.00 per Policy issued and placed in force after the Effective Date;
 - (ii) 0.35% of premium collected;
 - (iii) \$3.50 per inforce Policy per month.
- (d) Insurance taxes, licenses and fees, excluding federal income taxes, as currently represented on Annual Statement page 4, Line 23.
- (e) Commissions and expense allowances under reinsurance ceded under Third-Party Reinsurance Agreements, as currently represented on Annual Statement page 4, Line 5.

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EXHIBIT C
TAX ELECTION

The Ceding Company and the Reinsurer hereby make an election pursuant to Treasury Regulations Section 1.848-2(g)(8). This election shall be effective for the tax year during which the Effective Date falls and all subsequent taxable years for which this Agreement remains in effect. Unless otherwise indicated, the terms used in this Exhibit are defined by reference to Treasury Regulations Section 1.848-2 as in effect on the date hereof. As used below, the term "PARTY" or "PARTIES" shall refer to the Ceding Company or the Reinsurer, or both, as appropriate.

1. The party with the Net Positive Consideration (as defined in Section 848 of the Code and related Treasury Regulations) with respect to the transactions contemplated under this Agreement for any taxable year covered by this election will capitalize specified policy acquisition expenses with respect

to such transactions without regard to the general deductions limitation of Section 848(c)(1) of the Code.

2. The parties agree to exchange information pertaining to the amount of Net Consideration (as defined in Section 848 of the Code and related Treasury Regulations) under this Agreement each year to ensure consistency or as is otherwise required by the Internal Revenue Service. The exchange of information each year will follow the procedures set forth below:
 - (a) By April 1 of each year, the Ceding Company will submit a schedule to the Reinsurer of its calculation of the Net Consideration for the preceding calendar year. This schedule of calculations will be accompanied by a statement signed by an authorized representative of the Ceding Company stating the amount of the Net Consideration the Ceding Company will report in its tax return for the preceding calendar year.
 - (b) Within thirty (30) days of the Reinsurer's receipt of the Ceding Company's calculation, the Reinsurer may contest such calculation by providing an alternative calculation to the Ceding Company in writing. If the Reinsurer does not notify the Ceding Company that it contests such calculation within said 30-day period, the calculation will be presumed correct and the Reinsurer shall also report the Net Consideration as determined by the Ceding Company in the Reinsurer's tax return for the preceding calendar year.
 - (c) If the Reinsurer provides an alternative calculation of the Net Consideration pursuant to clause (b), the parties will act in good faith to reach an agreement as to the correct amount of Net Consideration within thirty (30) days of the date the Ceding Company receives the alternative calculation from the Reinsurer. When the Ceding Company and the Reinsurer reach agreement on an amount of Net Consideration, each party shall report the applicable amount in their respective tax returns for the preceding calendar year.

RETROCESSION AGREEMENT

BETWEEN

ALLSTATE LIFE INSURANCE COMPANY

AND

ALLSTATE REINSURANCE, LTD.

RECITALS

This Reinsurance Agreement (hereinafter "Agreement") is made and entered into by and between ALLSTATE LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Illinois (hereinafter "Ceding Company") and ALLSTATE REINSURANCE, LTD., a reinsurance company domiciled in Bermuda (hereinafter the "Reinsurer").

WHEREAS, the Ceding Company has entered into a reinsurance agreement (hereinafter the "Glenbrook Agreement") with Glenbrook Life and Annuity Company (hereinafter "Glenbrook") under which Glenbrook cedes to the Ceding Company and the Ceding Company accepts on a coinsurance basis 100% of the insurance liabilities of Glenbrook, including liabilities for fixed annuity business issued by Glenbrook to customers of PNC Bank Corp., including its subsidiaries and affiliates (hereinafter referred to collectively as "PNC"); and

WHEREAS, the Ceding Company desires to retrocede to the Reinsurer, and the Reinsurer desires to accept on a modified coinsurance basis 50% of the Ceding Company's liabilities under the Glenbrook Agreement fixed annuity business issued by PNC;

NOW THEREFORE, the Ceding Company and the Reinsurer mutually agree to reinsure on the terms and conditions stated in this Agreement.

ARTICLE I
DEFINITIONS

Unless otherwise defined herein, as used in this Agreement the following terms shall have the meanings ascribed to them below:

A. "Ceding Company's Product Capital" shall be equal to 200% of the NAIC RBC Formula for C1, C3 and C4 Risk on the Policies. Effective January 1, 2001, the amount will be equal to

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250% of the stated risk components for the Policies, unless the in-force business of Glenbrook sold to PNC customers has been diversified so as to meet the Product Diversification Requirement. The Ceding Company's Product Capital will be calculated on a quarterly basis to be used in the estimate for the Cost of Capital, as set forth in Exhibit C. The quarterly calculation will be approved by the Reinsurer, which approval shall not be unreasonably withheld.

B. "Ceding Company's Average Product Capital" shall mean the average of the ceding Company's Product Capital at the end of a calendar year and the end of the immediately preceding calendar year.

C. "Ceding Company's Cumulative Average Product Capital" shall mean the sum of the Ceding Company's Average Product Capital all calendar years during which this Agreement is in effect through December 31 of the most recent calendar year.

D. "Ceded Policy Liabilities" shall have the meaning set forth in Article II.

E. "Code" shall mean the Internal Revenue Code of 1986, as amended.

F. "Commission and Expense Allowance" shall have the meaning set forth in Exhibit B.

G. "Cumulative Product Rate of Return (CPRR)" shall mean the Statutory Cumulative Net Income divided by the Ceding Company's Cumulative Average Product Capital.

H. "Customer Account Value" shall mean the gross amounts due the owner of a Policy at any point in time before deduction of any surrender or contract

termination fees.

- I. "Effective Date" shall mean the effective date of this Agreement, which shall be January 1, 1998.
- J. "Interest Maintenance Reserve" shall mean the value which will be reported on the Ceding Company's Annual Statement Balance Sheet Line 11.4 for the PNC Reinsurance Custody Account activity.
- K. "Modified Coinsurance Reserve" shall mean a 50% quota share of the statutory reserves held by the Ceding Company with respect to the Policies. The statutory reserve will be determined by using the valuation procedures as prescribed and permitted by the Illinois Department of Insurance for statutory financial statement filings.
- L. "Modified Coinsurance Reserve Adjustment" shall have the meaning set forth in Article V.
- M. "NAIC RBC Formula" shall mean the amount of Risk Based Capital with respect to the Policies as determined following the procedures as outlined in the "NAIC Life Risk-Based Capital Report" as published annually (herein "the NAIC Report"). The C1 Risk, as defined

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in the NAIC Report, will be based on the assets held in the PNC Reinsurance Custody Account, and the C3 and C4 Risks, as such terms are defined in the NAIC Report, will be based only on the premiums collected by the Ceding Company and reserves held by the Ceding Company with respect to the Policies. Any changes in the NAIC Report will be implemented on a prospective basis in the year in which such changes first become effective.

- N. "Net Benefits" shall mean the actual amounts paid or incurred by the Ceding Company under the Glenbrook Agreement with respect to the Policies for all surrenders, withdrawals (full and partial), death benefits, annuitizations, and payments on supplemental contracts.
- O. "Net Capital Gains and Losses" shall mean realized capital gains less realized capital losses from the sale or maturity of invested assets held in the PNC Reinsurance Custody Account, plus the unrealized capital gains less the unrealized capital losses from the change in the difference between the statutory book value and admitted value of the invested assets held in the PNC Reinsurance Custody account as determined following the statutory annual statement reporting requirements.
- P. "Net Consideration" shall have the meaning set forth in Article VI.
- Q. "Net Premiums" shall mean the reinsurance premiums due the Ceding Company under the Glenbrook Agreement with respect to the Policies which shall include premiums on new business and policy additions (including policy updates and premium on supplemental contracts), minus premium refunds.
- R. "PNC Reinsurance Custody Account" shall mean a separate segregated portfolio managed by the Ceding Company to account for the assets purchased to support the Policies.
- S. "Policy or Policies" shall mean the insurance contracts listed in Exhibit A which are fixed annuity contracts underwritten by Glenbrook and reinsured by the Ceding Company under the Glenbrook Agreement.
- T. "Product Diversification Requirement" shall mean that thirty percent (30%) of statutory reserves held by Glenbrook for products sold to PNC customers are for products other than flexible premium or single premium deferred annuity contracts, including indexed annuities.
- U. "Reinsurer's Capital" shall be equal to 200% of the NAIC RBC Formula for C1 and C4 Risk on the Reinsurer's quota share of the Policies. Effective January 1, 2001, the amount will be equal to 250% of the stated risk components if the Product Diversification Requirements are not met. The Reinsurer's Capital will be calculated on a quarterly basis to be used in the estimate for the Cost of Capital, as set forth in Exhibit C. The quarterly calculation will be approved by the Reinsurer, which approval shall not be unreasonably withheld.
- V. "Reinsurer's Average Capital" is the average of the Reinsurer's Capital at the end of a

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calendar year and the end of the immediately preceding calendar year.

- W. "Reinsurer's Cumulative Average Capital" shall mean the sum of the Reinsurer's Average Capital for all calendar years during which this Agreement is in effect through December 31 of the most recent calendar year.
- X. "Reinsurance Settlement" shall have the meaning set forth in Article IV.
- Y. "Statutory Net Income" shall equal the statutory net income for a calendar year on the Policies as determined by the Ceding Company in accordance with the Statutory Accounting requirements as prescribed or permitted by the Illinois Department of Insurance; provided, however, any expenses shall be determined in accordance with Exhibit B of this Agreement.
- Z. "Statutory Cumulative Net Income" shall equal the sum of the Statutory Net Income on the Policies for each calendar year during which this Agreement is in effect through the most recent calendar year.
- AA. "Terminal Accounting and Settlement" shall have the meaning set forth in Article XVI.
- BB. "Terminal Reserve" and "Terminal Reserve Adjustment" shall have the meanings set forth in Article XVI.

ARTICLE II
BASIS OF REINSURANCE

The Ceding Company agrees to cede and the Reinsurer agrees to accept 50% of the Ceding Company's risk under the Glenbrook Agreement for applications received and contracts issued with respect to the Policies on and after the Effective Date (hereinafter the "Ceded Policy Liabilities"). The reinsurance provided hereunder shall be on a modified coinsurance basis.

ARTICLE III
LIABILITY OF REINSURER

- A. The liability of the Reinsurer with respect to any application received or any contract issued after the Effective Date and reinsured hereunder will begin simultaneously with that of the Ceding Company. The Reinsurer's liability with respect to any Policy will terminate on the date the Ceding Company's liability on such contract terminates or the date this Agreement is terminated, whichever is earlier. However, termination of this Agreement will not terminate the Reinsurer's liability for Net Benefits prior to the date of termination. If any of the Policies are reduced or terminated by payment of a death benefit, withdrawal or surrender, the reinsurance will be reduced proportionately or terminated.

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- B. The reinsurance provided under this Agreement is subject to the same limitations and conditions as set forth in the Policies.
- C. The Reinsurer will not indemnify the Ceding Company, Allstate, or Glenbrook for, and will not be liable for, any extracontractual damages or extracontractual liability of any kind whatsoever, including those resulting from fraud, oppression, bad faith, strict liability, or negligent, reckless or intentional wrongs on the part of the Ceding Company, Allstate, Glenbrook, or their directors, officers, employees and agents.

ARTICLE IV
REPORTING & SETTLEMENT

- A. While this Agreement is in effect, a Reinsurance Settlement shall be payable between the Ceding Company and the Reinsurer for each calendar month with respect to the Ceded Policy Liabilities. The Reinsurance Settlement shall be equal to the sum of Items (1) less the sum of Items (2), (3), (4), (5), (6), and (7) below.
 - (1) Net Premiums due the Ceding Company.
 - (2) Net Benefits paid by the Ceding Company.
 - (3) Commission and Expense Allowances as set forth in Exhibit B.
 - (4) Cost of Capital Charged by the Ceding Company as set forth in Exhibit C.
 - (5) The Modified Coinsurance Reserve Adjustment as set forth in Article V.

(6) The Federal Income Tax Reserve Expense or Benefit as set forth in Exhibit B.

(7) DAC tax reimbursement as computed in accordance with Article VI.

If the Reinsurance Settlement amount for the month is positive, the Ceding Company shall remit such amount at the same time as it submits the monthly accounting report described in paragraph C of this Article IV. If the Reinsurance Settlement amount for the month is negative, the Reinsurer shall remit such amount to the Ceding Company within twenty (20) days following the date on which it receives the monthly accounting report described in Paragraph C of this Article IV.

B. An initial Reinsurance Settlement shall be calculated as of the Effective Date of this Agreement through the end of the month in which this Agreement is executed by the parties. Such initial Reinsurance Settlement shall include interest on the average outstanding settlement from the Effective Date of this Agreement to the date of payment,

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which interest rate shall be based on the one year Treasury rate as published in the Wall Street Journal on the date this Agreement is executed by the Parties.

C. Monthly accounting reports will be submitted to the Reinsurer by the Ceding Company for each calendar month not later than fifteen (15) business days after the end of such month. Such reports shall include substantially the information set forth in Exhibit D, and shall be in a form as mutually agreed to in writing by the parties, as may be amended from time to time.

D. The Ceding Company will provide the Reinsurer with annual accounting reports within thirty (30) days after the end of the calendar year for which such reports are prepared. These reports will contain sufficient information about the Policies to enable the Reinsurer to prepare its annual financial reports and to verify the information reported in Exhibit D of this Agreement.

ARTICLE V
MONTHLY RESERVE ADJUSTMENTS

A. While this Agreement is in effect, a Modified Coinsurance Reserve Adjustment shall be paid monthly in accordance with the Reinsurance Settlement requirements under Article IV. The Modified Coinsurance Reserve Adjustment shall be equal to Item (1) less Items (2) and (3) below:

(1) the amount of Modified Coinsurance Reserves held at the end of the month.

(2) the amount of Modified Coinsurance Reserves held at the end of the immediately preceding month.

(3) the amount of interest as calculated in accordance with paragraph B of this Article V.

B. The interest to be paid will be the Modco Interest Rate on the average of the Modified Coinsurance Reserves held at the end of the month and those held at the end of the immediately preceding month. The Modco Interest Rate will equal the weighted average combined rate of the Modco Fixed Interest Rate, as defined in Paragraph C of this Article V, plus the one month U.S. Treasury Rate as determined on the first business day of each month. The weighting applied to each such rate will be 98% for the Modco Fixed Interest Rate and 2% for the one month U.S. Treasury Rate.

C. The Modco Fixed Interest Rate shall be calculated with respect to the assets held in the PNC Reinsurance Custody Account using statutory accounting values consistent with values required to be reflected in the Ceding Company's statutory annual statement.

The Modco Fixed Interest Rate shall equal: 2I where:

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A + B - I

I - Gross investment income, plus net capital gains and losses, minus the additions (which may be positive or negative) and plus the amortization (which may be positive or negative) in the Interest Maintenance Reserve on assets held in the PNC Reinsurance Custody

Account, less investment expenses equal to 15 basis points of the average statutory book value of the invested assets in the PNC Reinsurance Custody Account during the period; provided, however, whenever actual investment expenses are determined, such actual amounts will be used. The additions to and the amortization of the Interest Maintenance Reserve will be grossed-up at the applicable federal statutory tax rate in effect when the gains or losses were deferred.

A - Statutory accounting value of assets held in the PNC Reinsurance Custody Account at the beginning of the month .

B = Statutory accounting value of the assets held in the PNC Reinsurance Custody Account at the end of month.

ARTICLE VI DAC TAX REIMBURSEMENT AND ELECTION

- A. On a monthly basis, the Reinsurer shall reimburse (or be reimbursed by, as the facts may provide) the Ceding Company for DAC Taxes incurred on Policies relating to the Ceded Policy Liabilities. The DAC Tax reimbursement shall be computed by multiplying the DAC Tax Factor by (i) 100% of Net Premiums , plus (ii) the Ceding Company Net Consideration (as defined in Section 848 of the Code and related Treasury Regulations) relating to this Agreement. The "DAC TAX FACTOR" shall mean 0.257% for "annuities," as such term is defined in Section 848 of the Code and related Treasury Regulations. The Ceding Company and the Reinsurer mutually agree to prospectively adjust the DAC Tax Factor to reflect any changes in the federal income tax rate applicable to the Ceding Company or changes to Section 848 of the Code or to the related Treasury Regulations.
- B. With respect to this Agreement, the Ceding Company and the Reinsurer hereby make the election provided for in Section 1.848-2(g)(8) of the Treasury Regulations, and as set forth in Exhibit E. Each of the parties hereto agrees to take such further actions as may be necessary to ensure the effectiveness of such election.
- C. The Ceding Company and the Reinsurer represent and warrant that they each have made an election under Section 953(d) of the Code to be treated as a United States Domestic Corporation, and that they are each subject to United States taxation under either Subchapter L of Chapter 1, or Subpart F of Subchapter N of Chapter 1 of the Code.

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ARTICLE VII LETTER OF CREDIT

- A. The Reinsurer shall provide to the Ceding Company, a letter of credit made payable to, or, if the Reinsurer is the payee, assigned to, the Ceding Company in an amount equal to the sums described in Paragraph B of this Article VII. The letter of credit shall be issued by a bank approved by the Ceding Company and shall be in a form approved by the Ceding Company, which approval shall not be unreasonably withheld. Further, the letter of credit must comply with any applicable laws and regulations. The amount of such letter of credit will be adjusted annually and be in place by November 30 of each year.
- B. The letter of credit shall be in an amount equal to 200% of the NAIC Risk Based Capital Formula for C1 and C3 Risk on the Ceded Policy Liabilities as estimated by the Ceding Company for the next fiscal year end, (including any projected changes). Such estimate shall be approved by the Reinsurer, which approval will not be unreasonably withheld. Effective January 1, 2001, the amount of the letter of credit will increase to 250% if the Product Diversification Requirements are not met.
- C. The Ceding Company and the Reinsurer agree that the letter of credit provided by the Reinsurer may be drawn upon by the Ceding Company, notwithstanding any other provision in this Agreement, and be utilized and applied by the Ceding Company or any successor by operation of law of the Ceding Company including, without limitation, any liquidator, rehabilitator, receiver, or conservator of the Ceding Company without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:
 - (1) where the letter of credit is not renewed or replaced by September 30 of each year;
 - (2) where the letter of credit will be reduced or replaced by a letter of credit for an amount below the requirements of Paragraph B of this

Article VII.

(3) to pay any other amounts due the Ceding Company if the Reinsurer has breached any of the provisions of this Agreement, upon presentation of documentation substantiating any such amounts.

D. The Ceding Company agrees to return promptly to the Reinsurer any amounts drawn on such letter of credit in excess of the actual amounts required under subparagraph B, or, in the case of subparagraphs C(1) or C(2), any amounts that are subsequently determined to not be due.

E. Payment to the Ceding Company by the issuing banks of amounts drawn on the letter of credit pursuant to subparagraphs C(1) and C(2) above, shall constitute payment by the Reinsurer under this Agreement and shall discharge the Reinsurer of the obligation that gave rise to the draw; provided, however, the Reinsurer may later contest whether it had

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failed to reimburse or pay the Ceding Company as required under this Agreement.

ARTICLE VIII
RESERVE CREDIT

In addition to the requirements of Article VII above, the Reinsurer shall, to the extent necessary, together with all its subsequent retrocessionaires, establish adequate net reserves, and shall agree in good faith to take any other steps necessary, pursuant to the requirements of Illinois or any other state or jurisdiction in which the Ceding Company is licensed or accredited, for the Ceding Company to take statutory credit for reinsurance ceded to an unadmitted, unauthorized or unaccredited reinsurer, up to the full amount of the reserve that the Ceding Company would have established for the Policies if it had retained the Policies.

ARTICLE IX
RATE-SETTING AND OPERATIONS REVIEW

A. The Ceding Company represents that it has the right to participate in the following meetings with respect to the Policies, and that it has the authority to delegate such rights to the Reinsurer. Accordingly, the Reinsurer shall have the right to participate in the following meetings with respect to the Policies, and may delegate such rights to its retrocessionaires with respect to the Ceded Policy Liabilities:

(1) on a weekly basis, with respect to the establishment and adjustment of new business crediting rates;

(2) on a monthly basis, with respect to the establishment and adjustment of renewal crediting rates;

(3) on a quarterly basis, with respect to sales, investment, product, marketing and expense initiatives.

B. Notwithstanding anything to the contrary in paragraph A above, Glenbrook has the final decision authority with respect to all such matters.

ARTICLE X
OVERSIGHTS

The Reinsurer shall be bound as the Ceding Company is bound, and it is expressly understood and agreed that if failure to reinsure or failure to comply with any terms of this Agreement is shown to be unintentional and the result of misunderstanding or oversight on the part of either the Ceding Company or the Reinsurer, both the Ceding Company and the Reinsurer shall be

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restored to the positions they would have occupied had such error or oversight not occurred.

ARTICLE XI
INSPECTION OF RECORDS

The Ceding Company and the Reinsurer shall have the right, upon reasonable prior notice and at any reasonable time, to examine at the office of the other, any books, documents, reports or records which pertain in any way to the contracts reinsured under this Agreement.

ARTICLE XII
INSOLVENCY

- A. In the event of the insolvency of the Ceding Company, reinsurance hereunder is payable by the Reinsurer on the basis of its liability hereunder without diminution because of the insolvency of the Ceding Company.
- B. Further, in the event of the insolvency of the Ceding Company, the liquidator, receiver or statutory successor of the insolvent Ceding Company shall give written notice to the Reinsurer of the pendency of any obligation of the insolvent Ceding Company on any Ceded Policy Liability, whereupon the Reinsurer may investigate such claim and interpose at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to the Ceding Company or its liquidator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the insolvent Ceding Company as part of the expenses of liquidation to the extent of a proportionate share of the benefit which may accrue to the Ceding Company solely as a result of the defense undertaken by the Reinsurer.
- C. In the event of the Reinsurer's insolvency, this treaty will terminate, and the Terminal Accounting and Settlement described in Article XVI will occur. Any payments due the Reinsurer from the Ceding Company pursuant to the terms of this Agreement will be made directly to the Reinsurer or its conservator, liquidator, receiver or statutory successor.

ARTICLE XIII
ARBITRATION

Any dispute arising with respect to this Agreement which is not settled by mutual agreement of the parties shall be referred to arbitration. Within twenty (20) days from receipt of written notice from one party that an arbitrator has been appointed, the other party shall also name an arbitrator. The two arbitrators shall choose a third arbitrator within twenty (20) days following the appointment of the second arbitrator, and shall forthwith notify the contracting parties of such

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choice. Each arbitrator shall be a present or former officer of a life insurance company or life reinsurance company and should have no present or past affiliation with this Agreement or with either party. The arbitrators shall consider this Agreement as an honorable engagement rather than merely as a legal obligation, and shall be relieved of all judicial formalities; provided, however, the arbitration shall be governed pursuant to the rules of the American Arbitration Association and the laws of Bermuda. The decision of the arbitrators shall be final and binding upon the parties hereto, and may not be appealed to any court or other forum. Each party shall bear the expenses of its own arbitrator and shall jointly and equally bear the expenses of the third arbitrator and of the arbitration. Any such arbitration shall take place at the Home Office of Allstate, unless some other location is mutually agreed upon.

ARTICLE XIV
PARTIES TO AGREEMENT

This Agreement is solely between the Ceding Company and the Reinsurer. The acceptance of reinsurance hereunder shall not create any right or legal relation whatever between the Reinsurer and any party in interest under any Policy. Glenbrook shall be and remain solely liable to any insured, contract owner, or beneficiary under any contract reinsured hereunder.

ARTICLE XV
DURATION OF AGREEMENT AND TERMINATION

- A. DURATION. This agreement will be effective as of January 1, 1998, and will be unlimited as to its duration except as provided otherwise herein.
- B. TERMINATION OF REINSURER'S LIABILITY. The Reinsurer's liability with respect to a Ceded Policy Liability will terminate on the earliest of: (1) the date such Ceded Policy Liability is recaptured in accordance with paragraph C below; (2) the date the Ceding Company's liability on the underlying Policy is terminated; or (3) the date this Agreement is terminated pursuant to paragraph D of this Article XV. Termination of the Reinsurer's liability is subject to payments in respect of such liability in accordance with the provisions of Article XVI. In no event should the interpretation of this Paragraph imply a unilateral right of the Reinsurer to terminate this Agreement.
- C. TERMINATION BY CEDING COMPANY. At any time after the occurrence (or

nonoccurrence, as the case may be) of any of the following, the Ceding Company shall have the right, at its option, upon delivery of written notice to the Reinsurer, to terminate this Agreement and recapture any and all of the Ceded Policy Liabilities:

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- (1) if the Reinsurer materially breaches any provision of this Agreement, which breach is not cured within sixty (60) days after receipt by the Reinsurer of notice thereof from the Ceding Company;
- (2) if the Ceding Company provides sixty (60) days prior written notice to the reinsurer.

- D. TERMINATION BY THE REINSURER. This Agreement may be terminated by the Reinsurer: (1) if the Ceding Company materially breaches this Agreement, which breach is not cured within sixty (60) days after receipt by the Ceding Company of written notice from the Reinsurer describing such breach; or (2) if the Ceding Company fails to pay any amounts due the Reinsurer pursuant to this Agreement within sixty (60) days following the end of any specified period, upon thirty (30) days prior written notice to the Ceding Company.
- E. In the event of termination and recapture under paragraphs C and D of this Article XV, there shall be a Terminal Accounting and Settlement pursuant to Article XVI.

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ARTICLE XVI
TERMINAL ACCOUNTING AND SETTLEMENT

- A. TERMINAL ACCOUNTING. In the event that this Agreement is terminated in accordance with Paragraphs C or D of Article XV, a Terminal Accounting and Settlement will take place.
- B. DATE. The terminal accounting date will be the earliest of: (1) the effective date of termination pursuant to any notice of termination given under this Agreement, or (2) any other date mutually agreed to by the parties in writing.
- C. SETTLEMENT. The Terminal Accounting and Settlement will consist of the Reinsurance Settlement as provided in Article IV, computed as of the terminal accounting date as if this Agreement were still in effect. If the calculation of the Terminal Accounting and Settlement produces an amount owing to the Ceding Company, such amount will be paid by the Reinsurer to the Ceding Company within thirty (30) days from the date of termination. If the calculation of the Terminal Accounting and Settlement produces an amount owing to the Reinsurer, such amount will be paid by the Ceding Company to the Reinsurer within thirty (30) days from the date of termination.
- D. SUPPLEMENTARY ACCOUNTING AND SETTLEMENT. Within forty five (45) days after the end of the quarter following the Terminal Accounting and Settlement as provided above, a supplementary accounting will take place in accordance with Paragraph C above. Any amount owed to the Ceding Company or to the Reinsurer, as the case may be, by reason of such supplementary accounting will be paid promptly upon the completion thereof.

ARTICLE XVII
GENERAL PROVISIONS

- A. CURRENCY CLAUSE. All transactions with respect to this Agreement will be in United States dollars. Any reference to "dollars" or "\$" in this Agreement and all schedules and exhibits attached hereto shall be interpreted as referring to United States currency.
- B. ENTIRE AGREEMENT. This Agreement constitutes the entire contract between the Reinsurer and the Ceding Company with respect to the Policies. No variation, modification or changes to this Agreement shall be binding unless in writing and signed by an officer of each party.
- C. NOTICES. Any notice or communication given pursuant to this Agreement must be in writing and (1) delivered personally, (2) sent by facsimile transmission, (3) delivered by overnight express, or (4) sent by registered or certified mail, postage prepaid, as follows:

If to the Reinsurer: Sarah R. Donahue
Allstate Reinsurance, Ltd.

3100 Sanders Road
 Suite N4A
 Northbrook, IL 60062-7154

If to the Ceding Company: Peter H. Heckman
 Vice President
 Allstate Life Insurance Company
 3100 Sanders Road
 Suite N4A
 Northbrook, IL 60062-7154

All notices and other communications required or permitted under the terms of this Agreement that are addressed as provided in this Article XVII shall: (1) if delivered personally or by overnight express, be deemed given upon delivery; (2) if delivered by facsimile transmission, be deemed given when electronically confirmed; and (3) if sent by registered or certified mail, be deemed given when received. Any party from time to time may change its address for notice purposes by giving a similar notice specifying a new address, but no such notice shall be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

- D. EXPENSES. Except as may be otherwise expressly provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each of the parties hereto shall pay its own costs and expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby.
- E. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.
- F. NO THIRD PARTY BENEFICIARY. Except as otherwise provided herein, the terms and provisions of this Agreement are intended solely for the benefit of the parties hereto, and their respective successors or permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other person, and no such rights shall be conferred upon any person or entity not a party to this Agreement.
- G. AMENDMENT. This Agreement may only be amended or modified by a written instrument executed on behalf of both parties hereto.
- H. ASSIGNMENT; BIND EFFECT. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by any of the parties hereto without the prior written consent of the other party, which consent shall not be unreasonably withheld, and any such assignment that is attempted without such consent shall be null and void. Subject to the preceding sentence, this Agreement shall be

binding upon, inure to the benefit of, and be enforceable by the parties and their respective successors and permitted assigns.

- I. INVALID PROVISIONS. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any present or future law, and if the rights or obligations of the parties hereto under this Agreement will not be materially and adversely affected thereby, (1) such provision shall be fully severable; (2) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and (3) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.
- J. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the Laws of Bermuda, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.
- K. WAIVER. Any term or condition of this Agreement may be waived in writing at any time by the party that is entitled to the benefit thereof. A waiver on one occasion shall not be deemed to be a waiver of the same or any other breach or nonfulfillment on a future occasion. All remedies, either under the terms of this Agreement, or by law or otherwise afforded, shall be cumulative and not alternative, except as otherwise provided by law.

- L. HEADINGS, ETC. The headings used in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement. Unless the context of this Agreement otherwise requires, (1) words using the singular or plural number also include the plural or singular number, respectively; (2) the terms "HEREOF," "HEREIN," "HEREBY," "HERETO," "HEREUNDER," and derivative or similar words refer to this entire Agreement (including the exhibits hereto); (3) the term "ARTICLE" refers to the specified Article of this Agreement; (d) the term "EXHIBIT" refers to the specified Exhibit attached to this Agreement; and (e) the term "PARTY" means, on the one hand, the Ceding Company, and on the other hand, the Reinsurer.
- M. OFFSET. Any debits or credits incurred after the Effective Date in favor of or against either the Ceding Company or the Reinsurer with respect to this Agreement are deemed mutual debits or credits, as the case may be, and shall be set off, and only the balance shall be allowed or paid.
- N. COMPLIANCE WITH LAWS. The parties hereto shall at all times comply with all applicable laws in performing their obligations under this Agreement.
- O. ERRORS AND OVERSIGHTS. Each party to this Agreement will act reasonably in all matters within the terms of this Agreement. Clerical errors and oversights occasioned in good faith in carrying out this Agreement will not prejudice either party, and will be rectified promptly on an equitable basis.

IN WITNESS WHEREOF, the parties to this Agreement have caused it to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE LIFE INSURANCE COMPANY

By _____

Title _____

Date _____

ALLSTATE REINSURANCE, LTD.

By _____

Title _____

Date _____

EXHIBIT A
CONTRACTS SUBJECT TO REINSURANCE

Glenbrook Advantage Annuity and contracts supplemental thereto, issued to customers of PNC Bank Corp. and its subsidiaries and affiliates.

EXHIBIT B
COMMISSION AND EXPENSE ALLOWANCE

- A. The following Commission and Expense Allowances are payable by the Reinsurer to the Ceding Company with respect to Policies pursuant to Article IV of this Agreement:
- (1) Office expense allowance equal to 32.5 annual basis points on the monthly average Customer Account Value during the period related to Cede Policy Liabilities.
 - (2) Commissions and other sales compensation, including wholesaling service expenses, if any, incurred by Glenbrook under agreements entered into between Glenbrook and the following parties as of the

dates specified: PNC Insurance Services, Inc. (effective June 1, 1994); Provest Insurance Services, Inc. (effective June 1, 1994); PINACO, Inc. (effective October 1, 1996); Provest Insurance Services Agency, Inc. (effective June 1, 1994); PNC Brokerage Corporation (effective October 1, 1996).

(3) Other promotional or marketing expenses as mutually agreed to in writing by the parties.

(4) Premium taxes, licenses and fees (excluding Federal Income Tax not otherwise referenced in this Agreement) and guaranty fund assessments paid by the Ceding Company under the Allstate Agreement.

B. The Federal Income Tax Reserve Expense or Benefit.

If applicable, the tax benefit or expense charge to the Ceding Company for the difference between the statutory reserves and the reserves allowed as a deduction under Section 807 of the Internal Revenue Code will be passed through and settled with the Reinsurer. The amount to be included in the monthly settlement will be equal to the change in the difference between the statutory reserves and the tax reserves for the period on the Ceded Policy Liabilities divided by 65% to reflect the required after tax impact for Allstate.

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EXHIBIT C
COST OF CAPITAL FORMULA

A. The Reinsurer will reimburse the Ceding Company for the Cost of Capital Charge. The Cost of Capital Charge will be equal to the Reinsurer's Cumulative Average Capital multiplied by the Cumulative Product Rate of Return (CPRR) provided, however, the Cost of Capital Charge will not be assessed until the year in which the Cumulative Product Rate of Return is projected to be positive. The Cost of Capital Charge, if any, will be based on estimates calculated each month by the Ceding Company, as described in paragraph B below, and will be included in the Reinsurance Settlement under Article IV. Each year, the estimated Cost of Capital Charge will be reconciled to the actual Cost of Capital Charge pursuant to paragraph C below.

B. The monthly estimate for the Cost of Capital Charge will be based on the Reinsurer's Cumulative Average Capital multiplied by the current expected Cumulative Product Rate of return divided by 12. The Reinsurer's Cumulative Average Capital will include the Reinsurer's Capital for the most recent quarter in determining the Reinsurer's Average Capital for the current year. With respect to the expected Cumulative Product Rate of Return, the estimate will be equal to the Rate of Return determined through the prior quarter. To determine this rate, Allstate's Product Capital for the most recent quarter will be used as the end of the calendar year's capital in determining Allstate's Average Product Capital for the current year.

C. The actual Cost of Capital Charge will be calculated within sixty (60) days following the end of each calendar year. The actual Cost of Capital Charge will be reconciled with the estimated Cost of Capital Charge for the particular calendar year, and the difference will be included in the Reinsurance Settlement each March under Article IV.

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EXHIBIT D
ACCOUNTING REPORTS

The Ceding Company agrees to provide the following information to the Reinsurer in accordance with Article IV.

The number and dollar amount of benefits paid for surrenders, death benefits, partial withdrawals, annuitization and payments on supplemental contracts. For each calendar year, such information will be included for the Policies sold during such calendar year.

Surrender and other charges collected from the policyholder.

End of period Customer Account Value and number of policies in force.

Estimated Statutory Reserves on in force business. For each quarter, the report will include the actual statutory reserves.

Net statutory premiums received during the period.

Detail listing of the components of the Commission and Expense Allowances payable.

New business crediting rates (each week).

Inforce crediting rates after first renewal including Customer Account Value and number of Policies.

Cost of Capital Charge(for each calendar year)

Other such reports as mutually agreed to in writing by the parties.

EXHIBIT E
TAX ELECTION

The Ceding Company and the Reinsurer hereby make an election pursuant to Treasury Regulations Section 1.848-2(g)(8). This election shall be effective for the tax year during which the Effective Date falls and all subsequent taxable years for which this Agreement remains in effect. Unless otherwise indicated, the terms used in this Exhibit are defined by reference to Treasury Regulations Section 1.848-2 as in effect on the date hereof. As used below, the term "PARTY" or "PARTIES" shall refer to the Ceding Company or the Reinsurer, or both, as appropriate.

1. The party with the Net Positive Consideration (as defined in Section 848 of the Code and related Treasury Regulations)with respect to the transactions contemplated under this Agreement for any taxable year covered by this election will capitalize specified policy acquisition expenses with respect to such transactions without regard to the general deductions limitation of Section 848(c)(1) of the Code.
2. The parties agree to exchange information pertaining to the amount of Net Consideration (as defined in Section 848 of the Code and related Treasury Regulations) under this Agreement each year to ensure consistency or as is otherwise required by the Internal Revenue Service. The exchange of information each year will follow the procedures set forth below:
 - (a) By April 1 of each year, the Ceding Company will submit a schedule to the Reinsurer of its calculation of the Net Consideration for the preceding calendar year. This schedule of calculations will be accompanied by a statement signed by an authorized representative of the Ceding Company stating the amount of the Net Consideration the Ceding Company will report in its tax return for the preceding calendar year.
 - (b) Within thirty (30) days of the Reinsurer's receipt of the Ceding Company's calculation, the Reinsurer may contest such calculation by providing an alternative calculation to the Ceding Company in writing. If the Reinsurer does not notify the Ceding Company that it contests such calculation within said 30-day period, the calculation will be presumed correct and the Reinsurer shall also report the Net Consideration as determined by the Ceding Company in the Reinsurer's tax return for the preceding calendar year.
 - (c) If the Reinsurer provides an alternative calculation of the Net Consideration pursuant to clause (b), the parties will act in good faith to reach an agreement as to the correct amount of Net Consideration within thirty (30) days of the date the Ceding Company receives the alternative calculation from the Reinsurer. When the Ceding Company and the Reinsurer reach agreement on an amount of Net Consideration, each party shall report the applicable amount in their respective tax returns for the preceding calendar year.

Agreed and accepted:

ALLSTATE REINSURANCE, LTD.

By:

Name:

Title:

ALLSTATE LIFE INSURANCE COMPANY

By: -----

Name: -----

Title: -----

AMENDMENT NO. 1

to the

RETROCESSION AGREEMENT

between

ALLSTATE LIFE INSURANCE COMPANY

and

ALLSTATE REINSURANCE, LTD.

This Amendment to the Retrocession Agreement between Allstate Life Insurance Company ("Ceding Company") and Allstate Reinsurance Ltd. ("Reinsurer") dated January 1, 1998, is made and entered by the parties effective as of June 30, 1999.

WHEREAS, Ceding Company desires to retrocede to Reinsurer liabilities under certain contracts specified in Exhibit A as amended and attached hereto, and Reinsurer desires to accept such liabilities from Ceding Company;

NOW THEREFORE, Ceding Company and Reinsurer mutually agree as follows:

- 1. Ceding Company agrees to cede and Reinsurer agrees to accept Ceded Policy Liabilities (as such term is defined in the Retrocession Agreement) under Glenbrook Performance Plus annuities, as described in amended Exhibit A attached hereto, and in accordance with the terms and conditions of the Retrocession Agreement between the parties.
- 2. Except as otherwise specified in this Amendment, the Retrocession Agreement shall remain unchanged.

IN WITNESS HEREOF, the parties have caused this Amendment to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE LIFE INSURANCE COMPANY

By: _____
 Title: _____
 Date: _____

ALLSTATE REINSURANCE, LTD.

By: _____
 Title: _____
 Date: _____

EXHIBIT A
 CONTRACTS SUBJECT TO REINSURANCE

Glenbrook Advantage Annuity and contracts supplemental thereto, issued after January 1, 1998 to customers of PNC BankCorp. and its subsidiaries and affiliates.

Glenbrook Performance Plus and contracts supplemental thereto, issued after June 30, 1999 to customers of PNC BankCorp. and its subsidiaries and affiliates.

AMENDMENT NO. 2

TO THE

RETROCESSION AGREEMENT

BETWEEN

ALLSTATE LIFE INSURANCE COMPANY

AND

ALLSTATE REINSURANCE, LTD.

WHEREAS, Allstate Life Insurance Company ("Ceding Company") and Allstate Reinsurance Ltd. ("Reinsurer") entered into a Retrocession Agreement effective as of January 1, 1998 ("Agreement"), which Agreement incorporated an Addendum to Retrocession Agreement dated November 12, 1998 ("Addendum"); and

WHEREAS, the concerns relating to C-3 RBC risk which necessitated the Addendum no longer exist; and

WHEREAS, the parties desire to change the Modified Coinsurance Reserve Adjustment in the Agreement; and

NOW, THEREFORE, it is agreed by the parties that the Agreement is hereby amended as provided below.

1. The following paragraphs and definitions are deleted from Article I:
 - a.) Paragraph A. "Ceding Company's Product Capital".
 - b.) Paragraph B. "Ceding Company's Average Product Capital".
 - c.) Paragraph C. "Ceding Company's Cumulative Average Product Capital".
 - d.) Paragraph G. "Cumulative Product Rate of Return (CPRR)".
 - e.) Paragraph U. "Reinsurer's Capital".
 - f.) Paragraph V. "Reinsurer's Average Capital".
 - g.) Paragraph W. "Reinsurer's Cumulative Average Capital".
 - h.) Paragraph Y. "Statutory Net Income".
 - i.) Paragraph Z. "Statutory Cumulative Net Income".
- 2.) The following new definition is added to Article I:

"Policyholder New Business Suspense Balances" shall mean premiums collected from policyholders which have not been processed at month end and therefore are not included in the Modified Coinsurance Reserves.
- 3.) Article V, Paragraph A, is amended by replacing subparagraphs (1) and (2) with the following new subparagraphs:
 - (1) the amount of Modified Coinsurance Reserves held at the end of the month plus Policyholder New Business Suspense Balances;
 - (2) the amount of Modified Coinsurance Reserves plus Policyholder New Business Suspense Balances held at the end of the immediately preceding month.
- 4.) Article V is further amended by replacing the first sentence of Paragraph B with the following new sentence:

The interest to be paid will be the Modco Interest Rate on the Average of the Modified Coinsurance Reserves plus Policyholder New Business Suspense Balances held at the end of the month and those held at the end of the immediately preceding month.
- 5.) Article VII is deleted in its entirety.
- 6.) Exhibit C is amended by deleting Paragraphs A, B and C, and replacing them with the following new paragraph:

The Reinsurer will reimburse the Ceding Company

for the Cost of Capital Charge. The Cost of Capital Charge will be equal to 24 annual basis points of Net Premiums due the Ceding Company on each monthly settlement.

7.) Exhibit D is amended by deleting the following line:

Cost of Capital Charge (for each calendar year).

8.) Except as otherwise amended hereby, the Agreement shall remain unchanged.

9.) This Amendment shall be effective as of _____, 1999.

IN WITNESS HEREOF, the parties to the Agreement have caused this Amendment to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE REINSURANCE, LTD.

By: _____

Title: _____

Date: _____

ALLSTATE LIFE INSURANCE COMPANY

By: _____

Title: _____

Date: _____

AMENDMENT NO. 3

to the

RETROCESSION AGREEMENT

between

ALLSTATE LIFE INSURANCE COMPANY

and

ALLSTATE REINSURANCE, LTD.

This Amendment to the Retrocession Agreement between Allstate Life Insurance Company ("Ceding Company") and Allstate Reinsurance, Ltd. ("Reinsurer") dated January 1, 1998, is made and entered by the parties effective as of March 13, 2000.

WHEREAS, Ceding Company desires to retrocede to Reinsurer liabilities under certain contracts specified in Exhibit A as amended and attached hereto, and Reinsurer desires to accept such liabilities from Ceding Company;

NOW THEREFORE, Ceding Company and Reinsurer mutually agree as follows:

1. Ceding Company agrees to cede and Reinsurer agrees to accept Ceded Policy Liabilities (as such term is defined in the Retrocession Agreement) under Glenbrook Performance Plus annuities, as described in amended Exhibit A attached hereto, and in accordance with the terms and conditions of the Retrocession Agreement between the parties.
2. Except as otherwise specified in this Amendment, the Retrocession Agreement shall remain unchanged.

IN WITNESS HEREOF, the parties have caused this Amendment to be duly executed in duplicate by their respective officers on the dates shown below.

ALLSTATE LIFE INSURANCE COMPANY

By: _____

Title: _____

Date: _____

ALLSTATE REINSURANCE, LTD.

By: _____

Title: _____

Date: _____

EXHIBIT A
CONTRACTS SUBJECT TO REINSURANCE

Glenbrook Advantage Annuity and contracts supplemental thereto, issued after January 1, 1998 to customers of PNC BankCorp. and its subsidiaries and affiliates.

Glenbrook Performance Plus and contracts supplemental thereto, issued after June 30, 1999 to customers of PNC BankCorp. and its subsidiaries and affiliates.

Glenbrook Advantage Plus and contracts supplemental thereto, issued on and after March 13, 2000, to customers of PNC BankCorp. and its subsidiaries and

affiliates.

SUBSIDIARIES

COMPANY
 JURISDICTION
 OF
 ORGANIZATION

-- AFDW,
 Inc. Oregon
 Allstate
 Distributors,
 L.L.C.
 Delaware
 AFD, Inc.
 Illinois
 Allstate
 Financial
 Advisors,
 LLC Delaware
 Allstate
 Financial
 Services,
 LLC Delaware
 ALFS, Inc.
 Delaware
 Allstate
 Life
 Insurance
 Company of
 New York New
 York
 Allstate
 Assignment
 Company
 Nebraska
 Allstate
 Settlement
 Corporation
 Nebraska
 Charter
 National
 Life
 Insurance
 Company
 Illinois
 Glenbrook
 Life and
 Annuity
 Company
 Arizona
 Intramerica
 Life
 Insurance
 Company New
 York Lincoln
 Benefit Life
 Company
 Nebraska LSA
 Asset
 Management,
 LLC Delaware
 Northbrook
 Life
 Insurance
 Company
 Arizona
 Allstate
 Assurance
 Company
 Illinois
 Surety Life
 Insurance
 Company
 Nebraska

