
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

Registrant meets the conditions set forth in General Instruction H (1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-31248

ALLSTATE LIFE INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

Illinois
(State of Incorporation)

36-2554642
(I.R.S. Employer Identification No.)

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

60062
(Zip code)

Registrant's telephone number, including area code: 847/402-5000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2004, the registrant had 23,800 common shares, \$227 par value, outstanding, all of which are held by Allstate Insurance Company.

ALLSTATE LIFE INSURANCE COMPANY
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June 30, 2004

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)	(Unaudited)		(Unaudited)	
Revenues				
Premiums	\$ 151	\$ 204	\$ 302	\$ 521
Contract charges	236	219	470	428
Net investment income	795	760	1,578	1,520
Realized capital gains and losses	(68)	(40)	(95)	(82)
	<u>1,114</u>	<u>1,143</u>	<u>2,255</u>	<u>2,387</u>
Costs and expenses				
Contract benefits	313	378	649	845
Interest credited to contractholder funds	463	440	912	872
Amortization of deferred policy acquisition costs	109	85	224	257
Operating costs and expenses	123	118	225	239
	<u>1,008</u>	<u>1,021</u>	<u>2,010</u>	<u>2,213</u>
Loss on disposition of operations	(14)	—	(17)	—
	<u>92</u>	<u>122</u>	<u>228</u>	<u>174</u>
Income from operations before income tax expense and cumulative effect of change in accounting principle, after-tax				
Income tax expense	37	37	82	50
	<u>55</u>	<u>85</u>	<u>146</u>	<u>124</u>
Income before cumulative effect of change in accounting principle, after-tax				
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
	<u>—</u>	<u>—</u>	<u>(175)</u>	<u>—</u>
Net income (loss)	<u>\$ 55</u>	<u>\$ 85</u>	<u>\$ (29)</u>	<u>\$ 124</u>

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2004	December 31, 2003
(in millions, except par value data)	(Unaudited)	
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$52,594 and \$48,401)	\$ 54,624	\$ 51,578
Mortgage loans	6,854	6,354
Equity securities	273	164
Short-term	1,448	765
Policy loans	702	686
Other	520	442
	64,421	59,989
Total investments		
Cash	108	121
Deferred policy acquisition costs	3,347	3,202
Reinsurance recoverables, net	1,365	1,185
Accrued investment income	574	567
Other assets	617	323
Separate Accounts	13,564	13,425
	83,996	78,812
Total assets	\$ 83,996	\$ 78,812
Liabilities		
Contractholder funds	\$ 49,365	\$ 44,914
Reserve for life-contingent contract benefits	10,533	10,480
Unearned premiums	30	32
Payable to affiliates, net	65	114
Other liabilities and accrued expenses	3,933	2,594
Deferred income taxes	438	779
Short-term debt	55	—
Long-term debt	116	45
Separate Accounts	13,564	13,425
	78,099	72,383
Total liabilities	78,099	72,383
Commitments and Contingent Liabilities (Note 5)		
Shareholder's Equity		
Redeemable preferred stock—series A, \$100 par value, 1.5 million shares authorized, 49,230 and 815,460 shares issued and outstanding	5	82
Common stock, \$227 par value, 23,800 shares authorized and outstanding	5	5
Additional capital paid-in	1,077	1,067
Retained income	4,143	4,222
Accumulated other comprehensive income:		
Unrealized net capital gains and losses and net gains and losses on derivative financial instruments	667	1,053
	667	1,053
Total accumulated other comprehensive income	667	1,053
Total shareholder's equity	5,897	6,429
Total liabilities and shareholder's equity	\$ 83,996	\$ 78,812

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
(in millions)	2004	2003
	(Unaudited)	
Cash flows from operating activities		
Net (loss) income	\$ (29)	\$ 124
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and other non-cash items	(66)	(83)
Realized capital gains and losses	95	82
Cumulative effect of change in accounting principle	175	—
Interest credited to contractholder funds	912	872
Changes in:		
Contract benefit and other insurance reserves	(120)	37
Unearned premiums	1	2
Deferred policy acquisition costs	(146)	(83)
Reinsurance recoverables, net	(96)	(58)
Income taxes payable	(64)	33
Other operating assets and liabilities	30	247
	692	1,173
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	4,317	3,803
Equity securities	115	50
Investment collections		
Fixed income securities	2,196	2,283
Mortgage loans	302	275
Investment purchases		
Fixed income securities	(9,998)	(9,328)
Equity securities	(165)	(20)
Mortgage loans	(844)	(479)
Change in short-term investments, net	(2)	521
Change in other investments, net	(47)	(39)
	(4,126)	(2,934)
Cash flows from financing activities		
Change in short-term debt, net	55	95
Redemption of mandatorily redeemable preferred stock	(7)	(8)
Contractholder fund deposits	6,331	4,303
Contractholder fund withdrawals	(2,907)	(2,480)
Dividends paid	(51)	(1)
	3,421	1,909
Net (decrease) increase in cash	(13)	148
Cash at beginning of the period	121	252
Cash at end of period	\$ 108	\$ 400

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (together with ALIC, the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation").

The condensed consolidated financial statements and notes as of June 30, 2004, and for the three-month and six-month periods ended June 30, 2004 and 2003 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

To conform to the 2004 presentation, certain amounts in the prior year's condensed consolidated financial statements and notes have been reclassified.

In August 2004, the boards of directors of ALIC and Glenbrook Life and Annuity Company ("GLAC") approved the merger of GLAC, a consolidated subsidiary of ALIC, into ALIC, expected to be effective January 1, 2005. ALIC will be the surviving legal entity and GLAC will cease to exist as an independent entity. ALIC and GLAC expect to receive all required regulatory approvals.

Equity securities include common stocks, non-redeemable preferred stocks and limited partnership interests. Common stocks and non-redeemable preferred stocks had a carrying value of \$157 million and \$83 million, and cost of \$147 million and \$79 million at June 30, 2004 and December 31, 2003, respectively. Investments in limited partnership interests had a carrying value of \$116 million and \$81 million at June 30, 2004 and December 31, 2003, respectively.

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled \$33 million and \$34 million for the six months ended June 30, 2004 and 2003, respectively.

Adopted Accounting Standard

Statement of Position No. 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1")

On January 1, 2004, the Company adopted SOP 03-1. The major provisions of the SOP affecting the Company require:

- Establishment of reserves primarily related to death benefit and income benefit guarantees provided under variable annuity contracts;
- Deferral of sales inducements that meet certain criteria, and amortization using the same method used for deferred policy acquisition costs ("DAC"); and
- Reporting and measuring assets and liabilities of certain separate accounts products as investments and contractholder funds rather than as separate accounts assets and liabilities when specified criteria are present.

Effects of adoption

The cumulative effect of the change in accounting principle from implementing SOP 03-1 was a loss of \$175 million, after-tax (\$269 million, pre-tax). It was comprised of an increase in benefits reserves (primarily for variable annuity contracts) of \$145 million, pre-tax, and a reduction in DAC and deferred sales inducements ("DSI") of \$124 million, pre-tax.

The SOP requires consideration of a range of potential results to estimate the cost of variable annuity death benefits and income benefits, which generally necessitates the use of stochastic modeling techniques. To maintain consistency with the assumptions used in the establishment of reserves for variable annuity guarantees, the

Company utilized the results of this stochastic modeling to estimate expected gross profits, which form the basis for determining the amortization of DAC and DSI. This new modeling approach resulted in a lower estimate of expected gross profits, and therefore resulted in a write-down of DAC and DSI.

In 2004, DSI and related amortization is classified within the Condensed Consolidated Statements of Financial Position and Operations as other assets and interest credited to contractholder funds, respectively. The amounts are provided below.

The Company reclassified \$204 million of separate accounts assets and liabilities to investments and contractholder funds, respectively.

Liabilities for contract guarantees

The Company offers various guarantees to variable contractholders including a return of no less than (a) total deposits made on the contract less any customer withdrawals, (b) total deposits made on the contract less any customer withdrawals plus a minimum return or (c) the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (death benefits), upon annuitization (income benefits), or at specified dates during the accumulation period (accumulation benefits). To manage the risk associated with a portion of its minimum guaranteed death and income benefits, the Company acquired reinsurance for policies issued prior to January 1, 2000. Additionally, the Company hedges death benefits for substantially all contracts issued since January 1, 2003 and accumulation benefits for all contracts issued.

The table below presents information regarding the Company's variable contracts with guarantees. The Company's variable annuity contracts may offer more than one type of guarantee in each contract; therefore, the sum of amounts listed exceeds the total account balances of variable annuity contracts' separate accounts with guarantees.

	<u>June 30, 2004</u>
(\$ in millions)	
<i>In the event of death</i>	
Account value	\$ 13,330
Net amount at risk(1)	\$ 2,284
Average attained age of contractholders	63 years
<i>At annuitization</i>	
Account value	\$ 3,710
Net amount at risk(2)	\$ 70
Weighted average waiting period until annuitization options available	8 years
<i>Accumulation at specified dates</i>	
Account value	\$ 86
Net amount at risk(3)	\$ —
Weighted average waiting period until guarantee date	11 years

(1) Defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date.

(2) Defined as the present value of the minimum guaranteed annuity payments determined in accordance with the terms of the contract in excess of the current account balance.

(3) Defined as the present value of the guaranteed minimum accumulation balance in excess of the current account balance.

Account balances of variable contracts' separate accounts with guarantees were invested as follows:

	<u>June 30, 2004</u>
(in millions)	
Equity securities (including mutual funds)	\$ 12,694
Cash and cash equivalents	636
Total variable contracts' separate account assets with guarantees	\$ 13,330

The following table summarizes the liabilities for guarantees:

(in millions)	Liability for guarantees related to death benefits	Liability for guarantees related to income benefits	Total
Balance at January 1, 2004	\$ 117	\$ 41	\$ 158
Less reinsurance recoverables	(11)	(2)	(13)
Net balance at January 1, 2004	106	39	145
Incurred guaranteed benefits	17	3	20
Paid guarantee benefits	(30)	—	(30)
Net change	(13)	3	(10)
Net balance at June 30, 2004	93	42	135
Plus reinsurance recoverables	9	—	9
Balance, June 30, 2004 (1)	\$ 102	\$ 42	\$ 144

(1) Included in the total reserve balance are reserves for variable annuity death benefits of \$87 million, variable annuity income benefits of \$16 million and other guarantees of \$41 million.

The liability for death and income benefit guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. For guarantees in the event of death, benefits represent the current guaranteed minimum death payments in excess of the current account balance. For guarantees at annuitization, benefits represent the present value of the minimum guaranteed annuity benefits in excess of the current account balance.

Projected benefits and contract charges used in determining the liability for guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based on factors such as the extent of benefit to the potential annuitant, eligibility conditions and the annuitant's attained age.

The liability for guarantees will be re-evaluated periodically, and adjustments will be made to the liability balance through a charge or credit to contract benefits.

Deferred sales inducements

Costs related to sales inducements offered on sales to new customers, principally on investment contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contractholder funds on the Condensed Consolidated Statements of Operations. DSI is amortized to income using the same methodology and assumptions as DAC, and included in interest credited to contractholder funds. DSI is periodically reviewed for recoverability and written down when necessary.

DSI activity for the six months ended June 30, 2004 was as follows:

(in millions)	
Balance, January 1, 2004	\$ 182
Sales inducements deferred	25
Amortization charged to income	(21)
Effects of unrealized gains and losses	(32)
Balance, June 30, 2004	\$ 154

Pending Accounting Standards

Emerging Issues Task Force Topic No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1")

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF 03-1, which is effective for fiscal periods beginning after June 15, 2004. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value an impairment exists for which a determination must be made as to whether the impairment is other-than-temporary. An impairment loss should be recognized equal to the difference between the investment's carrying value and its fair value when an impairment is other-than-temporary. Subsequent to an other-than temporary impairment loss, a debt security should be accounted for in accordance with Statement of Position No. 03-3, "Accounting for Loans and Certain Debt Securities Acquired in a Transfer", which allows the accretion of the discount between the carrying value and expected value of a security if the amount and timing of the recognition of that difference in cash is reasonably estimable. EITF 03-1 also indicates that although not presumptive a pattern of selling investments prior to the forecasted recovery may call into question an investor's intent to hold the security until it recovers in value.

The EITF 03-1 impairment model applies to all investment securities accounted for under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and to investment securities accounted for under the cost method to the extent an impairment indicator exists or the reporting entity has estimated the fair value of the investment security in connection with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments".

The final consensus on EITF 03-1 included additional disclosure requirements incremental to those adopted by the Company effective December 31, 2003 that are effective for fiscal years ending after June 15, 2004.

The Company is currently evaluating the impact of EITF 03-1 on its process for determining other-than-temporary impairment for the affected securities. More specifically, the Company is analyzing whether subsequent to adoption its portfolio management practices for certain securities classified as available-for-sale pursuant to SFAS No. 115 could be interpreted as a pattern of selling thereby affecting its designated intent to hold such investments for the period necessary to allow for the forecasted recovery of fair value pursuant to the requirements of EITF 03-1. As a result of this analysis, the Company may potentially reclassify to realized capital gains and losses the unrealized net capital gains and losses associated with certain securities classified as available-for-sale.

Adoption of this standard may:

- Accelerate the timing of recognition of certain impairment losses or otherwise result in impairment losses being recognized when they previously may not have been;
- Result in the designation of certain investment securities as trading;
- Increase the volatility of net income due to:
 - The potential recognition of unrealized losses in situations where the Company anticipates a full recovery of certain unrealized losses but does not desire to elect a permanent intent to hold the affected securities, regardless of internal and external facts and circumstances, until such time as they fully recover or mature; and
 - Changes in the timing of the recognition of the difference between carrying value and expected settlement value of those debt securities for which an other-than-temporary impairment is taken.

Adoption of this standard is not expected to have a material impact on shareholder's equity since fluctuations in fair value are already recorded in accumulated other comprehensive income.

2. Disposition

The Company disposed of the majority of its direct response distribution business in the first quarter of 2004 and is in the process of disposing of its remaining direct response distribution business. In connection with those disposal activities, the Company recorded an additional loss on disposition of \$17 million pre-tax (\$11 million after-tax) for the six months ended June 30, 2004.

3. Reinsurance

The effects of reinsurance on premiums and contract charges are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(in millions)				
Premiums and contract charges				
Direct	\$ 509	\$ 501	\$ 1,025	\$ 1,104
Assumed				
Affiliate	5	5	9	11
Non-affiliate	(1)	22	4	44
Ceded—non-affiliate	(126)	(105)	(266)	(210)
	<u>\$ 387</u>	<u>\$ 423</u>	<u>\$ 772</u>	<u>\$ 949</u>

The effects of reinsurance on contract benefits are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(in millions)				
Contract benefits				
Direct	\$ 416	\$ 453	\$ 831	\$ 983
Assumed				
Affiliate	5	2	7	2
Non-affiliate	3	10	3	20
Ceded Non-affiliate	(111)	(87)	(192)	(160)
	<u>\$ 313</u>	<u>\$ 378</u>	<u>\$ 649</u>	<u>\$ 845</u>

Included in income tax expense on the Condensed Consolidated Statement of Operations is \$6 million of expense related to the write-off of a tax receivable resulting from the termination of a reinsurance agreement with a nonconsolidated affiliate who does not file with ALIC in the consolidated tax return.

4. Debt

As of June 30, 2004, debt includes \$70 million of mandatorily redeemable preferred stock ("preferred stock") that was reclassified to long-term debt during the second quarter in accordance with the provisions of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The reclassification occurred as a result of changes to contractual arrangements between the Company and the holders of the preferred stock resulting in the preferred stock becoming mandatorily redeemable. As of December 31, 2003, the balance of the preferred stock subject to reclassification amounted to \$77 million. During the second quarter of 2004, \$7 million of this mandatorily redeemable preferred stock was redeemed.

5. Guarantees and Contingent Liabilities

Guarantees

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities, as measured by the par value, was \$95 million at June 30, 2004. The obligations associated with these fixed income securities expire at various times during the next seven years.

Lincoln Benefit Life Company ("LBL"), a wholly owned subsidiary of ALIC, has issued universal life insurance contracts to third parties who finance the premium payments on the universal life insurance contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance that is fully collateralized by the cash surrender value of the universal life insurance contracts. At June 30,

2004, the amount due under the commercial paper program is \$300 million and the cash surrender value of the policies is \$309 million. The repayment guarantee expires April 30, 2006.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Because the obligated amounts of the indemnifications are not explicitly stated in many cases, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of June 30, 2004.

Regulation

The Company is subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to remove barriers preventing banks from engaging in the securities and insurance businesses, change tax laws affecting the taxation of insurance companies and the tax treatment of insurance products or competing non-insurance products that may impact the relative desirability of various personal investment products and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company's business, if any, are uncertain.

Regulatory bodies have contacted the Company and have requested information relating to variable insurance products, including such areas as market timing and late trading and sales practices. The Company believes that these inquiries are similar to those made to many financial services companies as part of an industry-wide investigation by various regulatory agencies into the practices, policies and procedures relating to variable insurance products sales and subaccount trading practices. The Company has and will continue to respond to these information requests and investigations. The Company at the present time is not aware of any systemic problems with respect to such matters that may have a material adverse effect on the Company's condensed consolidated financial position.

Legal proceedings

Background

The Company and certain of its affiliates are named as defendants in a number of lawsuits and other legal proceedings arising out of various aspects of its business. As background to the "Proceedings" described below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the timing of their resolutions relative to other similar cases brought against other companies, the fact that some of these matters are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined, the fact that some of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies.
- In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought include punitive or treble damages or are not specified. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In those cases where plaintiffs have made a specific demand for monetary damages, they often specify damages just below a jurisdictional limit regardless of the facts of

the case. This represents the maximum they can seek without risking removal from state court to federal court. In our experience, monetary demands in plaintiffs' court pleadings bear little relation to the ultimate loss, if any, to the Company.

- For the reasons specified above, it is not possible to make meaningful estimates of the amount or range of loss that could result from these matters at this time. The Company reviews these matters on an on-going basis and follows the provisions of SFAS No. 5, "Accounting for Contingencies" when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.
- In the opinion of the Company's management, while some of these matters may be material to the Company's operating results for any particular period if an unfavorable outcome results, none will have a material adverse effect on the condensed consolidated financial condition of the Company.

Proceedings

Legal proceedings involving Allstate agencies and AIC may impact the Company, even when the Company is not directly involved, because the Company sells its products through a variety of distribution channels including Allstate agencies. Consequently, information about the more significant of these proceedings is provided below.

AIC is defending various lawsuits involving worker classification issues. A putative nationwide class action filed by former employee agents includes a worker classification issue; these agents are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. AIC has been vigorously defending this and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

AIC is also defending certain matters relating to its agency program reorganization announced in 1999. These matters include an investigation by the U.S. Department of Labor and a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") alleging retaliation under federal civil rights laws and a class action filed in August 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act, breach of contract and ERISA violations. In April 2004, the U.S. Department of Labor notified AIC that it has closed its investigation and contemplates no further action on this matter at this time. In late March 2004, in the EEOC and class action lawsuits, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court's declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to AIC "any and all benefits received by the [agent] in exchange for signing the release." The court also "concluded that, on the undisputed facts of record, there is no basis for claims of age discrimination." The EEOC and plaintiffs have asked the court to clarify and/or reconsider its memorandum and order. The case otherwise remains pending. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA. This matter was dismissed with prejudice in late March 2004 by the trial court but will be the subject of further proceedings on appeal. In these matters, plaintiffs seek compensatory and punitive damages, and equitable relief. AIC has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, AIC is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the EEOC with respect to allegations of age discrimination and retaliation. AIC is cooperating fully with the agency investigation and will continue to vigorously defend these and other claims related to the life agency program reorganization. The outcome of these disputes is currently uncertain.

The Company is defending various lawsuits and regulatory proceedings that allege that it engaged in business or sales practices inconsistent with state or federal law. In addition, the company is defending several lawsuits brought by annuitants challenging trading restrictions the company adopted to limit market-timing activity. Plaintiffs seek a variety of remedies including monetary and equitable relief. The Company has been vigorously defending these matters, but their outcome is currently uncertain.

Other actions

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 or indeterminate amounts. This litigation is based on a variety of issues including insurance and claim settlement practices. The outcome of these disputes is currently unpredictable. 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.

6. Other Comprehensive Income

The components of other comprehensive income on a pretax and after-tax basis are as follows:

(in millions)	Three months ended June 30,					
	2004			2003		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>Unrealized net capital gains and losses and net gains and losses on derivative financial instruments</i>						
Unrealized holding gains (losses) arising during the period	\$ (907)	\$ 317	\$ (590)	\$ 393	\$ (138)	\$ 255
Less: reclassification adjustments	(58)	20	(38)	(41)	14	(27)
Unrealized net capital gains (losses)	(849)	297	(552)	434	(152)	282
Net gains (losses) on derivative financial instruments arising during the period	—	—	—	—	—	—
Less: reclassification adjustments	(4)	1	(3)	1	—	1
Net gains (losses) on derivative financial instruments	4	(1)	3	(1)	—	(1)
Other comprehensive income (loss)	\$ (845)	\$ 296	(549)	\$ 433	\$ (152)	281
Net income (loss)			55			85
Comprehensive income (loss)			\$ (494)			\$ 366
	Six months ended June 30,					
	2004			2003		
(in millions)	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>Unrealized net capital gains and losses and net gains and losses on derivative financial instruments</i>						
Unrealized holding gains (losses) arising during the period	\$ (657)	\$ 230	\$ (427)	\$ 491	\$ (172)	\$ 319
Less: reclassification adjustments	(62)	22	(40)	(94)	33	(61)
Unrealized net capital gains (losses)	(595)	208	(387)	585	(205)	380
Net gains (losses) on derivative financial instruments arising during the period	—	—	—	—	—	—
Less: reclassification adjustments	(1)	—	(1)	1	—	1
Net gains (losses) on derivative financial instruments	1	—	1	(1)	—	(1)
Other comprehensive income (loss)	\$ (594)	\$ 208	(386)	\$ 584	\$ (205)	379
Net income (loss)			(29)			124
Comprehensive income (loss)			\$ (415)			\$ 503

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

We have reviewed the accompanying condensed consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries (the "Company") as of June 30, 2004, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2004 and 2003, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries as of December 31, 2003, and the related consolidated statements of operations and comprehensive income, shareholder's equity, and cash flows for the year then ended, not presented herein. In our report dated February 4, 2004, which report includes an explanatory paragraph as to changes in the Company's methods of accounting for embedded derivatives in modified coinsurance agreements and variable interest entities in 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois
August 10, 2004

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of Allstate Life Insurance Company (referred to in this document as "we", "our", "us", or the "Company"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of the Allstate Life Insurance Company Annual Report on Form 10-K for 2003. We operate as a single segment entity, consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

HIGHLIGHTS

- Revenues decreased by \$29 million or 2.5% to \$1.11 billion in the second quarter of 2004 from \$1.14 billion in the second quarter of 2003 and decreased \$132 million or 5.5% to \$2.26 billion in the first six months of 2004 from \$2.39 billion for the first six months of 2003. The decreases in both periods were due to the effects of the disposal of the majority of our direct response distribution business, lower premiums on immediate annuities with life contingencies and higher realized capital losses, partially offset by higher net investment income and increased contract charges on variable annuities and interest-sensitive life.
- Net income for the second quarter of 2004 decreased 35.3% to \$55 million from \$85 million for the same period in the prior year. The Company had a net loss of \$29 million in the first six months of 2004 compared with net income of \$124 million for the same period in the prior year. The decrease in the second quarter of 2004 was primarily attributable to higher realized capital losses, a current period loss on disposition of operations and a higher effective tax rate primarily attributable to tax expenses recorded in connection with the termination of a reinsurance agreement. The decrease in the first six months of 2004 was primarily due to a \$175 million after-tax charge related to the cumulative effect of a change in accounting principle for AICPA Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1"), which was adopted on January 1, 2004. Income before the cumulative effect of change in accounting principle, after-tax, improved 17.7% compared to the first six months of 2003.
- Total investments increased 9.6% as of June 30, 2004 compared to June 30, 2003 due primarily to contractholder deposits. This increase was negatively impacted by a decline in the net unrealized gains on fixed income securities from \$4.35 billion at June 30, 2003 to \$2.03 billion at June 30, 2004.
- Contractholder deposits totaled \$3.59 billion and \$6.33 billion for the second quarter and first six months of 2004, respectively, compared to \$2.56 billion and \$4.30 billion for the second quarter and first six months of 2003, respectively. The increase was primarily attributable to institutional products and fixed annuities.
- When comparing the second quarter and first six months of 2004 to the same periods in the prior year, the disposal of the majority of our direct response distribution business resulted in the following effects.

(in millions)	Three Months Ended June 30, 2004 Compared to the Same Period in the Prior Year	Six Months Ended June 30, 2004 Compared to the Same Period in the Prior Year
Total revenues	\$ (54)	\$ (108)
Contract benefits	24	47
Amortization of DAC	7	15
Operating costs and expenses	18	34
Loss on disposition of operations	(2)	(5)
Income tax expense	2	6
Net income	\$ (5)	\$ (11)

OPERATIONS

Premiums represent revenues generated from traditional life, immediate annuities with life contingencies and other insurance products that have significant mortality or morbidity risk.

Contract charges are revenues generated from interest-sensitive life products, variable annuities, fixed annuities and other investment products for which deposits are classified as contractholder funds or separate accounts liabilities on the Condensed Consolidated Statements of Financial Position. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in contractholder funds and separate accounts liabilities are considered in the evaluation of growth and as indicators of future levels of revenues.

The following table summarizes premiums and contract charges by product.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Premiums				
Traditional life	\$ 85	\$ 96	\$ 159	\$ 187
Immediate annuities with life contingencies	66	68	143	251
Other	—	40	—	83
Total premiums	151	204	302	521
Contract charges				
Interest-sensitive life	161	154	321	304
Fixed annuities	14	11	28	18
Variable annuities	61	50	121	97
Institutional products	—	3	—	6
Other	—	1	—	3
Total contract charges	236	219	470	428
Total premiums and contract charges	\$ 387	\$ 423	\$ 772	\$ 949

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Premiums				
Allstate agencies	\$ 74	\$ 56	\$ 127	\$ 109
Specialized brokers	51	68	114	251
Independent agents	11	7	31	14
Direct response	15	73	30	147
Total premiums	151	204	302	521
Contract charges				
Allstate agencies	116	108	229	217
Specialized brokers	5	9	12	16
Independent agents	58	56	117	105
Financial institutions and broker/dealers	57	46	112	90
Total contract charges	236	219	470	428
Total premiums and contract charges	\$ 387	\$ 423	\$ 772	\$ 949

Total premiums decreased 26.0% to \$151 million in the second quarter of 2004 and 42.0% to \$302 million in the first six months of 2004 compared to the same periods of 2003. The decrease in the second quarter of 2004 compared to the same period in the prior year was attributable to the disposal of the majority of our direct response distribution business, which resulted in lower traditional life and other premiums. The decrease in the first six months of 2004 compared to the same period in the prior year was primarily due to the disposal of the majority of our direct response distribution business and lower premiums on immediate annuities with life contingencies. The declines in immediate annuities with life contingencies were primarily the result of stricter underwriting actions, which reduced sales of large individual contracts.

Contract charges increased 7.8% to \$236 million in the second quarter of 2004 and 9.8% to \$470 million in the first six months of 2004 compared to the same periods of 2003. The increase in both periods was primarily due to higher contract charges on variable annuities as a result of overall higher account values in the current periods and increased contract charges on interest-sensitive life products resulting from in force business growth. The higher account values in the current periods were primarily attributable to favorable investment results during 2003 and net deposits, partially offset by surrenders and benefits.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual products, such as interest-sensitive life and fixed annuities, or institutional products, such as funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract maturities, benefits, surrenders, withdrawals and contract charges for mortality or administrative expenses.

The following table shows the changes in contractholder funds.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Contractholder funds, beginning balance	\$ 46,997	\$ 39,880	\$ 44,914	\$ 38,858
Impact of adoption of SOP 03-1(1)	—	—	421	—
Deposits				
Fixed annuities (immediate and deferred)	1,635	1,463	2,851	2,472
Institutional products	1,499	632	2,600	986
Interest-sensitive life	303	225	609	435
Variable annuity and life deposits allocated to fixed accounts	151	237	271	409
Total deposits	3,588	2,557	6,331	4,302
Interest credited	463	440	907	872
Maturities, benefits, withdrawals and other adjustments				
Maturities of institutional products	(584)	(696)	(1,095)	(1,093)
Benefits and withdrawals	(828)	(650)	(1,583)	(1,257)
Contract charges	(145)	(145)	(287)	(278)
Net transfers to separate accounts	(103)	(119)	(234)	(142)
Fair value hedge adjustments for institutional products	(135)	71	(112)	87
Other adjustments	112	55	103	44
Total maturities, benefits, withdrawals and other adjustments	(1,683)	(1,484)	(3,208)	(2,639)
Contractholder funds, ending balance	\$ 49,365	\$ 41,393	\$ 49,365	\$ 41,393

(1) The increase in contractholder funds due to the adoption of SOP 03-1 reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds, the reclassification of deferred sales inducements from contractholder funds to other assets and the establishment of reserves for certain liabilities that are primarily related to income and death benefit guarantees provided under variable annuity contracts.

Contractholder deposits increased 40.3% in the second quarter and 47.2% in the first six months of 2004 compared to the same periods in 2003, and average contractholder funds, excluding the impact of adopting SOP 03-1, increased 18.6% in the second quarter and 17.0% in the first six months of 2004 compared to the same periods in 2003 due to increases in institutional product and fixed annuity deposits. Institutional product deposits increased 137.2% and 163.7% in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003, largely due to our assessment of market opportunities. Institutional product deposits included the inaugural offering during the second quarter of 2004 of our newly registered program totaling \$800 million. Fixed annuity deposits increased 11.8% and 15.3% in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003. The increases were attributable to higher consumer demand resulting from increasing market interest rates.

Benefits and withdrawals increased 27.4% in the second quarter and 25.9% in the first six months of 2004 compared to the same periods in 2003. Benefits and withdrawals for the second quarter and first six months of 2004 represent an annualized withdrawal rate of 9.2% and 9.0%, respectively, based on the beginning of period contractholder funds balance excluding institutional product reserves, compared to 8.4% for the second quarter and first six months of 2003. Institutional product maturities declined 16.1% in the second quarter of 2004 compared to the same period in the prior year and were slightly higher in the first six months of 2004 compared to the same period in the prior year.

Separate accounts liabilities represent contractholders' claims to the related legally segregated separate accounts assets. Separate accounts liabilities primarily arise from the sale of variable annuity contracts and variable life insurance policies. The following table shows the changes in separate accounts liabilities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Separate accounts liabilities, beginning balance	\$ 13,550	\$ 10,553	\$ 13,425	\$ 11,125
Impact of adoption of SOP 03-1(1)	—	—	(204)	—
Variable annuity and life deposits	474	575	961	1,000
Variable annuity and life deposits allocated to fixed accounts	(151)	(237)	(271)	(409)
Net deposits	323	338	690	591
Investment results	45	1,238	361	970
Contract charges	(63)	(54)	(125)	(106)
Net transfers from fixed accounts	103	119	234	142
Surrenders and benefits	(394)	(371)	(817)	(899)
Separate accounts liabilities, ending balance	\$ 13,564	\$ 11,823	\$ 13,564	\$ 11,823

- (1) The decrease in separate accounts due to the adoption of SOP 03-1 reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds.

Separate accounts liabilities, excluding the impact of adopting SOP 03-1, increased \$14 million and \$343 million during the second quarter and first six months of 2004, respectively, compared to \$1.27 billion and \$698 million during the second quarter and first six months of 2003, respectively, as a result of net deposits, transfers from fixed accounts and positive investment results, partially offset by surrenders, benefits paid to contractholders and contract charges. Variable annuity contractholders often allocate a significant portion of their initial variable annuity contract deposit into a fixed rate investment option. The level of this activity is reflected above in the deposits allocated to the fixed accounts, while all other transfer activity between the fixed and separate accounts investment options is reflected in net transfers from fixed accounts. The liability for the fixed portion of variable annuity contracts is reflected in contractholder funds.

Net investment income increased 4.6% in the second quarter of 2004 and 3.8% in the first six months of 2004 compared to the same periods in 2003. The increases in both periods were the result of the effect of higher portfolio balances and increased income on partnership interests, partially offset by lower portfolio yields. Higher portfolio balances resulted from the investment of cash flows from operating and financing activities. Total investments as of June 30, 2004, increased 9.6% from June 30, 2003 due primarily to contractholder deposits, partially offset by a decline in unrealized capital gains on fixed income securities. The lower portfolio yields were primarily due to purchases of fixed income securities with yields lower than the current portfolio average.

Net income analysis is presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Premiums	\$ 151	\$ 204	\$ 302	\$ 521
Contract charges	236	219	470	428
Net investment income	795	760	1,578	1,520
Periodic settlements and accruals on non-hedge derivative instruments	12	2	18	5
Contract benefits	(313)	(378)	(649)	(845)
Interest credited to contractholder funds(1)	(455)	(440)	(891)	(872)
Gross margin	426	367	828	757
Amortization of DAC and DSI	(112)	(73)	(225)	(232)
Operating costs and expenses	(123)	(118)	(225)	(239)
Income tax expense	(73)	(56)	(136)	(90)
Realized capital gains and losses, after-tax	(44)	(27)	(61)	(53)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	(3)	(7)	(13)	(16)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(7)	(1)	(11)	(3)
Loss on disposition of operations, after-tax	(9)	—	(11)	—
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	—
Net income (loss)	\$ 55	\$ 85	\$ (29)	\$ 124

- (1) Beginning in 2004, amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled \$8 million in the second quarter of 2004 and \$21 million in the first six months of 2004. Prior periods have not been restated.

Gross margin, a non-GAAP measure, represents premiums and contract charges and net investment income, less contract benefits and interest credited to contractholder funds. We use gross margin as a component of our evaluation of the profitability of our life insurance and financial product portfolio. Additionally, for many of our products, including fixed annuities, variable contracts, and interest-sensitive life insurance, the amortization of DAC and DSI is determined based on actual and expected gross margin. Gross margin is comprised of four components that are utilized to further analyze the business: investment margin, benefit margin, maintenance charges and surrender charges. We believe gross margin and its components are useful to investors because they allow for the evaluation of income components separately and in the aggregate when reviewing performance. Gross margin, investment margin and benefit margin should not be considered as a substitute for net income and do not reflect the overall profitability of the business. Net income is the GAAP measure that is most directly comparable to these margins. Gross margin is reconciled to GAAP net income in the table above.

The components of gross margin are reconciled to the corresponding financial statement line items in the following table.

Three Months Ended June 30,

	Investment Margin		Benefit Margin		Maintenance Charges		Surrender Charges		Gross Margin	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
(in millions)										
Premiums	\$ —	\$ —	\$ 151	\$ 204	\$ —	\$ —	\$ —	\$ —	\$ 151	\$ 204
Contract charges	—	—	128	120	91	81	17	18	236	219
Net investment income	795	760	—	—	—	—	—	—	795	760
Periodic settlements and accruals on non-hedge derivative instruments(1)	12	2	—	—	—	—	—	—	12	2
Contract benefits	(125)	(129)	(188)	(249)	—	—	—	—	(313)	(378)
Interest credited to contractholder funds(2)	(455)	(440)	—	—	—	—	—	—	(455)	(440)
	\$ 227	\$ 193	\$ 91	\$ 75	\$ 91	\$ 81	\$ 17	\$ 18	\$ 426	\$ 367

Six Months Ended June 30,

	Investment Margin		Benefit Margin		Maintenance Charges		Surrender Charges		Gross Margin	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
(in millions)										
Premiums	\$ —	\$ —	\$ 302	\$ 521	\$ —	\$ —	\$ —	\$ —	\$ 302	\$ 521
Contract charges	—	—	250	231	183	160	37	37	470	428
Net investment income	1,578	1,520	—	—	—	—	—	—	1,578	1,520
Periodic settlements and accruals on non-hedge derivative instruments(1)	18	5	—	—	—	—	—	—	18	5
Contract benefits	(256)	(256)	(393)	(589)	—	—	—	—	(649)	(845)
Interest credited to contractholder funds(2)	(891)	(872)	—	—	—	—	—	—	(891)	(872)
	\$ 449	\$ 397	\$ 159	\$ 163	\$ 183	\$ 160	\$ 37	\$ 37	\$ 828	\$ 757

(1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Condensed Consolidated Statements of Operations.

(2) Beginning in 2004, amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled \$8 million in the second quarter of 2004 and \$21 million in the first six months of 2004. Prior periods have not been restated.

Gross margin increased 16.1% in the second quarter and 9.4% in the first six months of 2004 compared to the same periods of 2003. The increase in the second quarter was due to increased investment margin, benefit margin and maintenance charges. The increase in the first six months was due to increased investment margin and higher maintenance charges, partly offset by a decrease in the benefit margin.

Investment margin is a component of gross margin, both of which are non-GAAP measures. Investment margin represents the excess of net investment income over interest credited to contractholder funds and the implied interest on life-contingent immediate annuities included in the reserve for life-contingent contract

benefits. We use investment margin to evaluate our profitability related to the difference between investment returns on assets supporting certain products and amounts credited to customers ("spread") during a fiscal period.

Investment margin by product group is shown in the following table.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	Life insurance	\$ 41	\$ 40	\$ 85
Annuities	156	130	304	267
Institutional products	30	23	60	49
Total investment margin	\$ 227	\$ 193	\$ 449	\$ 397

Investment margin increased 17.6% in the second quarter of 2004 and 13.1% in the first six months of 2004 compared to the same periods of 2003. The increases in both periods were primarily due to an increase in contractholder funds and improved yields on investments supporting capital, traditional life and other products.

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the three months ended June 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2004	2003	2004	2003	2004	2003
	Interest-sensitive life	6.6%	6.9%	4.7%	4.9%	1.9%
Fixed annuities—deferred	5.8	6.5	4.1	4.7	1.7	1.8
Fixed annuities—immediate	7.6	7.9	6.9	7.2	0.7	0.7
Institutional	2.8	3.6	1.8	2.7	1.0	0.9
Investments supporting capital, traditional life and other products	6.8	6.0	N/A	N/A	N/A	N/A

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the six months ended June 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2004	2003	2004	2003	2004	2003
	Interest-sensitive life	6.6%	7.0%	4.7%	5.0%	1.9%
Fixed annuities—deferred	5.8	6.6	4.1	4.7	1.7	1.9
Fixed annuities—immediate	7.6	7.9	6.9	7.2	0.7	0.7
Institutional	2.9	3.7	1.9	2.7	1.0	1.0
Investments supporting capital, traditional life and other products	6.9	6.1	N/A	N/A	N/A	N/A

In the second quarter and first six months of 2004 compared to the same periods in the prior year, the yield on the capital, traditional life and other products investment portfolio improved due to more effective cash management and higher investment income realized on investments accounted for using the equity method of accounting. These increases were partially offset by a decline in fixed annuity investment spreads as investment yield declines were not fully offset by crediting rate reductions in each of the comparable periods. The weighted average interest crediting rates on fixed annuity and interest-sensitive life products in force, excluding market value adjusted annuities, were approximately 45 basis points more than the underlying long-term guaranteed rates on these products as of June 30, 2004. The crediting rate on approximately 50% of these contracts was at the contractually guaranteed minimum rate as of June 30, 2004.

The following table summarizes the liabilities for these contracts and policies.

	June 30,	
	2004	2003
(in millions)		
Interest-sensitive life	\$ 6,923	\$ 6,217
Fixed annuities—deferred	27,804	23,282
Fixed annuities—immediate	10,280	9,662
Institutional	11,187	8,623
	<u>56,194</u>	<u>47,784</u>
Life-contingent contracts	3,141	3,112
FAS 133 market value adjustment	458	513
Ceded reserves and other	105	509
	<u>59,898</u>	<u>51,918</u>
Total contractholder funds and reserve for life-contingent contract benefits	\$ 59,898	\$ 51,918

Benefit margin is a component of gross margin, both of which are non-GAAP measures. Benefit margin represents premiums and cost of insurance contract charges less contract benefits. Benefit margin excludes the implied interest on life-contingent immediate annuities, which is included in the calculation of investment margin, and mortality charges on variable annuities, which are included as a component of maintenance charges. We use the benefit margin to evaluate our underwriting performance, as it reflects the profitability of our products with respect to mortality or morbidity risk during a fiscal period.

Benefit margin by product group is shown in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Life insurance	\$ 104	\$ 114	\$ 195	\$ 230
Annuities	(13)	(39)	(36)	(67)
	<u>91</u>	<u>75</u>	<u>159</u>	<u>163</u>
Total benefit margin	\$ 91	\$ 75	\$ 159	\$ 163

Benefit margin increased 21.3% in the second quarter of 2004 compared to the same period in the prior year as the decline resulting from the disposal of the majority of our direct response distribution business was more than offset by lower expenses related to guaranteed minimum death benefits ("GMDBs") on variable annuities and growth and lower mortality benefits on our traditional and interest-sensitive life products. Benefit margin declined 2.5% in the first six months of 2004 compared to the same period in 2003 as the disposal of the majority of our direct response distribution business more than offset growth and lower mortality benefits on our traditional and interest-sensitive life products and lower expenses related to GMDBs on variable annuities.

As required by SOP 03-1, as of January 1, 2004, a reserve was established for GMDBs and guaranteed minimum income benefits ("GMIBs"), which in previous periods, in the case of GMDBs, were expensed as paid. Under the SOP, we anticipate that the benefit margin will be less volatile in the future, as contract benefit expense pertaining to GMDBs and GMIBs will be proportionate to the related revenue rather than cash payments made during the period. Included in the benefit margin for the second quarter and first six months of 2004 are additions to the reserve for guarantees of \$5 million and \$20 million, respectively, net of reinsurance. Included in the benefit margin for the second quarter and first six months of 2003 are GMDB payments of \$27 million and \$48 million, respectively, net of reinsurance, hedging gains and losses and other contractual arrangements. For further explanation of the impacts of the adoption of this accounting guidance, see Note 1 to the Condensed Consolidated Financial Statements.

Amortization of DAC and DSI increased 53.4% in the second quarter of 2004 compared to the same period in the prior year as higher gross margin on fixed annuities and variable products resulted in increased amortization, which was partially offset by the elimination of DAC amortization on the direct response distribution business that was sold in January of 2004. Amortization of DAC and DSI decreased 3.0% in the first six months of 2004 compared to the same period in the prior year as higher amortization due to increased gross margin on fixed annuities and variable products was more than offset by amortization acceleration

(commonly referred to as "DAC unlocking") totaling \$89 million in the first six months of 2003 and the elimination of DAC amortization on the direct response distribution business sold in January of 2004.

The adoption of SOP 03-1 required a new modeling approach for estimating expected future gross profits that are used when determining the amortization of DAC. Because of this new modeling approach, effective January 1, 2004, the variable annuity DAC and DSI assets were reduced by \$124 million. This reduction was recognized as a cumulative effect of a change in accounting principle.

Operating costs and expenses increased 4.2% in the second quarter of 2004 compared to the same period in the prior year and decreased 5.9% in the first six months of 2004 compared to the same period in the prior year. The following table summarizes operating costs and expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Non-deferrable acquisition costs	\$ 38	\$ 32	\$ 69	\$ 82
Other operating costs and expenses	85	86	156	157
Total operating costs and expenses	\$ 123	\$ 118	\$ 225	\$ 239

The increase in total operating costs and expenses in the second quarter of 2004 compared to the same period in the prior year was primarily the result of higher non-deferrable commissions, such as renewal and trail commissions, partially offset by the disposal of the majority of our direct response distribution business. For the first six months of 2004 compared to the same period in the prior year, total operating costs and expenses decreased as the disposal of the majority of our direct response distribution business more than offset the higher non-deferrable commissions and higher employee expenses.

INVESTMENTS

The composition of the investment portfolio at June 30, 2004 is presented in the table below.

(in millions)	Investments	Percent to total
Fixed income securities(1)	\$ 54,624	84.8%
Mortgage loans	6,854	10.6
Equity securities	273	0.4
Short-term	1,448	2.3
Policy loans	702	1.1
Other including derivatives	520	0.8
Total	\$ 64,421	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$52.59 billion.

Total investments increased to \$64.42 billion at June 30, 2004 from \$59.99 billion at December 31, 2003 primarily due to positive cash flows from operating and financing activities and increased funds associated with securities lending, partially offset by decreased unrealized gains on fixed income securities.

Total investments at amortized cost related to collateral, primarily due to securities lending, increased to \$3.04 billion at June 30, 2004, from \$1.92 billion at December 31, 2003.

At June 30, 2004, 92.8% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a Moody's equivalent rating of Aaa, Aa, A or Baa; an S&P equivalent rating of AAA, AA, A or BBB; or a comparable internal rating, when an external rating is not available.

The unrealized net capital gains on fixed income and equity securities at June 30, 2004 were \$2.03 billion, a decrease of \$1.15 billion or 36.1% since December 31, 2003. The net unrealized gain for the fixed income portfolio totaled \$2.03 billion, comprised of \$2.61 billion of unrealized gains and \$580 million of unrealized losses at June 30, 2004. This is compared to a net unrealized gain for the fixed income portfolio totaling \$3.18

billion at December 31, 2003, comprised of \$3.47 billion of unrealized gains and \$294 million of unrealized losses. Increases in gross unrealized losses were primarily attributable to rising market interest rates. The total decrease in net unrealized gains for the fixed income portfolio was \$1.15 billion, of which \$1.08 billion or 94.5% was related to investment grade securities. The total increase in gross unrealized losses for the fixed income portfolio was \$286 million, of which \$286 million or 100.0% was related to investment grade securities.

Of the gross unrealized losses in the fixed income portfolio at June 30, 2004, \$507 million or 87.4% were related to investment grade securities and are believed to be a result of the interest rate environment. Of the remaining \$73 million of losses in the fixed income portfolio, \$56 million or 76.7% was concentrated in the corporate fixed income portfolio and was primarily comprised of securities in the transportation, consumer goods and basic industry sectors. The gross unrealized losses in these sectors were primarily company specific or interest rate related. Approximately \$27 million of the gross unrealized losses on the corporate fixed income portfolio and \$8 million of the gross unrealized losses in the asset-backed securities portfolio were associated with the airline industry for which values were depressed due to company specific issues and economic issues related to fuel costs. We expect eventual recovery of these securities and the related sectors. Every security was included in our portfolio monitoring process.

The net unrealized gain for the equity portfolio totaled \$10 million, comprised of \$12 million of unrealized gains and \$2 million of unrealized losses at June 30, 2004. This is compared to a net unrealized gain for the equity portfolio totaling \$4 million at December 31, 2003. Within the equity portfolio, the losses were primarily concentrated in the consumer goods and technology sectors. The losses in these sectors were company and sector specific. We expect eventual recovery of these securities and the related sectors. Every security was included in our portfolio monitoring process.

Our portfolio monitoring process identifies and evaluates fixed income and equity securities whose carrying value may be other than temporarily impaired. The process includes a quarterly review of all securities using a screening process to identify those securities whose fair value compared to cost for equity securities or amortized cost for fixed income securities is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings downgrades or payment defaults.

We also monitor the quality of our fixed income portfolio by categorizing certain investments as "problem", "restructured" or "potential problem." Problem fixed income securities are securities in default with respect to principal or interest and/or securities issued by companies that have gone into bankruptcy subsequent to our acquisition of the security. Restructured fixed income securities have rates and terms that are not consistent with market rates or terms prevailing 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, we have serious concerns regarding the borrower's ability to pay future principal and interest, which causes us to believe these securities may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities.

(in millions)	June 30, 2004			December 31, 2003		
	Amortized cost	Fair value	Percent of total Fixed Income portfolio	Amortized cost	Fair value	Percent of total Fixed Income portfolio
Problem	\$ 128	\$ 126	0.2%	\$ 167	\$ 155	0.3%
Restructured	46	48	0.1	42	46	0.1
Potential problem	237	243	0.5	259	255	0.5
Total net carrying value	\$ 411	\$ 417	0.8%	\$ 468	\$ 456	0.9%
Cumulative write-downs recognized	\$ 244			\$ 228		

We have experienced a decrease in the amortized cost of fixed income securities categorized as problem and potential problem as of June 30, 2004 compared to December 31, 2003. The decrease was primarily related to the sale of holdings in these categories due to specific developments causing a change in our outlook and intent to hold those securities.

We also evaluated each of these securities through our portfolio monitoring process and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these securities were temporary in nature. While these balances may increase in the future, particularly if economic conditions are

unfavorable, we expect that the total amount of securities in these categories will remain low relative to the total fixed income securities portfolio.

Net Realized Capital Gains and Losses The following table presents the components of realized capital gains and losses and the related tax effect.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Investment write-downs	\$ (11)	\$ (61)	\$ (45)	\$ (118)
Dispositions	(47)	40	(12)	55
Valuation of derivative instruments	(18)	(19)	(38)	(25)
Settlement of derivative instruments	8	—	—	6
Realized capital gains and losses, pretax	(68)	(40)	(95)	(82)
Income tax benefit	24	13	34	29
Realized capital gains and losses, after-tax	\$ (44)	\$ (27)	\$ (61)	\$ (53)

Dispositions in the above table include sales and other transactions such as calls and prepayments. We may sell securities during the period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. Recognizing in certain situations new factors such as negative developments, subsequent credit deterioration, relative value opportunities, market liquidity concerns and portfolio reallocations, we can subsequently change our previous intent to continue holding a security.

The losses on dispositions in the second quarter of 2004 were related to sales of securities that were sold in recognition of relative value opportunities. The proceeds from these sales were reinvested in higher yielding securities.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources consist of shareholder's equity and debt, representing funds deployed or available to be deployed to support business operations. The following table summarizes our capital resources.

	June 30, 2004	December 31, 2003
(in millions)		
Redeemable preferred stock	\$ 5	\$ 82
Common stock, retained earnings and other shareholder's equity items	5,225	5,294
Accumulated other comprehensive income	667	1,053
Total shareholder's equity	5,897	6,429
Debt	171	45
Total capital resources	\$ 6,068	\$ 6,474

Shareholder's equity decreased \$532 million as of June 30, 2004 when compared to December 31, 2003, primarily as a result of a decrease in unrealized net capital gains on fixed income securities, a net loss, dividends to Allstate Insurance Company ("AIC") totaling \$50 million and the reclassification of a portion of redeemable preferred stock to long-term debt.

Debt as of June 30, 2004, includes \$70 million of mandatorily redeemable preferred stock that was reclassified to long-term debt during the second quarter of 2004 in accordance with the provisions of Statement of Financial Accounting Standard No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The reclassification occurred as a result of changes to contractual arrangements between us and the holder of the stock. These changes resulted in the stock, which was formerly reflected as a component of redeemable preferred stock on the condensed consolidated statements of financial position, becoming mandatorily redeemable. As of December 31, 2003, the balance of the stock subject to reclassification amounted to \$77 million. During the second quarter of 2004, \$7 million of this stock was redeemed.

In addition, debt as of June 30, 2004, also reflects \$46 million related to the debt of an investment security consolidated under the provisions of Financial Accounting Standards Board Interpretation No. 46 and short-term debt of \$55 million issued to The Allstate Corporation (the "Corporation") pursuant to an intercompany loan. For the consolidated investment security, we have no legal ownership of the assets and no obligation to repay the debt, and the holders of this debt have no recourse to the equity of the Company, as the sole source of payment of the liabilities is the assets. The intercompany loan agreement is at the discretion of the Corporation and the maximum amount of loans the Corporation will have outstanding to all of its eligible subsidiaries at any given point in time is limited to \$1.00 billion.

Financial Ratings and Strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. There have been no changes to our insurance financial strength ratings since December 31, 2003. However, in February 2004, A.M. Best revised the outlook to stable from positive for the insurance financial strength ratings of the Company and certain rated subsidiaries and affiliates.

Liquidity Sources and Uses As reflected in our condensed consolidated statements of cash flows, lower operating cash flows in the first six months of 2004 when compared to the first six months of 2003 primarily relate to declines in premiums, partially offset by increases in investment income. Cash flows used in investing activities increased in the first six months of 2004 as the investment of higher financing cash flow from contractholder funds was partially offset by lower operating cash flows.

Higher cash flow from financing activities during the first six months of 2004 when compared to the first six months of 2003 reflects an increase in deposits received from contractholders, partially offset by maturities of institutional products and benefits and withdrawals from contractholders' accounts. For quantification of the changes in contractholder funds, see the Operating section of the MD&A.

We have access to additional borrowing to support liquidity through an intercompany loan agreement with the Corporation, which includes the following funding sources:

- A commercial paper program with a borrowing limit of \$1.00 billion to cover short-term cash needs. As of June 30, 2004, the remaining borrowing capacity was \$807 million; however, the outstanding balance fluctuates daily.
- In June 2004, the Corporation replaced its primary credit facilities. It currently maintains one primary credit facility and one additional credit facility totaling \$1.05 billion to cover short-term liquidity requirements. The primary facility is a \$1 billion five-year revolving line of credit expiring in 2009. It contains an increase provision that would make up to an additional \$500 million available for borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. The other facility is a \$50 million one-year revolving line of credit expiring in the third quarter of 2004 but was renewed in July 2004 for an additional year. The right to borrow under the five-year facility is subject to requirements to maintain a 37.5% debt to capital resources ratio and has no ratings triggers. These requirements are currently being met and we expect to continue to meet them in the future. There were no borrowings under either of these lines of credit during the first six months of 2004. The total amount outstanding at any point in time under the combination of the commercial paper program and the two credit facilities cannot exceed the amount that can be borrowed under the credit facilities.
- The Corporation has the right to issue up to an additional \$2.80 billion of debt securities, equity securities, warrants for debt and equity securities, trust preferred securities, stock purchase contracts and stock purchase units utilizing the shelf registration statement filed with the SEC in August 2003.

FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements" that anticipate results based on our estimates, assumptions and 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. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, product development, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors which could cause actual results to differ materially from those suggested by such forward-looking statements are incorporated in this Part I, Item 2 by reference to the information set forth in our Annual Report on Form 10-K, Part II, Item 7, under the caption "Forward-Looking Statements and Risk Factors."

Item 4. Controls and Procedures

With the participation of our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. However, the design of any system of controls and procedures is based in part upon assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and are effective at the "reasonable assurance" level.

During the fiscal quarter ended June 30, 2004, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required for this Part II, Item 1 is incorporated by reference to the discussion under the heading "Regulation" and under the heading "Legal proceedings" in Note 3 of the Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

An Exhibit Index has been filed as part of this report on page E-1.

(b) Current Reports on Form 8-K were filed during the second quarter of 2004 on the following dates for the items indicated:

April 26, 2004, Item 9, regarding results of operations and financial condition for the quarter ended March 31, 2004.

May 7, 2004, Item 12, regarding results of operations and financial condition for the quarter ended March 31, 2004 and years ended December 31, 2003, 2002 and 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Allstate Life Insurance Company
(Registrant)

August 10, 2004

By /s/ SAMUEL H. PILCH

Samuel H. Pilch
(chief accounting officer and duly
authorized officer of the Registrant)

10.1	Amended and Restated Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation and Certain Affiliates, effective January 1, 2004. (As of August 9, 2004, some regulatory approvals and board approval are pending.)
10.2	Administrative Services Agreement between Allstate Life Insurance Company and Columbia Universal Life Insurance Company, effective June 1, 2004.
10.3	Reinsurance Agreement between Allstate Life Insurance Company and Columbia Universal Life Insurance Company, effective June 1, 2004.
10.4	First Amendment to Reinsurance Agreement between Allstate Life Insurance Company and Columbia Universal Life Insurance Company, effective July 1, 2004.
10.5	Amended and Restated Reinsurance Agreement between Allstate Life Insurance Company and Columbia Universal Life Insurance Company, effective June 1, 2004.
10.6	First Amendment to Amended and Restated Reinsurance Agreement between Allstate Life Insurance Company and Columbia Universal Life Insurance Company, effective July 1, 2004.
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated August 10, 2004, concerning unaudited interim financial information
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer
32	Section 1350 Certifications

AMENDED AND RESTATED SERVICE AND EXPENSE AGREEMENT

AMONG

ALLSTATE INSURANCE COMPANY
 AND
 THE ALLSTATE CORPORATION
 AND
 CERTAIN AFFILIATES

This Amended and Restated Service and Expense Agreement (this "Agreement") made and effective as of the 1st day of January 2004, among ALLSTATE INSURANCE COMPANY, an Illinois insurance company ("Allstate"), THE ALLSTATE CORPORATION, a Delaware corporation ("Allcorp"), and those affiliates of Allstate whose signatures appear below (together with Allcorp, individually, an "Affiliate" and collectively, the "Affiliates").

WITNESSETH:

WHEREAS, Allstate entered into a Service and Expense Agreement, dated as of January 1, 1999, with Allcorp and certain of its insurance company affiliates and another Service and Expense Agreement, dated as of January 1, 2000, with certain of its non-insurance affiliates, pursuant to which Allstate provided certain services and facilities (collectively, the "Original Agreements");

WHEREAS, the parties amended the Original Agreements on January 1, 2002 (the "Amended Agreements") and with the establishment of Allstate Investments, LLC, terminated the provision of investment management services by Allstate;

WHEREAS, the parties desire to consolidate and further amend the Amended Agreements to include provision by the Affiliates of certain services and facilities to Allstate and to other Affiliates from time to time, subject to the terms and conditions hereinafter set forth, and to provide for possible future alternative methods of costing for facilities and services provided pursuant to this Agreement; and

WHEREAS, the parties desire to restate the Amended Agreements as amended.

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, those categories of facilities and services listed on Schedule A, including marketing, claims, underwriting and

policyholder services. Additional specifications regarding these services and facilities, and the basis upon which costs to be charged for these services and facilities are determined: (a) with respect to an Affiliate that is a property and casualty insurer, are listed on Exhibit A; (b) with respect to an Affiliate that is a life insurer, are listed on Exhibit B; and (c) with respect to an Affiliate that is a non-insurance company, in accordance with Generally Accepted Accounting Principles. The relevant parties may from time to time agree that only certain of the listed services and facilities will be provided by the Providing Party (as defined below).

Services shall be performed in the name of and on behalf of an Affiliate and in a manner intended to assure the separate operating identity of the Affiliate. By way of example and without limiting the foregoing, (i) all forms utilized in connection with an Affiliate's business and all correspondence with holders of insurance policies or annuity contracts (collectively, "policies") shall bear its name and contain its address; (ii) all communications with policyholders shall be in such Affiliate's name; and (iii) all bank accounts into which such Affiliate's funds are deposited or from which its funds are withdrawn shall be such Affiliate's accounts, except that premiums collected on behalf of an Affiliate may be held by Allstate in a fiduciary capacity and transferred to such Affiliate as soon as practicable subsequent to collection, but in any event within two (2) business days.

Services shall be provided in accord with all applicable state and federal legal and regulatory requirements, including those relating to privacy of customer information.

The performance of any party under this Agreement with respect to the business and operations of an Affiliate shall at all times be subject to the direction and control of the Board of Directors of each such Affiliate. To the extent required by applicable regulation, such services with respect to any Affiliate shall be performed under guidelines and procedures established by that Affiliate. All service providers must comply with all licensing provisions applicable to any Affiliate for which they are providing services under this Agreement.

2. Each Affiliate may furnish or cause to be furnished to Allstate or to any other Affiliate, at cost, the services and facilities listed in Schedule A attached hereto or such other facilities and services as the parties may from time to time agree in writing. Any supplemental agreement whereby any

Affiliate provides services to or receives services from another Affiliate shall be subject to review where required under applicable insurance law.

3. Costs are defined as the actual costs and expenses incurred by the party providing the services (each, a "Providing Party") 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.

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4. Charges for the above services and facilities shall be determined by Allstate in accordance with the general provisions contained in Exhibits A through D. 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's Corporate Controller's Department will exercise reasonable judgment in appropriately revising these Exhibits, maintain proper documentation for revisions and communicate changes in allocation requirements to each party receiving services (each, a "Receiving Party") in a timely manner. Exhibit C provides a narrative overview of the expense management process and Exhibit D provides certain definitions used throughout. Cost bases shall be reviewed and adjusted on a prospective basis not less than annually to reflect the actual costs incurred.
5. The amount charged to a Receiving Party shall not exceed the cost to the Providing Party with respect to providing such service or facility. Notwithstanding this provision or any other provision contained in this Agreement to the contrary, subject to obtaining any required regulatory approvals, the parties may agree in writing that one or more specific services or facilities may be provided on a basis other than cost. Each Providing Party will exercise reasonable judgment in periodically reviewing the expenses incurred and the percentage thereof allocated to each Receiving Party. Any Receiving Party may request a review of such expenses and their allocation and such review will occur promptly thereafter. Any basis other than cost that is utilized shall be intended to reasonably relate to the cost of the services or facilities involved.
6. A Providing Party will charge each Receiving Party 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. This process will be completed by Allstate personnel in the most timely and effective method available.
7. The Providing Parties will maintain such records as may be required relating to the accounting system of Allstate and the Affiliates. The Affiliates 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.

All Affiliate records shall be maintained in accordance with applicable insurance laws and accepted industry standards. Allstate shall maintain processes to provide backup records that will be available in the event the underlying records are destroyed in a natural or manmade catastrophe or disaster.

In the event and to the extent that the books and records of an Affiliate are maintained hereunder in an electronic format, the following requirements shall apply. A computer terminal that is linked to the electronic system that generates the electronic records that constitute such Affiliate's books of account as they relate to the business covered by this Agreement, shall be kept and maintained at such Affiliate's principal

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office. During all normal business hours, there shall be ready availability and easy access through such terminal (either directly by personnel of such Affiliate's domestic insurance regulator or indirectly with the aid of such Affiliate's employees) to the electronic media used to maintain the records comprising such Affiliate's books of account hereunder. The electronic records shall be in a readable form. The Providing Parties shall maintain format integrity and compatibility of the electronic records that constitute an Affiliate's books of account hereunder. If the electronic system that created such records is to be replaced by a system with which the records would be incompatible, the Providing Parties shall convert such pre-existing records to a format that is compatible with the new system. The Providing Parties shall maintain acceptable backup of the records constituting an Affiliate's books of account hereunder.

8. Upon reasonable notice, and during normal business hours, any Receiving Party shall be entitled to, at its own expense, inspect records that pertain to the computation of charges for the facilities or services provided pursuant to this Agreement. The Providing Parties shall at all times maintain correct and complete books, records and accounts of all services and facilities furnished pursuant to this Agreement. Each Receiving Party shall have unconditional right of ownership of any records prepared on its behalf under this Agreement. The records maintained by a Providing Party in connection with services provided to an Affiliate under this Agreement shall be subject to inspection and review by such

Affiliate's domestic insurance regulator.

- 9. Any employee of a Providing Party who is performing duties hereunder at all times during the term of this Agreement shall be under the supervision and control of such Providing Party and shall not be deemed an employee of any Receiving Party.
- 10. The scope of, and the manner in which, a Providing Party provides facilities and services to a Receiving Party shall be reviewed periodically by the parties involved in each transaction under this Agreement. All services and facilities shall be of good quality and suitable for the purpose for which they are intended.
- 11. No party shall assign its obligations or rights under this Agreement without the written consent of the other parties and any required regulatory approvals. Allstate may terminate this Agreement in its entirety, and an 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 an Affiliate, this Agreement shall terminate immediately with respect to such Affiliate. Under no circumstances will the initial term of this Amended and Restated Agreement exceed five (5) years from its effective date.
- 12. All communications provided for hereunder shall be in writing, and if to an insurance company 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 Allstate or Allcorp, mailed or delivered to its office at 3075 Sanders Road,

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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.

- 13. This Agreement together with such amendments and supplements as may from time to time be executed in writing by the parties in accordance with applicable insurance law, constitutes the entire agreement and understanding between the parties in respect of the transactions contemplated hereby and supercedes any other agreements arrangements or understandings between the parties relating to the subject matter hereof. Those service and administrative services agreements between and among any parties to this Agreement that are listed on Exhibit E are terminated as of the effective date of this Amended and Restated Agreement.
- 14. 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 rendered by the Arbitrator may be entered in any Court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed as of the day and year above written.

THE ALLSTATE CORPORATION

By: _____
Samuel H. Pilch
Group Vice President

ALLSTATE INSURANCE COMPANY

By: _____
Samuel H. Pilch
Group Vice President

AFD, INC.

By: _____
James P. Zils
Assistant Treasurer

AFDW, INC.

By: _____
James P. Zils
Treasurer

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ALFS, INC.

By:

James P. Zils
Assistant Treasurer

ALLSTATE ASSIGNMENT COMPANY

By:

James P. Zils
Treasurer

ALLSTATE ASSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE CALIFORNIA HOLDINGS, LLC

By:

James P. Zils
Vice President and Treasurer

ALLSTATE CALIFORNIA INSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE COUNTY MUTUAL INSURANCE COMPANY

By:

James P. Zils
Vice President and Treasurer

ALLSTATE DISTRIBUTORS, LLC

By:

James P. Zils
Assistant Treasurer

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ALLSTATE FINANCIAL, LLC

By:

James P. Zils
Treasurer

ALLSTATE FINANCIAL ADVISORS, LLC

By:

James P. Zils
Treasurer

ALLSTATE FINANCIAL CORPORATION

By:

James P. Zils
Treasurer

ALLSTATE FINANCIAL SERVICES, LLC

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

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ALLSTATE HOLDINGS, LLC

By: -----
James P. Zils
Treasurer

ALLSTATE INDEMNITY COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ALLSTATE INSURANCE COMPANY OF CANADA

By: -----

ALLSTATE INTERNATIONAL INSURANCE HOLDINGS, INC.

By: -----
James P. Zils
Treasurer

ALLSTATE INVESTMENT MANAGEMENT COMPANY

By: -----
James P. Zils
Treasurer

ALLSTATE INVESTMENTS, LLC

By: -----
James P. Zils
Treasurer

ALLSTATE LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

ALLSTATE LIFE INSURANCE COMPANY OF CANADA

By: -----

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ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK

By: -----
James P. Zils
Treasurer

ALLSTATE MOTOR CLUB, INC.

By: -----
James P. Zils
Treasurer

ALLSTATE MOTOR CLUB, INC. OF CANADA

By: -----

ALLSTATE NEW JERSEY INSURANCE COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ALLSTATE NON-INSURANCE HOLDINGS, INC.

By: -----

James P. Zils
Treasurer

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

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ALLSTATE REINSURANCE LTD.

By: -----
James P. Zils
Vice President and Treasurer

ALLSTATE SETTLEMENT CORPORATION

By: -----
James P. Zils
Treasurer

ALLSTATE TEXAS LLOYD'S, INC.

By: -----
James P. Zils
Vice President and Treasurer

AMERICAN HERITAGE LIFE INSURANCE COMPANY

By: -----
James P. Zils
Assistant Treasurer

AMERICAN HERITAGE LIFE INVESTMENT CORPORATION

By: -----
James P. Zils
Treasurer

AMERICAN HERITAGE SERVICE COMPANY

By: -----
James P. Zils
Treasurer

CHARTER NATIONAL LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

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COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

CONCORD HERITAGE LIFE INSURANCE COMPANY INC.

By: -----
James P. Zils
Assistant Treasurer

DEERBROOK GENERAL AGENCY, INC.

By: -----
James P. Zils
Vice President and Treasurer

DEERBROOK INSURANCE COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ENCOMPASS INDEMNITY COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ENCOMPASS INSURANCE COMPANY

By: -----
James P. Zils
Vice President and Treasurer

ENCOMPASS NEW JERSEY INSURANCE COMPANY

By: -----
James P. Zils
Vice President and Treasurer

11

E.R.J. INSURANCE GROUP INCORPORATED

By: -----
James P. Zils
Treasurer

FIDELITY INTERNATIONAL COMPANY LIMITED

By: -----

FIDELITY INTERNATIONAL INSURANCE COMPANY LIMITED

By: -----

FIRST COLONIAL INSURANCE COMPANY

By: -----
James P. Zils
Assistant Treasurer

GLENBROOK LIFE AND ANNUITY COMPANY

By: -----
James P. Zils
Treasurer

INTRAMERICA LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

IVANTAGE GROUP, LLC

By: -----
James P. Zils
Treasurer

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IVANTAGE SELECT AGENCY, INC.

By: -----
James P. Zils
Treasurer

KENNETT CAPITAL, INC.

By: -----
James P. Zils
Treasurer

KEYSTONE STATE LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

LINCOLN BENEFIT LIFE COMPANY

By:
James P. Zils
Treasurer

LSA ASSET MANAGEMENT, LLC

By: -----
James P. Zils
Treasurer

NEW JERSEY HOLDINGS, LLC

By: -----
James P. Zils
Treasurer

NORTHBROOK HOLDINGS, LLC

By: -----
James P. Zils
Treasurer

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NORTHBROOK INDEMNITY COMPANY

By: -----
James P. Zils
Vice President and Treasurer

NORTHBROOK SERVICES, INC.

By: -----
James P. Zils
Treasurer

PAFCO INSURANCE COMPANY

By: -----

PEMBRIDGE AMERICA INC.

By: -----
James P. Zils
Treasurer

PEMBRIDGE INSURANCE COMPANY

By: -----

ROADWAY PROTECTION AUTO CLUB, INC.

By: -----
James P. Zils
Treasurer

STERLING COLLISION CENTERS, INC.

By: -----
James P. Zils
Treasurer

SURETY LIFE INSURANCE COMPANY

By: -----
James P. Zils
Treasurer

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TECH-COR, LLC

By:

James P. Zils
Treasurer

THE ALLSTATE FOUNDATION

By:

James P. Zils
Treasurer

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SCHEDULE A

Each of the attached supporting schedules depicts examples of services to be provided, and are not intended by the parties to be all-inclusive.

- Description of Service Schedule
- Finance Shared Services A-1
- Technical Shared Service - - Information Technologies A-2 and Field Support Human Resource Shared Services A-3 Law and Regulation A-4 Corporate Relations A-5 Marketing and Research/Planning Center A-6 Print Communication Center A-7 Real Estate & Construction / Facilities A-8

Schedule A-1
Finance Shared Services

PROVIDER SERVICES

- - ACCOUNTING: Provide actual monthly, quarterly and annual financial results. Specific services include producing financial statements and consulting on account coding, reporting, accounting research, shared service administration, expense allocation administration accounting governance and policies, and maintenance of any required central accounting computer system.
- - AUDITING: Perform internal audits, which meet Generally Accepted Auditing Standards (GAAS) at intervals deemed necessary by Allstate.
- - CLAIM RESERVES: Provide risk management services including exposure analysis, risk retention and risk financing.
- - FINANCE AND PLANNING: Provide services related to the segment of Allstate's annual operating plan, long-term strategic plan and capital management allocation.
- - FINANCE INNOVATION: Provide reporting and analysis templates and database support.
- - GENERAL: Provide financial administrative services to ensure compliance with Service Provider's corporate policies
- - PURCHASING: Provide services related for graphic arts and printing for internal and external communications.
- - TAX: Comply with Federal and State tax filing requirements along with any tax research needed.
- - TREASURY: Provide cash management services, including the pass through of all fees associated with setting up and maintaining bank accounts.
- - PROCUREMENT: Strategic sourcing and the procuring of commodities inclusive of contract negotiation.

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Schedule A-2
Technical Shared Service

PROVIDER SERVICES

Services are divided into two categories: Information Technologies and Field Support, and include but are not limited to:

INFORMATION TECHNOLOGIES:

- - Build and maintain systems necessary to process Affiliate's business.
- - Support of online networks and end-user/desktop applications.
- - Technical architecture design to include application development and end-user equipment via Technology Asset Management.
- - Enterprise office tools, software licenses, maintenance, upgrades, Microsoft Office and client software packages.
- - Telecommunications support for business applications to include equipment sourcing and voice-mail solutions.
- - Database production support and development for mainframe and distributed applications.
- - Enterprise Help Center for end-user problem resolution, equipment repair, system password resets.

FIELD SUPPORT

- - Process and pay invoices, expense accounts, and related bills.
- - Maintain necessary bank accounts. This would include, but would not be limited to, a depository account, refund account and investment accounts.
- - Deposit and balance remittance from Affiliate's clients. Process payments against client balances in the billing database.
- - Pay and track non-computer related fixed asset transactions.
- - Utilize the SAP general ledger system for financial recording.
- - Perform movement of funds from depository accounts to investment accounts as needed via wire transfers or other means.

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- - System production, job scheduling and runs including technical support.
- - Data processing support including data storage, data communication solutions, and network availability.

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Schedule A-3
Human Resource Shared Services

PROVIDER SERVICES

- - Disburse compensation, distribute pay stubs and paychecks, remit payroll taxes, calculate and remit to vendors benefit contributions (employer/employee), mail W-2's, provide lines of expense details and create new company pay system. These services will be delivered to client within agreed upon timeframes, and will meet the client's quality requirements.
- - Design compensation and incentive structure, provide support services for salary planning, incentive plan and pay communications. Provide Affiliate with current market research/data to structure the most cost effective and competitive compensation plan.
- - Provide technical interview with employees to determine skills and tasks necessary to a particular job function. This work will be used to create job descriptions in order to obtain market data to determine competitive salary structures.
- - Coordinate participation in technical job fairs to attract qualified individuals, deliver new employee orientation, coordinate internship programs, provide sources of qualified candidates for technical recruiter and intern openings, and provide seven days of training to technical recruiters.
- - Provide timely coaching and guidance on human resource related issues at Affiliate's request. Accurately assess the appropriate Center of Excellence within the human resource organization to assist in all problem resolutions.
- - Provide Affiliate with the most competitive benefits package for all employees. Conduct annual election to provide all employees with the option

of changing benefit coverages.

- - Provide all employees with required services for any payroll or benefit inquiries or processing.
- - Provide Affiliate with up to date professional education programs and research. Provide access to just-in-time training.
- - Provide Affiliate with accurate and timely payroll stubs, checks and tax remittances.

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Schedule A-4
Legal Services

PROVIDER SERVICES

- - The Law and Regulation Department will provide legal advice, assist in the completion of business transactions, implement compliance programs, assist with dispute resolution and provide public advocacy for Affiliate.
- - Provide for legal advice, assist in the completion of business transactions, assist with dispute resolution and provide for public advocacy.
- - All legal services will be performed in a manner that is in compliance with all applicable laws, regulations and Codes of Professional Responsibility.

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Schedule A-5
Corporate Relations

PROVIDER SERVICES

Support and implement communication strategies.

- - Development of communication packages, scripts, and presentations.
- - Sourcing and coordination of meetings with internal and external customers.
- - Media preparation for external use.
- - Coordination of production and recognition and/or special events as requested.

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Schedule A-6
Marketing, Advertising, and Distribution

PROVIDER SERVICES

- - Provide market research, perform database analysis to identify target customers and utilize focus groups to determine customer preferences.
- - Support and implement marketing strategies.
- - Development of marketing strategies, coordination of print and/or media requirements.
- - Sourcing of marketing vendors.
- - Coordination of media/print advertising.
- - Assist in the development and implementation of distribution policy and practices, and provide other marketing and distribution support services.
- - Upon request of a life insurance Affiliate, Allstate shall assist such life insurance Affiliate in preparation of marketing material, assist in the recruitment, supervision, and product training of agents, assist in the development and implementation of distribution policy and practices, and provide other marketing and distribution support services. However, all decisions regarding the approval of marketing material and the acceptance, appointment or termination of agents shall be made by any such life insurance Affiliate.

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Schedule A-7
Allstate Print Communication Center
Customer Document Processing

PROVIDER SERVICES

Provide print services for document processing to include: quick print, web and sheet-fed print and "laser print stuff mail".

(6) medical examinations for the purpose of trial and resolution of liability and (7) miscellaneous (appraisals, surveys, detective reports, audits, character reports, etc.). 2. Commission and brokerage All payments, reimbursements and allowances (on direct and No allocation - direct reinsurance assumed and ceded business) to managers, agents, charge to company based on brokers, solicitors or other producer types. agent contract

- -----
- * Expense classifications per the statutory Underwriting and Investment Exhibit, Part 3, Expenses. Parties to the Agreement use these twenty-one classifications to record their operating expenses incurred. As described in Exhibit C, expenses for these classifications are also spread to three distinct functional expense groups: loss adjustment, other underwriting and investment.
- ** This description provides only a synopsis of the types of expenses for each classification. Parties to the Agreement will utilize the NAIC Property & Casualty Annual Statement Instructions Appendix in expense handling.
- *** Before consideration of any applicable reinsurance agreement.

EXPENSE LINE
 ITEM BASIS OF
 EXPENSE PER
 U&I EXHIBIT*
 EXPENSE
 CLASSIFICATION
 DESCRIPTION**
 ALLOCATION***

 -- 4.
 Advertising
 Typical
 expenses
 would include
 services of:
 (1)
 advertising
 agents,
 Direct charge
 by company
 (2) public
 relations
 counsel, (3)
 advertisements

in
newspapers,
where known.
Allocated
periodicals,
billboards,
pamphlets and
literature
issued for
items handled
as follows:
advertising
or
promotional
purposes, (4)
related paper
and printing
See Exhibit A
Appendix at
charges for
advertising
purposes, (5)
radio
broadcasts,
(6) prospect
B; C 1; D 1
and E 1 for
and mailing
lists, (7)
signs and
medals for
agents and
explanation
of allocation
(8)
television
commercials
and
production.
by type of
office 5.
Boards,
bureaus and
Various dues,
assessments,
fees and
charges for
items such
as: (1) No
allocation -
direct
associations
underwriting
boards,
rating
organizations,
statistical
agencies,
charge to
company
inspection
and audit
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
underwriting
Costs to
support the
business
including:
(1) survey,
credit, moral
See Exhibit A
Appendix at
reports
hazard,
character

category includes a variety of pension and insurance benefits See Exhibit A Appendix at welfare for employees, as well as some miscellaneous expenditures. The A; B; C 1, 2; D 1, 2, 3, first area entails: (1) cost of retirement insurance, pensions or 4; E 2, 5; and F 1, 2, 3, other retirement allowances and funds irrevocably devoted to the 4 for explanation by type payment of pensions or other employees' benefits, and (2) accident, of office health and hospitalization insurance, group life insurance and workers' compensation insurance. The miscellaneous category may include the following items (1) training and welfare; (2) physical exams for employees or candidates; (3) gatherings, outings and entertainment; (4) education; and (5) donations to or on behalf of employees. 10. Insurance Costs of insurance for employee/agent fidelity or surety bonds, See Exhibit A Appendix at D public liability, burglary and robbery, automobiles and office 1; E 1; and F 1, 2, 3, 4 contents. for explanation by type of office 11. Directors fees Amounts relate to fees and other compensation paid to directors for Direct charge to company attending Board or committee meetings. 12. Travel and travel Major expense subcategories include: (1) transportation, hotel, See Exhibit A Appendix at items meals, telephone and other related costs associated for employees A; B; C 1, 2; D 1, 2, 3, traveling, (2) expense for transfer of employees, (3)

policies and policy forms, in-house E 2, 5; and F 1, 2, 3, 4 employee publications, books, newspapers and periodicals including, tax and legal publications and services.

17. Postage, telephone, etc.

All express, freight and cartage expenses, postage, and telephone. See Exhibit A

Appendix at A; B; C 1, 2; D 1, 2, 3, 4; E 2, 5; and F 1, 2, 3, 4 18. Legal & auditing

Legal fees and retainers excluding loss and salvage related, See Exhibit A

Appendix at auditing fees of independent auditors for examining records, A; D 2, 3, 4; E 2; and F 1,

services of tax experts and counsel, custodian fees, notary and 2 trustees' fees.

20. Taxes, licenses and fees Several categories comprise this expense

classification: (1) state No allocation - direct and

local insurance taxes; (2)

Insurance Department licenses and charge to company fees; (3) payroll taxes; and (4)

all other, excluding real estate and federal income.

Taxes, licenses and fees based on premiums and payments to state

industrial commissions for administration of workers' compensation or other state benefit acts would be in the 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.

EXPENSE LINE
ITEM BASIS OF
EXPENSE PER U&I
EXHIBIT* EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION*** -

-- 21. Real estate expenses Salaries, wages and other compensation of maintenance workers in Direct charges by company connection with owned real estate. Other expense items assigned to are based on square this category may also include expenses associated with: footage. operations; maintenance and insurance. 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 22. Real estate taxes Taxes, licenses and fees on owned real estate. Direct charges by company 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 24.

Aggregate write-ins for Items for which no pre-printed statutory line exists. Cost Management will miscellaneous expenses

Description/title shown in Part 3 will vary based on need. develop the most appropriate allocation basis and maintain documentation

EXPENSE LINE
ITEM PER
GENERAL BASIS
OF EXPENSE
EXPENSE
EXHIBIT*
EXPENSE

CLASSIFICATION
DESCRIPTION**
ALLOCATION***

- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -

-- 6.5
Collection and bank Collection charges on checks and drafts and charges for checking service charges accounts and money orders.

NOTE: Expense classification for lines 3 and 23 are not applicable for the Allstate Group.

APPENDIX TO EXHIBIT A

INTERCOMPANY SERVICE AND EXPENSE ALLOCATION SUMMARY MATRIX
ALLSTATE INSURANCE COMPANY AND AFFILIATES

- A. Offices 001 (Corporate Home Office), 191 (Ivantage Product), 195 (Technology Support/Appservice), 198 (Broker Dealer), 200 (Procurement Governance), 201 Allstate Investments, LLC), 203 (Research Center Shared Services), 204 (Human Resources Shared Service), 205 (Corporate Relations Shared Services), 206 (Technical Shared Services), 207 (Law and Regulation Shared Services), 208 (Finance Shared Services) 209 (Market Brand Development), 211 (Facility Services), 212 (Real Estate & Construction), and 304 (Litigation Services) factors are based on Service Agreements. These Agreements are written documents detailing services and associated costs performed by the provider for the benefit of the recipient and are generated and approved through extensive discussions between service providers and service recipients.
- B. Support Centers, Data Centers, and Output Processing Centers (OPC) factors are based on Stat Policies in Force, Statistical Data and Time and Effort studies that roll-up to the Support Center/Data Center/OPC.
- C. P&C Head Office (Office 032) factors are based on:
 - 1. Compensation
 - 2. Time and effort studies

3. Statistical data

D. Regional Office factors are based on the following methodologies:

- 1. Compensation
- 2. Time and effort studies
- 3. System capacity studies
- 4. Statistical data

E. Regional Commercial Centers factors are based on the following methodologies:

- 1. Compensation
- 2. Time and effort studies
- 3. System capacity studies
- 4. Statistical data

F. Claim Service Areas factors are based on the following:

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- 1. Headcount (Property vs. Auto)
- 2. Notice counts
- 3. Incurred loss
- 4. Claim legal matter counts
- 5. Statistical data

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EXHIBIT B

INTERCOMPANY SERVICE AND EXPENSE ALLOCATION SUMMARY MATRIX
 ALLSTATE LIFE INSURANCE COMPANY AND LIFE AFFILIATES

EXPENSE LINE
 ITEM PER
 GENERAL BASIS
 OF EXPENSE
 EXPENSE EXHIBIT
 2* EXPENSE
 CLASSIFICATION
 DESCRIPTION**
 ALLOCATION*** -

----- 1.
 Rent Rent for
 all premises
 occupied by the
 company,
 including any
 Direct charges
 by company
 adequate rent
 for occupancy
 of its own
 buildings, in
 whole or in part
 based on square
 part, except to
 the extent that
 allocation to
 other expense
 footage.
 Allocated
 expenses
 classifications
 on a functional
 basis is
 permitted and
 used. are
 handled per
 Exhibit B
 Appendix at A;
 B 1, 2; C 1, 2
 and D 1, 2, 3
 2. Salaries and
 wages Salaries
 and wages,
 bonuses and
 incentive
 compensation to
 Agents'
 compensation is
 a employees,
 overtime

payments,
 continuation of
 salary during
 direct charge
 to company.
 temporary
 short-term
 absences,
 dismissal
 allowances,
 payments to The
 remaining
 expenses in
 employees while
 in training and
 other
 compensation to
 employees not
 this category
 are allocated
 specifically
 designated
 herein, except
 to the extent
 that per
 Exhibit B
 Appendix at
 allocation to
 their expense
 classifications
 is permitted
 and used. A; B
 1, 2; C 1, 2;
 and D 1, 2, 3
 Contributions
 by company for
 pension and
 total permanent
 disability See
 Exhibit B
 Appendix
 benefits, life
 insurance
 benefits,
 accident,
 health, at A; B
 1, 2; C 1, 2;
 and
 hospitalization,
 medical,
 surgical, or
 other D 1, 2

- -----
- * Expense classifications per the statutory Underwriting and Investment Exhibit, Part 3, Expenses. Parties to the Agreement use these twenty-one classifications to record their operating expenses incurred. As described in Exhibit C, expenses for these classifications are also spread to three distinct functional expense groups: loss adjustment, other underwriting and investment.
- ** This description provides only a synopsis of the types of expenses for each classification. Parties to the Agreement will utilize the NAIC Property & Casualty Annual Statement Instructions Appendix in expense handling.
- *** Before consideration of any applicable reinsurance agreement.

EXPENSE LINE
 ITEM PER
 GENERAL BASIS
 OF EXPENSE
 EXPENSE EXHIBIT
 2* EXPENSE
 CLASSIFICATION
 DESCRIPTION**
 ALLOCATION*** -

 ----- 3.11
 Contributions
 for temporary
 disability
 benefits under

a self-administered or D 1, 2, 3 benefit plans for trustee plan or for the purchase of annuity or insurance contracts. employees Appropriation of any other assignment of funds by company in connection with any benefit plan of the types enumerated herein. 3.12 Contributions for Contributions by company for pension and total permanent disability See Exhibit B Appendix benefit plans for benefits, life insurance benefits, accident, health, at C 1, 2; and D 1, 2, 3 agents hospitalization, medical, surgical, or other temporary disability benefits under a self-administered or trustee 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 No allocation - direct employees under non- permanent disability benefits, death benefits, accident, health, charge to company funded benefit plans hospitalization, medical, surgical or other temporary disability benefits where no contribution or appropriation is made prior to the payment

of the benefit.
3.22 Payments to agents
Payments by company under a program for pension and total and No allocation - direct under non-funded permanent disability benefits, death benefits, accident, health, charge to company benefit plans hospitalization, medical, surgical or other temporary disability benefits where no contribution or appropriation is made prior to the payment of the benefit.

3.31 Other employee The net periodic postretirement benefit cost, meals to employees, Agents' compensation is a welfare contribution to employee associations or clubs, dental direct charge to company. examinations, medical dispensary or convalescent home expenses for The remaining expenses in employees. this category are allocated per Exhibit B Appendix at A; B 1, 2; C 1, 2; and D 1, 2, 3

EXPENSE LINE
ITEM PER
GENERAL BASIS
OF EXPENSE
EXPENSE
EXHIBIT*
EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION*** -

----- 3.32
Other agent welfare The net periodic postretirement benefit cost, meals to Agents'

compensation
employees,
contribution to
employee
associations or
clubs, is a
direct charge
to dental
examinations,
medical
dispensary or
convalescent
home company.
The remaining
expenses for
agents.
expenses in
this category
are allocated
per Exhibit B
Appendix at C
1, 2; and D 1,
2, 3 4.1 Legal
fees and Court
costs,
penalties and
all fees or
retainers for
legal No
allocation -
direct expenses
services or
expenses in
connection with
matters before
charge to
company
administrative
or legislative
bodies. 4.2
Medical
examination
Fees to medical
examiners in
connection with
new business
See Exhibit B
Appendix fees
reinstatements,
policy changes
and
applications
for at D 1, 2
employment. 4.3
Inspection
report Fee for
inspection
reports in
connection with
new business,
See Exhibit B
Appendix fees
reinstatements,
policy changes
and
applications
for at D 1, 2;
C employment.
Cost of
services
furnished by
the Medical
Information
Bureau. 4.4
Fees of public
Include
expenses
relating to
this category
except exclude
See Exhibit B
Appendix
accountants and
examination
fees made by
State
Departments and
internal audits
at A; B 1, 2; C
1, 2;
consulting
actuaries by
company

telephone
directory,
television,
radio D 1, 2
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
See Exhibit B
Appendix
telegraph and
charges for
use,
installation
and maintenance
of related at
A; B 1, 2; C 1,
2; telephone
equipment if
not included
elsewhere. and
D 1, 2, 3 5.4
Printing and
Policy forms,
riders,
supplementary
contracts,
applications,
See Exhibit B
Appendix
stationery
etc., rate
books,
instruction
manuals, punch-

cards, house at
A; B 1, 2; C 1,
2; organs, and
all other
printed
material which
is not required
and D 1, 2, 3
to be included
in any other
expense
classification.
Office 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
depreciation
The cost or
depreciation of
office machines
except for such
See Exhibit B
Appendix of
furniture and
charges as may
be reported in
Line 5.3. at A;
B 1, 2; C 1, 2;
equipment and D
1, 2, 3

EXPENSE LINE
ITEM PER
GENERAL BASIS
OF EXPENSE
EXPENSE
EXHIBIT*
EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***

-- 5.6 Rental
of equipment
Rental of
office
machines
except for
such charges
as may be See
Exhibit B
Appendix at
reported in
Line 5.3. A;
B 1, 2; C 1,
2; and D 1,
2, 3 5.7 Cost
or
depreciation
of Include
cost,
depreciation
and
amortization
for EDP
equipment and
Charged to
Companies See
EDP equipment
and software

operating and non-operating systems software. Exhibit B at A; B; C 6.1 Books and periodicals Books, newspapers, periodicals, etc., including investment tax and See Exhibit B Appendix at legal publications and information services, and including all such A; B 1, 2; C 1, 2; and D 1, material for company's law department and libraries. 2, 3 6.2 Bureau and association All dues and assessments of organizations of which the company is a No allocation - direct fees member. All dues for employees' and agents' memberships on the charge to company's behalf. 6.3 Insurance, except on real Premiums for Workers' Compensation, burglary, holdup, forgery and See Exhibit B Appendix estate the public liability insurance, fidelity or surety bonds, insurance at A; B 1, 2; C 1, 2; and on contents of company-occupied buildings and all other insurance D 1, 2, 3 or bonds not included elsewhere. 6.4 Miscellaneous losses Uncollectible losses due to deficiencies, defalcations, robbery, or Primarily a direct charge forgery, except those offset by

bonding
companies'
payments.
Also to
company.
Remaining
include
Worker's
Compensation
benefits not
covered by
insurance and
expenses are
allocated per
other
uninsured
losses not
included
elsewhere.
Exhibit B
Appendix at
A; and D 1,
2, 3 6.5
Collection
and bank
Collection
charges on
checks and
drafts and
charges for
checking See
Exhibit B
Appendix at
service
charges
accounts and
money orders.
A; and D 1,
2, 3 6.6
Sundry
general
expenses
Direct
expense of
local agency
meetings,
luncheons and
dinners, See
Exhibit B
Appendix at
tabulating
service
rendered by
outside
organizations,
gifts and A;
B 1, 2; C 1,
2; and D 1,
donations.
Any portion
of
commissions
and expense
allowances on
2, 3
reinsurance
assumed for
group
business
which
represents
specific
reimbursement
of expenses.
Reimbursement
to another
insurer for
expense of
jointly
underwritten
group
contracts.

EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***

-- 6.7 Group
service and
Administration
fees, service
fees, or any
other form of
allowance,
See Exhibit B
Appendix at
administration
fees
reimbursement
of expenses,
or
compensation
(other than
commissions)
D 1, 2; and B
to agents,
brokers,
applicants,
policyholders
or third
parties in
connection
with the
solicitation,
sale,
issuance,
service and
administration
of group
business. 6.8
Reimbursements
by Report as
a negative
amount
administrative
fees, direct
No allocation
- direct
uninsured
accident and
reimbursement
of expenses,
or other
similar
receipts or
credits
charge to
company
health plans
attributable
to uninsured
accident and
health plans
and the
uninsured
portion of
partially
insured
accident and
health plans.
7.1 Agency
expense
allowance All
bona fide
allowance for
agency
expense, but
not
allowances No
allocation -
direct
constituting
additional
compensation.
charge to
company 7.2

Agents' balances charged Agents' balances charged off less any amounts recovered during the No allocation - direct off year. charge to company 7.3 Agency conferences other Cost of banquets and rental of meeting rooms. Expenses of all Primary dollars are a than local meetings persons traveling to conferences and their expenses at conferences. direct charge to company. The remaining expenses in this category are allocated per Exhibit B Appendix at C 1; and D 1 9.1 Real estate expenses The cost of repairs, maintenance, service, and operation of all Direct charges by company real estate properties including insurance whether occupied by the are based on square company or not; salaries and other compensation of managing agents footage. Allocated expenses and their employees; expenses incurred in connection with rental of are handled per Exhibit B such properties; legal fees specifically associated with real Appendix at A; B 1, 2; C 1, estate transactions other than sale; rent, salaries and wages, and 2; and D 1, 2, 3

other direct expenses of any branch of Home Office until engaged solely in real estate work (not real estate and mortgages combined).

EXPENSE LINE
ITEM PER
GENERAL BASIS
OF EXPENSE
EXPENSE
EXHIBIT*
EXPENSE
CLASSIFICATION
DESCRIPTION**
ALLOCATION***

-- 9.2
Investment expenses Only items for which no specific provisions has been made See Exhibit B Appendix not elsewhere elsewhere, e.g., contributions or included assessments for at A; and D 1, 2, 3 bondholders' protective committees, fees of investment counsel, custodian and trustee fees.
9.3 Aggregate write-ins for Items for which no pre-printed statutory line exists.
Description
Cost
Management will expenses title shown in Exhibit 2 will vary based on need. develop the most appropriate allocation basis and maintain documentation

EXPENSE LINE
ITEM PER
TAXES,
LICENSES AND

FEES BASIS OF
EXPENSE
EXHIBIT 3*
EXPENSE

CLASSIFICATION
DESCRIPTION**
ALLOCATION***

-- 1. Real estate taxes
Those taxes directly assessed against property owned by the Direct charges by company company.
Canadian and other foreign taxes should be included are based on square footage. appropriately.

Allocated expenses are handled per Exhibit B Appendix at A; B 1, 2; C 1, 2; and D 1, 2, 3 2.
State insurance department Assessments to defray operating expenses of any state insurance No allocation - direct licenses and fees department.
Canadian and other foreign taxes should be included charge to company appropriately.

Fees for examinations by state departments.
3. State taxes on premiums State taxes based on policy reserves, if in lieu of premium taxes. No allocation - direct
Canadian and other foreign taxes should be included charge to company Any portion of commissions or allowances on

Canadian and other foreign taxes should be included charge to company Any portion of commissions or allowances on

Canadian and other foreign taxes should be included charge to company Any portion of commissions or allowances on

reinsurance assumed for group business which represents specific reimbursement of premium taxes. Deduct any portion of commissions or allowances on reinsurance ceded for group business which represents specific reimbursement of premium taxes. 4. Other state taxes Assessments of state industrial or other boards for operating No allocation - direct expenses or for benefits to sick unemployed persons in connection charge to company with disability benefit laws or similar taxes levied by states. Canadian and other foreign taxes are to be included appropriately. Advertising required by law, regulation or ruling, except in connection with investments. State sales taxes, if company does not exercise option of including such taxes with the cost of goods and services purchased. State income taxes. 5. U.S. Social Security Company's contribution is based on the current tax rate, which is See Exhibit B Appendix taxes applied to all wages, salary or compensation entered on the at A; B 1, 2; C 1, 2; and employees earning

- | | | | |
|----|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| 6. | All other taxes | Guaranty fund assessments and taxes of Canada or of any other foreign country not specifically provided for elsewhere. Sales taxes, other than state sales taxes, if company does not exercise option of including such taxes with the cost of goods and services purchased. | No allocation - direct charge to company |
|----|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|

APPENDIX TO EXHIBIT B

INTERCOMPANY SERVICE AND EXPENSE ALLOCATION SUMMARY MATRIX
ALLSTATE LIFE INSURANCE COMPANY AND LIFE AFFILIATES

- A. Office 001, 191, 195, 198, 200, 201, 203, 204, 205, 206, 207, 208, 209, 211, 212, and 304 factors to Allstate or Affiliate are based on this Agreement. Once expenses are charged to Allstate or Affiliate, a second and third tier of allocation occurs, which allocates expenses to Life Profit Centers.
- B. P&C Head Office (Office 032) allocations to the Life Company and Affiliates are based on:
 - 1. Compensation
 - 2. Time and effort studies
 - 3. Statistical data
- C. Regional Office allocations to the Life Company and Affiliates are based on:
 - 1. Compensation
 - 2. Time and effort/usage studies
 - 3. System capacity studies
 - 4. Statistical Data
- D. Life Parent Company allocations to Life Affiliates are based on:
 - 1. Expenses are direct coded to the appropriate company.
 - 2. Determination of how expense is to be allocated to profit center is based on time studies, project activity, required capital, invested assets and statistical data.

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 record keeping 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.

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- - 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, Ivantage, 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.

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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

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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.

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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).

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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.

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EXHIBIT E

TERMINATED AGREEMENTS

1. Service Agreement effective as of July 1, 1989 between Allstate Insurance Company and Allstate Life Insurance Company of New York ("ALNY").
2. Service Agreement effective July 1, 1989 between Allstate Life Insurance Company ("ALIC") and ALNY.
3. Business Operations and Service Agreement effective October 1, 1997 between ALIC and ALNY.
4. Service Agreement dated March 1, 1999 between Lincoln Benefit Life Company and ALNY.

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ADMINISTRATIVE SERVICES AGREEMENT

by and between

ALLSTATE LIFE INSURANCE COMPANY

and

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

Effective as of June 1, 2004

ADMINISTRATIVE SERVICES AGREEMENT

This ADMINISTRATIVE SERVICES AGREEMENT (this "Agreement"), effective as of June 1, 2004 (the "Effective Date"), is entered into by and between COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a life insurance company organized under the laws of the State of Texas (the "Company"), and ALLSTATE LIFE INSURANCE COMPANY, a life insurance company organized under the laws of the State of Illinois (the "Administrator").

RECITALS:

WHEREAS, the parties have entered into an Amended and Restated Reinsurance Agreement and a Reinsurance Agreement, both dated June 1, 2004 (collectively, the "Reinsurance Agreements"), pursuant to which the Administrator, as Reinsurer, reinsures the Policies as described under the terms of the Reinsurance Agreements (capitalized terms used herein and not defined herein, unless otherwise indicated, have the respective meanings assigned to them in the Reinsurance Agreements); and

WHEREAS, the Company wishes to appoint the Administrator to administer the Policies, and the Administrator desires to provide such administrative services;

NOW, THEREFORE, in consideration of the covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

AUTHORITY

The Company hereby appoints the Administrator, and the Administrator hereby accepts appointment, to provide as an independent contractor of the Company, from and after the Effective Date, all of the administrative services necessary or appropriate with respect to the Policies including those set forth in this Agreement (the "Administrative Services"), all on the terms as set forth in this Agreement. In providing the Administrative Services, the Administrator shall handle all such matters, including but not limited to the billing and collection of premiums and the defense, adjustment, settlement and payment of all claims arising under the Policies, as more fully described below. Notwithstanding any other provision of this Agreement to the contrary, the Company shall have the right to direct the Administrator to perform any action necessary for the Policies or the Administrative Services thereof to comply with any federal, state, foreign or local statute, law, ordinance, rule, regulation, order, writ, injunction, judgment or decree applicable to either party or any such party's subsidiaries, properties, assets, officers, directors, employees or agents ("Applicable Law"), or to cease performing any action that constitutes a violation of Applicable Law.

ARTICLE II

STANDARD FOR SERVICES; FACILITIES; SUBCONTRACTING

Section 2.1. STANDARD FOR SERVICES. The Administrator shall provide the Administrative Services in good faith and with the care, skill, prudence and diligence of a person experienced in administering life, health, and annuity business. Without limiting the generality of the foregoing, the Administrator shall provide the Administrative Services (i) in accordance with the terms of the Policies, (ii) in accordance with the applicable terms of this Agreement, (iii) in compliance with Applicable Law, (iv) in accordance with industry standards and, subject to the foregoing, (v) to the extent applicable, in the same manner as it conducts its own business not subject to this Agreement.

Section 2.2. FACILITIES AND PERSONNEL. To the extent not sub-contracted to a Subcontractor, the Administrator shall at all times maintain sufficient facilities and trained personnel of the kind necessary to perform its

obligations under this Agreement in accordance with the performance standards set forth herein.

Section 2.3. SUBCONTRACTING. The Administrator may subcontract for the performance of any Administrative Services with respect to the Policies to (i) an Affiliate or (ii) any other Person or delayed (in each case, the "Subcontractor"); PROVIDED, that, no such subcontracting shall relieve the Administrator from any of its obligations or liabilities hereunder, and the Administrator shall remain responsible for all obligations or liabilities of such Subcontractor with regards to the providing of such service or services as if provided by the Administrator.

ARTICLE III

CLAIMS HANDLING

The Administrative Services with respect to claims for benefits including claims outstanding on the Effective Date, shall include the following:

Section 3.1. CLAIM ADMINISTRATION SERVICES. The Administrator shall acknowledge, consider, review, investigate, deny, settle, pay or otherwise dispose of each claim for benefits reported under each Policy (each, a "Claim" and collectively the "Claims").

Section 3.2. DESCRIPTION OF CLAIM ADMINISTRATION SERVICES. Without limiting the foregoing, the Administrator shall:

- (i) provide claimants under the Policy and their authorized representatives (collectively, "Claimants") with Claim forms and provide reasonable explanatory guidance to Claimants in connection therewith;
 - (ii) establish, maintain and organize Claim files and maintain and organize other Claims-related records;
 - (iii) review all Claims and determine whether the Claimant is eligible for benefits and if so, the nature and extent of such benefits;
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- (iv) prepare and distribute to the appropriate recipients any reports required by Applicable Law;
 - (v) respond to all written or oral Claims-related communications that the Administrator reasonably believes to require a response; and
 - (vi) maintain a complaint log with respect to the Policies in accordance with applicable requirements of Governmental Authorities and provide a copy of such log, continuously updated through the last day of each calendar quarter during the term of this Agreement, to the Company on or before the tenth business day of each calendar quarter covering changes during the preceding calendar quarter.

ARTICLE IV

REGULATORY AND LEGAL PROCEEDINGS

Section 4.1. REGULATORY COMPLAINTS AND PROCEEDINGS. The Administrator shall:

- (i) respond to any Claims payment related complaints or inquiries made by any nation or government, any state or other political subdivision thereof, or any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government (each a "Governmental Authority"), and shall make best efforts to do so within the Governmental Authority's requested time frame for response or if no such time frame is provided, within the time frame as allowed by Applicable Law; and promptly provide a copy of such response to the Company;
- (ii) promptly notify the Company of any non-Claims payment related complaints or inquiries initiated by a Governmental Authority, and of any proceedings (either Claims or non-Claims related) initiated by a Governmental Authority, and, in either case, use best efforts to prepare and send to the Governmental Authority, with a copy to the Company, a response within the Governmental Authority's requested time frame for response or if no such time frame is provided, within the time frame as allowed by Applicable Law; PROVIDED, that, subject to meeting such time frames, the Administrator shall provide such response to the Company for its prior review and comment;
- (iii) supervise and control the investigation, contest,

defense and/or settlement of all complaints, inquiries and proceedings by Governmental Authorities at its own cost and expense, and in the name of the Company when necessary; and

- (iv) at the Company's request, provide to the Company a report in a form mutually agreed by the parties summarizing the nature of any complaints, inquiries or proceedings by Governmental Authorities, the alleged actions

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or omissions giving rise to such complaints, inquiries or proceedings and copies of any files or other documents that the Company may reasonably request in connection with its review of these matters.

Section 4.2. LEGAL PROCEEDINGS. The Administrator shall:

- (i) notify the Company promptly of any lawsuit, action, arbitration or other dispute resolution proceedings that are instituted or threatened with respect to any matter relating to the Policies ("Legal Proceeding(s)"), and in no event more than five (5) business days after receipt of notice thereof;
- (ii) supervise and control the investigation, contest, defense and/or settlement of all Legal Proceedings at its own cost and expense, and in the name of the Company when necessary; and
- (iii) keep the Company fully informed of the progress of all Legal Proceedings handled by the Administrator in which the Company is named a party and, at the Company's request, provide to the Company a report summarizing the nature of any Legal Proceedings, the alleged actions or omissions giving rise to such Legal Proceedings and copies of any files or other documents that the Company may reasonably request in connection with its review of these matters in each case other than such files, documents and other information as would, in the judgment of counsel to the Administrator, lead to the loss or waiver of legal privilege.

Section 4.3. NOTICE TO ADMINISTRATOR. The Company shall give prompt notice to the Administrator of any Legal Proceeding made or brought against the Company after the Effective Date arising under or in connection with the Policies to the extent known to it and not made against or served on the Administrator or a Subcontractor, and in no event more than five (5) business days after receipt of notice hereof, and shall promptly furnish to the Administrator copies of all pleadings in connection therewith. The Administrator shall assume the defense of the Company.

Section 4.4. DEFENSE OF REGULATORY AND LEGAL PROCEEDINGS.

Notwithstanding anything in this Agreement to the contrary, the Company shall have the right to engage in its own separate legal representation, at its own expense, and to participate fully in the defense of any Legal Proceedings or complaints, inquiries or proceedings by governmental authorities with respect to the Policies in which the Company is a named party without waiving any right to indemnification it may have under Article XIV hereof. The Administrator and the Company shall cooperate with each other with respect to the administration of any Legal Proceeding and any complaint, inquiry or proceeding by governmental authorities.

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ARTICLE V

BILLINGS AND COLLECTIONS

Section 5.1. BILLING AND COLLECTION SERVICES. The Administrator shall assume all responsibility for billing and collecting premiums and other amounts payable with respect to the Policies from and after the Effective Date. The Company shall promptly remit to the Administrator any such amounts received by it with respect to the Policies.

ARTICLE VI

CERTAIN ACTIONS BY COMPANY

Section 6.1. FILINGS. The Company shall prepare and timely file any filings required to be made with any Governmental Authority that relate to the Company generally and not just to the Policies, including filings with guaranty associations and filings and premium tax returns with taxing authorities. The Administrator shall, in a timely fashion in light of the dates such filings by the Company are required, provide to the Company all information in the possession of the Administrator with respect to the Policies that may be reasonably required for the Company to prepare such filings and tax returns.

Section 6.2. ANNUAL ADJUSTMENT. The Company shall pay or provide to

the Administrator the benefit of any Post-Effective Date Assessments, which have been or can be applied to reduce the Company's premium tax liability ("Premium Tax Credits"). The Company shall provide to the Administrator by March 15 of each year a statement of the amount (the "Annual Adjustment") of (i) premium taxes due with respect to premiums collected during the prior calendar year (to the extent that such premium taxes constitute reinsured risks with respect to the Policies), less (ii) estimated premium taxes paid by the Administrator to the Company with respect to such premiums under the provisions of Article VII, less (iii) Premium Tax Credits for the prior calendar year. By March 30 of each year the Administrator shall pay to the Company the Annual Adjustment, if a positive amount, and the Company will pay or credit to the Administrator the Annual Adjustment, if a negative amount.

ARTICLE VII

QUARTERLY PREMIUM TAX AND INSOLVENCY FUND ACCOUNTINGS

Section 7.1. QUARTERLY ACCOUNTINGS. Within thirty (30) days after the end of each calendar quarter that this Agreement is in effect (or more frequently as mutually agreed by the parties), the Company shall submit to the Administrator a written statement of accounting in a form and containing such information to be agreed upon by the parties hereto (each, an "Insolvency Fund Quarterly Accounting") setting forth the Insolvency Fund amounts assessed or payable to the extent that such assessments constitute reinsured risks with respect to the Policies (collectively, the "Post-Effective Date Assessments"). Within thirty (30) days after the last day of each calendar quarter that this Agreement is in effect (or more frequently as mutually agreed by the parties), the Administrator shall submit to the Company a written statement of accounting in a form and containing such information to be agreed upon by the parties hereto (each, a

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"Quarterly Premium Tax Accounting", and together with the Insolvency Fund Quarterly Accountings, the "Quarterly Accountings") setting forth the estimated premium taxes due with respect to the Policies as a result of premiums collected during such quarter. Concurrent with the delivery of each Quarterly Premium Tax Accounting, the Administrator shall remit to the Company the amount set forth on such Quarterly Premium Tax Accounting with respect to such estimated premium taxes due and the amount set forth in such Insolvency Fund Quarterly Accounting with respect to the Post-Effective Date Assessments, and any other amounts owed to the Company pursuant to this Agreement; PROVIDED, HOWEVER, that any Post-Effective Date Assessments set forth in an Insolvency Fund Quarterly Accounting received by the Administrator less than five (5) Business Days prior to the Administrator's delivery of such Quarterly Premium Tax Accounting will be paid within fifteen (15) Business Days of receipt by the Administrator of such Insolvency Fund Quarterly Accounting. Each of the parties agrees to supply to the other a copy of all supporting data used in preparing the Quarterly Accountings prepared by such party.

Section 7.2. ADJUSTMENTS REGARDING QUARTERLY ACCOUNTINGS. In the event that subsequent data or calculations require revision of any of the Quarterly Accountings, the required revision and appropriate payments thereunder shall be made within ten (10) Business Days after the parties hereto mutually agree as to the appropriate revision.

ARTICLE VIII

REGULATORY MATTERS AND AUDIT REPORTING

Section 8.1. REGULATORY COMPLIANCE AND REPORTING. The Administrator shall provide to the Company such information with respect to the Policies as is required to satisfy all current and future informational reporting, prior approval and any other requirements imposed by any Governmental Authority. Upon the reasonable request of the Company, the Administrator shall timely prepare such reports and summaries, including statistical summaries, as are necessary or reasonably required to satisfy any requirements imposed by a Governmental Authority upon the Company with respect to the Policies. In addition, the Administrator, upon the reasonable request of the Company, shall promptly provide to the Company copies of all existing records relating to the Policies (including, with respect to records maintained in machine readable form, hard copies) that are necessary to satisfy such requirements. Among other responsibilities:

- (i) The Administrator shall promptly prepare and furnish to Governmental Authorities all reports and related summaries (including, without limitation, statistical summaries), certificates of compliance and other reports required or requested by a Governmental Authority.
- (ii) The Administrator shall assist the Company and cooperate with the Company in doing all things necessary, proper or advisable, in the most expeditious manner practicable in connection with any and all market conduct or other Governmental Authority examinations relating to the Policies.

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Section 8.2. REPORTING AND ACCOUNTING. The Administrator shall

assume the reporting and accounting obligations set forth below:

- (i) As soon as practicable but not more than forty (40) days after the end of each calendar quarter that this Agreement is in effect (or more frequently as mutually agreed by the parties), the Administrator shall timely provide to the Company reports and summaries of transactions (and, upon request of the Company, detailed supporting records) related to the Policies as may be reasonably required for use in connection with the preparation of the Company's statutory and GAAP financial statements, tax returns and other required financial reports and to comply with the requirements of the regulatory authorities having jurisdiction over the Company, including all premium written and earned and all Losses and Allocated Loss Adjustment Expenses paid. The parties shall cooperate in good faith to establish the manner for the providing of such reports.
- (ii) The Administrator shall provide to the Company such reports or summaries (and, upon the request of the Company, detailed supporting records therefor) related to the payment of commissions under the Policies as agreed by the parties.

Section 8.3. ADDITIONAL REPORTS AND UPDATES. For so long as this Agreement remains in effect, each party shall periodically furnish to the other such other reports and information as may be reasonably required by such other party for regulatory, tax or similar purposes and reasonably available to it.

ARTICLE IX

MISCELLANEOUS ADMINISTRATIVE SERVICES

The Administrator shall assume the obligations set forth below:

- (i) The Administrator shall timely pay to the policyholders, including any certificateholder thereunder, any refunds of any kind due under the Policies.
- (ii) The Administrator shall process all policy changes, lapses, cancellations, and reinstatements in accordance with the terms of this Agreement and the express terms of the Policies and shall assume responsibility for providing all other administrative servicing in connection with the Policies.
- (iii) The Administrator shall pay commissions due under the Policies.
- (iv) The Administrator shall provide such other Administrative Services as are necessary or appropriate to fully effectuate the purpose of the Reinsurance Agreements and this Agreement, including such Administrative Services as are not performed by or on behalf of Company on the date hereof but

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the need for which may arise due to changes or developments in Applicable Law.

ARTICLE X

BOOKS AND RECORDS

The Administrator shall keep accurate and complete records, files and accounts of all transactions and matters with respect to the Policies and the administration thereof in accordance with Applicable Law and its record management practices in effect from time to time for the Administrator's insurance business not covered by this Agreement, if any. The parties to this Agreement and their designated representatives may upon reasonable notice inspect, at the offices of the Administrator or the Company where such records are located, the papers and any and all other books or documents of the Administrator or the Company reasonably relating to this Agreement, including the Policies, and shall have access to appropriate employees and representatives of the other party, in each case during normal business hours for such period as this Agreement is in effect or for as long thereafter as any rights or obligations of any party survives or the Administrator or the Company reasonably need access to such records for regulatory, tax or similar purposes. The information obtained shall be used only for purposes relating to the transactions contemplated under this Agreement.

ARTICLE XI

COOPERATION

Each party hereto shall cooperate fully with the other in all reasonable respects in order to accomplish the objectives of this Agreement including making available to each their respective officers and employees for

interviews and meetings with Governmental Authorities and furnishing any additional assistance, information and documents as may be reasonably requested by a party from time to time.

ARTICLE XII

PRIVACY REQUIREMENTS

In providing the Administrative Services provided for under this Agreement, and in connection with maintaining, administering, handling and transferring the data of the policyholders and other recipients of benefits under the Policies, the Administrator shall, and shall cause its Affiliates and any permitted Subcontractors to, comply with all confidentiality and security obligations applicable to them, in connection with the collection, use, disclosure, maintenance and transmission of personal, private, health or financial information about individual policyholders or benefit recipients, including the provisions of privacy policies under which such information was gathered, those laws currently in place and which may become effective during the term of this Agreement, including Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996 and any other Applicable Laws. The Administrator shall entitle the Company and its agents and representatives, the Commissioner of Health and Human Services and such other Governmental Authorities to the extent required by

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Applicable Law, to audit the Administrator's compliance herewith. The Administrator shall also enable individual subjects of personally identifiable information, upon request from such individuals, to review and correct information maintained by the Administrator about them, and to restrict use of such information. The Administrator shall promptly report to the Company any violation of this provision of which the Administrator becomes aware.

ARTICLE XIII

CONSIDERATION FOR ADMINISTRATIVE SERVICES

There shall be no fee or other consideration due to the Administrator for the performance of Administrative Services under this Agreement.

ARTICLE XIV

INDEMNIFICATION

Section 14.1. INDEMNIFICATION. (a) As used in this Article XIV, "Loss" and/or "Losses" shall mean losses, liabilities, costs, claims, causes of action, demands, settlements, damages including compensatory, extra contractual and punitive damages, fines, penalties and expenses (including reasonable attorneys' fees and expenses).

(b) Administrator agrees to indemnify and hold harmless Company and any of its directors, officers, employees, agents, representatives and affiliates (and the directors, officers, employees, agents and representatives of such affiliates) from any and all Losses arising out of or caused by any actual or alleged: (i) fraud, theft or embezzlement by directors, officers, employees, agents, subcontractors, successors or assigns of Administrator arising out of the performance of its obligations under of this Agreement during its term; (ii) failure, either intentional or unintentional, of Administrator to properly perform the services or take the actions required by this Agreement, including the failure to properly process, evaluate and pay claims or to comply with disbursement requests in accordance with the terms of this Agreement; (iii) acts of negligence or willful misconduct committed by directors, officers, employees, agents, subcontractors, successors or assigns of Administrator arising out of the performance of its obligations under its term; or (iv) failure of Administrator to comply with Applicable Laws, rules and regulations arising out of the performance of its obligations under its term of this Agreement, other than in the case of (i), (ii), (iii) or (iv), any failure on the part of Administrator caused by the action or inaction of the Company.

(c) Company agrees to indemnify and hold harmless Administrator and any of its directors, officers, employees, agents, representatives and affiliates (and the directors, officers, employees, agents and representatives of such affiliates) from any and all Losses arising out of or caused by any actual or alleged: (i) fraud, theft or embezzlement by directors, officers, employees, agents, successors or assigns of Company arising out of the performance of its obligations under its term; (ii) failure, either intentional or unintentional, of Company to take the actions required by this Agreement; (iii) acts of negligence or willful misconduct committed by directors, officers, employees, agents, successors or assigns of Company arising out of this

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Agreement during its term ; or (iii) failure of Company to comply with Applicable Laws, rules and regulations arising out of this Agreement during its term other than any failure on the part of Company caused by the action or inaction of Administrator, including when acting in the name or on behalf of Company, whether or not in compliance with the terms of this Agreement.

Section 14.2. INDEMNIFICATION PROCEDURES. (a) In order for a party (the "Indemnified Party") to be entitled to any indemnification provided for

under this Agreement in respect of, arising out of or involving a claim or demand made by, or an action, proceeding or investigation instituted by, any Person not a party to this Agreement (a "Third Party Claim"), such Indemnified Party must notify the other party (the "Indemnifying Party") in writing, and in reasonable detail, of the Third Party Claim within ten (10) business days after such Indemnified Party learns of the Third Party Claim; PROVIDED, HOWEVER, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the Indemnifying Party shall have been actually prejudiced as a result of such failure. Thereafter, the Indemnified Party shall deliver to the Indemnifying Party, within five (5) business days after the Indemnified Party's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Party relating to the Third Party Claim.

(b) If a Third Party Claim is made against an Indemnified Party, the Indemnifying Party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Party. If the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Party. If the Indemnifying Party chooses to defend or prosecute any Third Party Claim, all of the parties hereto shall cooperate in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the Indemnifying Party's request) the provision to the Indemnifying Party of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Whether or not the Indemnifying Party shall have assumed the defense of a Third Party Claim, the Indemnifying Party shall have no liability with respect to any compromise or settlement of such claims effected without its written consent (such consent not to be unreasonably withheld or delayed); the Indemnifying Party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the Indemnified Party's prior written consent (which consent shall not be unreasonably withheld or delayed) unless (A) there is no finding or admission of any violation of law or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnified Party, or (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party and a full and complete release is provided to the Indemnified Party.

(c) The provisions of this Article XIV shall survive the termination of this Agreement. The indemnity provided in Sections 14.1(b) and 14.1(c) shall be the sole and exclusive remedy of the Indemnified Party against the Indemnifying Party at law or equity for any matter covered by such Sections.

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ARTICLE XV

DURATION; TERMINATION

Section 15.1. DURATION. This Agreement shall commence on the Effective Date and continue with respect to each Policy until no further Administrative Services in respect of such Policy is required, unless this Agreement is earlier terminated under Section 15.2.

Section 15.2. TERMINATION. (a) This Agreement is subject to immediate termination at the option of the Company, upon written notice to the Administrator, on the occurrence of any of the following events:

- (i) A voluntary or involuntary proceeding is commenced in any jurisdiction by or against the Administrator for the purpose of conserving, rehabilitating or liquidating the Administrator;
- (ii) There is a material breach by the Administrator of any material term or condition of this Agreement that is not cured by the Administrator within ninety (90) days after receipt of written notice from the Company of such breach or act; or
- (iii) The Administrator is unable to perform the services required under this Agreement for a period of thirty (30) consecutive days for any reason other than as a result of a Force Majeure, it being understood that nothing in this Section 15.2(a)(iii) shall relieve the Administrator from its administrative responsibilities under this Agreement. For purposes of this Agreement, "Force Majeure" means any acts or omissions of any civil or military authority, acts of God, acts or omissions of the Company, fires, strikes or other labor disturbances, equipment failures, fluctuations or non-availability of electrical power, heat, light, air conditioning or telecommunications equipment, or any other act, omission or occurrence beyond the Administrator's reasonable control, irrespective of whether similar to the foregoing enumerated acts, omissions or occurrences;
- (iv) The Reinsurance Agreements are terminated for any reason.

(b) This Agreement may be terminated at any time upon the mutual written consent of the parties hereto, which writing shall state the effective date of termination.

(c) In the event that this Agreement is terminated under any of the provisions of Section 15.2(a), the Administrator shall select a third-party administrator to perform the services required by this Agreement. The Company shall have the right to approve any such administrator selected by the Administrator, but such approval will not unreasonably be withheld or delayed. If the Administrator fails to select an administrator pursuant to this Section 15.2(c), the Company shall select such an administrator. In either case, the Administrator shall pay all fees and charges imposed by the selected administrator and shall bear all transition costs associated with the transition of the performance of the services required under this Agreement to such administrator.

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ARTICLE XVI

DISPUTE RESOLUTION

Section 16.1. RESOLUTION OF DAMAGES. As a condition precedent to any right arising under this Agreement, any dispute between the Company and the Administrator arising out of the provisions of this Agreement, or concerning its interpretation or validity, whether arising before or after termination of this Agreement, shall be submitted to arbitration in the manner set forth in this Article XVI. Either party may initiate arbitration of any such dispute by giving written notice to other party by registered mail or a recognized overnight courier of its intention to arbitrate in accordance with Section 16.3.

Section 16.2. COMPOSITION OF PANEL. The arbitration shall be conducted by a panel of three (3) arbitrators, who shall be disinterested current or former executive officers of life or health insurance companies other than the two parties to this Agreement or their Affiliates appointed by the American Arbitration Association, Chicago, Illinois, in its sole discretion, and none of the parties to the arbitration shall have any right to dispute, contest or otherwise challenge the appointment of the arbitrator.

Section 16.3. NOTICE OF INTENTION TO ARBITRATE. The party requesting arbitration (hereinafter referred to as the "claimant") shall give written notice of its intention to arbitrate by registered mail or a recognized overnight courier to the other party (hereinafter referred to as the "respondent").

Section 16.4. CHOICE OF FORUM. Any arbitration instituted pursuant to this Article XVI shall be held in Northbrook, Illinois, or such other place as the parties may mutually agree.

Section 16.5. SUBMISSION OF DISPUTE TO PANEL. Unless otherwise extended by the arbitration panel, or agreed to by the parties, the claimant shall submit its brief to the panel within forty-five (45) days after the appointment of the arbitration panel. The respondent shall submit its brief within forty-five (45) days thereafter. The claimant may submit a reply brief within thirty (30) days after the filing of the respondent's brief. Notwithstanding anything herein to the contrary, the time period for submission of the case to the panel may be extended or modified by mutual consent of the parties.

Section 16.6. PROCEDURE GOVERNING ARBITRATION. Each party participating in the arbitration shall have the obligation to produce those documents and as witnesses to the arbitration those of its employees as any other participating party reasonably requests providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the panel shall determine in its sole discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision and award by the panel. The panel shall be the final judge of the procedures of the panel, the conduct of the arbitration, the rules of evidence, the rules of privilege and production and of excessiveness and relevancy of any witnesses and documents upon the petition of any

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participating party. To the extent permitted by law, the panel shall have the authority to issue subpoenas and other orders to enforce their decisions.

Section 16.7. ARBITRATION AWARD. The arbitration panel shall render its decision within sixty (60) days after termination of the proceeding unless the parties consent to an extension, which decision shall be in writing, stating the reason therefor. The decision of the majority of the panel shall be final and binding on the parties to the proceeding except to the extent otherwise provided in the Federal Arbitration Act. Judgment upon the award may be entered in any court having jurisdiction pursuant to the Federal Arbitration Act.

Section 16.8. COST OF ARBITRATION. Unless otherwise allocated by the panel, each party shall bear the expense of its own witnesses and shall equally bear with the other parties the expense of the arbitration panel and the arbitration.

Section 16.9. LIMIT OF AUTHORITY. It is agreed that the arbitrators shall have no authority to impose any punitive, exemplary or consequential damage awards on either of the parties hereto.

ARTICLE XVII

MISCELLANEOUS PROVISIONS

Section 17.1. HEADINGS AND SCHEDULES. Headings used herein are not a part of this Agreement and shall not affect the terms hereof. The attached Schedules are a part of this Agreement.

Section 17.2. NOTICES. All notices, requests, demands and other communications under this Agreement must be in writing and will be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent by reputable overnight air courier, two business days after mailing; (c) if sent by facsimile transmission, with a copy mailed on the same day in the manner provided in (a) or (b) above, when transmitted and receipt is confirmed by telephone; or (d) if otherwise actually personally delivered, when delivered, and shall be delivered as follows:

If to the Company:

Columbia Universal Life Insurance Company

3100 Sanders Road
Northbrook, IL 60062-7154
Attn: Treasurer

If to the Administrator:

Allstate Life Insurance Company
Attn: Treasurer
3075 Sanders Road, Suite G2H

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Northbrook, IL 60062-6127

With a copy to:

Allstate Insurance Company
Attn: Susie Lees, Assistant Secretary and
Assistant General Counsel
2775 Sanders Road, Suite A2
Northbrook, IL 60062-6127

or to such other address or to such other Person as either party may have last designated by notice to the other party.

Section 17.3. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, permitted assigns and legal representatives. Neither this Agreement, nor any right or obligation hereunder, may be assigned by any party without the prior written consent of the other party hereto. Any assignment in violation of this Section 17.3 shall be void and shall have no force and effect.

Section 17.4. EXECUTION IN COUNTERPART. This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 17.5. CURRENCY. Whenever the word "Dollars" or the "\$" sign appear in this Agreement, they shall be construed to mean United States Dollars, and all transactions under this Agreement shall be in United States Dollars.

Section 17.6. AMENDMENTS. This Agreement may not be changed, altered or modified unless the same shall be in writing executed by the Company and the Administrator.

Section 17.7. GOVERNING LAW. This Agreement will be construed, performed and enforced in accordance with the laws of the State of Illinois without giving effect to its principles or rules of conflict of laws thereof to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.

Section 17.8. ENTIRE AGREEMENT; SEVERABILITY. This Agreement constitutes the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, statements, representations and warranties, negotiations and discussions, whether oral or written, of the parties and there are no general or specific warranties, representations or other agreements by or among the parties in connection with the entering into of this Agreement or the subject matter hereof except as specifically set forth or contemplated herein.

Section 17.9. NO WAIVER; PRESERVATION OF REMEDIES. No consent or waiver, express or implied, by any party to or of any breach or default by any other party in the performance by such other party of its obligations hereunder

shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance of obligations hereunder by such

other party hereunder. Failure on the part of any party to complain of any act or failure to act of any other party or to declare any other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such first party of any of its rights hereunder. The rights and remedies provided are cumulative and are not exclusive of any rights or remedies that any party may otherwise have at law or equity.

Section 17.10. THIRD PARTY BENEFICIARY. Nothing in this Agreement will confer any rights upon any Person that is not a party or a successor or permitted assignee of a party to this Agreement.

Section 17.11. NEGOTIATED AGREEMENT. This Agreement has been negotiated by the parties and the fact that the initial and final draft will have been prepared by either party or an intermediary will not give rise to any presumption for or against any party to this Agreement or be used in any respect or forum in the construction or interpretation of this Agreement or any of its provisions.

Section 17.12. INTERPRETATION. Wherever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

Section 17.13. SURVIVAL. Article XIV, XV and Article XVI shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the Company and the Administrator have executed this Agreement as of the date first above written.

COLUMBIA UNIVERSAL LIFE INSURANCE
COMPANY

By: _____ /s/

Name: James P.Zils

Title: Treasurer

ALLSTATE LIFE INSURANCE COMPANY

By: _____ /s/

Name: Samuel H. Pilch

Title: Group Vice President and Controller

REINSURANCE AGREEMENT

BETWEEN

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

AND

ALLSTATE LIFE INSURANCE COMPANY

RECITALS

This Reinsurance Agreement dated June 1, 2004 ("Agreement"), is made and entered into by and between COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Texas ("Ceding Company") and ALLSTATE LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Illinois ("Reinsurer").

WHEREAS, the Ceding Company and Reinsurer entered into that certain Reinsurance Agreement effective July 1, 2000 ("Modified Coinsurance Agreement"), whereby the Ceding Company ceded to Reinsurer 100% of net ceded liabilities arising under all life and health insurance policies and certificates assumed or issued by the Ceding Company.

WHEREAS, pursuant to that certain Amendment No. 1 to Reinsurance Agreement ("Amendment No. 1"), the parties terminated the Modified Coinsurance Agreement effective as of 11:59 p.m. on May 31, 2004, terminating Reinsurer's liability under the Modified Coinsurance Agreement.

WHEREAS, Ceding Company and Reinsurer desire to enter this Agreement, whereby Ceding Company will cede on a coinsurance basis 100% of any and all liabilities of the Ceding Company arising under all life and health insurance policies and certificates assumed or issued by the Ceding Company, except for certain excluded liabilities.

NOW THEREFORE, in consideration of the above stated premises and the promises and mutual agreements set forth below, the Ceding Company and the Reinsurer agree as follows:

ARTICLE I
DEFINITIONS

Unless otherwise defined herein, as used in this Agreement the following terms shall have the

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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. "Effective Date" shall mean the effective date of this Agreement, which shall be 12:00 a.m. on June 1, 2004.
- D. "Excluded Liabilities" shall mean (i) Extra-Contractual Obligations, and (ii) liabilities ceded by Ceding Company under Third-Party Reinsurance Agreements.
- E. "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 or disputes 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.
- F. "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, payments on supplemental contracts, endowment benefits, disability benefits, and benefits under accident and health policies, net of Excluded Liabilities.
- G. "Net Ceded Liabilities" shall mean any and all liabilities of the Ceding Company arising under the Policies, but shall not include Excluded Liabilities.
- H. "Net Statutory Liabilities" shall have the meaning set forth in Article V of this Agreement.
- I. "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 policies, certificates, and 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, (iii) premium deposit funds and (iv) Policies reinsured by Ceding Company.

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- J. "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 any Policy except with Reinsurer's prior written consent, including, but not limited to any changes to comply 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, only with Reinsurer's prior written approval. The Ceding Company and Reinsurer agree to fully

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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 not make any changes or modifications to any of the Policies, nor waive or exercise any of its rights under any of the Policies without the prior written consent of Reinsurer.
- G. Conversions, exchanges, or replacements of Policies are not reinsured under this Agreement, unless agreed to in writing by Reinsurer.

ARTICLE IV
CLAIMS

- A. Reinsurer shall not be liable to pay Ceding Company for any Extra-Contractual Obligations, except to the extent such liabilities or obligations arise directly from and are proximately caused by the gross negligence or willful acts or omissions of Reinsurer, its agents, contractors or employees in the performance of Reinsurer's duties and obligations under this Agreement or that certain Administrative Services Agreement dated June 1, 2004 by and between the Ceding Company and Reinsurer ("Administrative Services Agreement") whereby Ceding Company has engaged Reinsurer to service the Policies.

In the event of a change in the amount of the Ceding Company's liability on a Policy due a misstatement of age or sex, the Reinsurer's liability will be changed proportionately.

- B. In the event that the Administrative Services Agreement is terminated for any reason and is not replaced by another services agreement for the

Policies between Ceding Company and Reinsurer or any of its affiliates or subsidiaries, the following subsections, shall then apply;

1. The Ceding Company shall notify the Reinsurer, as soon as possible, whenever the Ceding Company has received a notice on any Policy reinsured under this Agreement.
2. The Ceding Company shall promptly provide the Reinsurer with proper claim papers and proofs when requesting payment. The Reinsurer shall promptly pay its share of each claim in a lump sum. Reinsurer shall have the right to approve all claim payments, and any decision by Ceding Company to contest, compromise or litigate a claim shall be subject to Reinsurer's prior written approval.

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ARTICLE V
RESERVE TRANSFERS

A. Within forty-five (45) days of the latter of the Effective Date or the date Ceding Company has received approval from all necessary regulatory authorities, ("Settlement Date"), assets consisting of policy loans, cash and investments, accrued investment income, and uncollected or deferred premiums net of unearned investment income, uncollected or deferred agents balances, and write in assets shall be transferred by Ceding Company to Reinsurer with a market value amount calculated as of the Effective Date equal to the net statutory liabilities for the Policies reinsured under this Agreement as calculated in (a) below, ("Net Statutory Liabilities"). Ceding Company shall also pay to Reinsurer interest on such amount at the rate specified in (b) below.

(a) Net Statutory Liabilities is determined as (1) plus (2) where:

(1) equals "Total Liabilities" less "Miscellaneous Liabilities" less "Other Amounts Payable on Reinsurance" less "Interest Maintenance Reserve" less "Commissions to Agents Due or Accrued", as currently included respectively in Annual Statement page 3, Lines 28, 24.1 through 24.9, 9.3, 9.4, and 10, 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.

(2) equals the "Interest Maintenance Reserve" adjustment for current year's liability gains/losses released from the reserves resulting from this transaction.

(b) Interest on the amount transferred shall accrue at the rate of four percent (4%) per annum, simple rate, beginning on the Effective Date and ending on the Settlement Date.

Initially capitalized terms not otherwise defined herein used in subsection V.A.(a) are to the 2003 NAIC Statutory Statement. Appropriate adjustments will be made for changes, if any, in the NAIC Statutory Statement on or after the Effective Date.

ARTICLE VI
SETTLEMENT AND REPORTING

A. While this Agreement is in effect, Ceding Company shall pay to Reinsurer no less frequently than quarterly, with respect to eligible Policies, a reinsurance premium equal to (or the accounting equivalent of) the sum of Items (a) and (b) less (c) below.

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(a) Gross premiums (direct and reinsurance assumed) collected by Ceding Company during the settlement period.

(b) Policy loan repayments collected by Ceding Company with respect to the Policies.

(c) Gross premiums refunded by Ceding Company during the settlement period to policyholders.

B. While this Agreement is in effect, Reinsurer shall pay to Ceding Company no less frequently than quarterly, a benefit and expense allowance equal to (or the accounting equivalent of) the sum of Items (a), (b), (c), (d), (e) and (f) below, as applicable for the period since the date of Reinsurer's last payment to Ceding Company

(a) Net Benefits paid or incurred by Ceding Company with respect to the Policies.

(b) Commissions and other sales compensation paid or incurred by Ceding Company with respect to the Policies.

(c) Premium taxes paid or incurred by Ceding Company with respect to the Policies.

(d) Policy loan distributions to policyholders paid or incurred by Ceding

Company with respect to the Policies.

- (e) Net reinsurance premiums paid or incurred by Ceding Company to another reinsurer with respect to the Policies.
- (f) So long as Ceding Company and Reinsurer remain affiliates, general insurance expenses and insurance taxes, licenses and fees excluding income taxes (Annual Statement Page 4 Lines 23 and 24) paid or incurred by Ceding Company with respect to the Policies shall be paid by Reinsurer to Ceding Company.

- C. Ceding Company will provide Reinsurer with accounting reports on a time schedule determined by Reinsurer, which schedule shall be no less frequently than quarterly within fifteen (15) days following 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.
- D. Settlements as set out in Article VI, Paragraphs 1 and 2 will occur on a time schedule determined by Reinsurer, which schedule shall be no less frequently than quarterly within sixty (60) days following the end of each calendar quarter.
- E. In the event the Administrative Services Agreement is terminated for any reason and is not replaced by another services agreement for the Policies between Ceding Company and

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Reinsurer or any of its affiliates or subsidiaries, then subsections A. through D. above shall be of no force and effect and this subsection E. shall apply in lieu thereof.

- 1. Reinsurance premiums are payable monthly in arrears. The Ceding Company shall calculate the amount of reinsurance premium due within 45 days after the end of each month, and shall send the Reinsurer a statement showing premiums, expense allowances, claims, reserves and other information for the applicable month as requested by Reinsurer.
- 2. If an amount is due the Reinsurer, the Ceding Company shall pay that amount together with the statement. If Ceding Company fails to pay the amount due within 45 days after the close of the month ("Premium Due Date"), then interest shall accrue on the amount due beginning on the day following the Premium Due Date up to and including the day such premium payment is paid by the Ceding Company. The rate of interest charged per month shall be the greater of: (i) the 30 Day Treasury Bill rate as published in the Money Rate Section or any successor section of the Wall Street Journal on the first business day following the Premium Due Date, or (ii) 4% per annum.

The payment of reinsurance premium is a condition precedent to the liability of the Reinsurer for reinsurance covered by this Agreement. In the event that reinsurance premiums are not paid within 60 days after the Premium Due Date, the Reinsurer shall have the right to terminate the reinsurance under all policies having reinsurance premiums in arrears, with 30 days prior written notice.

If all reinsurance premiums in arrears, including any that become in arrears during the 30 day notice period, are not paid before the expiration of the notice period, the Reinsurer will be relieved of all liability under those Policies as of the last date to which premiums have been paid for each Policy. Reinsurance on Policies on which reinsurance premiums subsequently fall due will automatically terminate as of the last date to which premiums have been paid for each Policy, unless reinsurance premiums on those Policies are paid on or before their respective Premium Due Dates.

Terminated reinsurance may be reinstated, subject to approval by the Reinsurer, within 45 days of the date of termination, and upon payment of all reinsurance premiums in arrears including any interest accrued thereon. The Reinsurer will have no liability for any claims incurred between the date of termination and the date of the reinstatement of the reinsurance. The right to terminate reinsurance shall not prejudice the Reinsurer's right to collect premiums for the period during which reinsurance was in force prior to the expiration of the 30 days notice.

- 3. If an amount is due the Ceding Company, the Reinsurer shall remit such amount within 60 days of receipt of the statement. If the Reinsurer fails to pay the amount due within the 60 day period, then interest shall accrue from the day following the end of the 60 day period up to and including the day the Reinsurer pays the amount due. Interest shall be at the rate described in paragraph E.2. above.

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ARTICLE VII TAX MATTERS

With respect to this Agreement, the Ceding Company and the Reinsurer hereby make the election as set forth in Exhibit B 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 VIII
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 as of the Effective Date, 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
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 X
INSPECTION OF RECORDS

Either party, their respective employees or authorized representatives, may audit, inspect and examine, during regular business hours, at the home office of either party, any and all books, records, statements, correspondence, reports, trust accounts and their related documents or other documents that relate to the Policies covered under this Agreement. The audited party agrees to provide a reasonable workspace for such audit, inspection or examination and to cooperate fully and to faithfully disclose the existence of and produce any and all necessary and reasonable materials requested by such auditors, investigators, or examiners. The party performing a routine audit shall provide five (5) working days advance notice to the other party. The expense of the

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respective party's employee(s) or authorized representative(s) engaged in such activities will be borne solely by such party.

ARTICLE XI
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, 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.

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ARTICLE XII
ARBITRATION

- A. Prior to initiation of arbitration, the Reinsurer and Ceding Company agree

that they will first negotiate diligently and in good faith to agree on a mutually satisfactory resolution of any dispute. Provided, however that if any such dispute cannot be resolved within sixty (60) days (or such longer period as the parties may agree) after written notice invoking the negotiation period of this article is delivered by either party, the Reinsurer and the Ceding Company agree that they will submit this dispute to arbitration as described below.

- B. The Reinsurer and the Ceding Company intend that any and all disputes between them under or with respect to this Agreement be resolved without resort to any litigation. As a condition precedent to any right of action hereunder, any dispute or difference between the Ceding Company and the Reinsurer relating to the interpretation or performance of this Agreement, including its formation or validity, or any transaction under this Agreement, whether arising before or after termination, shall be submitted to arbitration. Arbitration shall be the method of dispute resolution, regardless of the insolvency of either party, unless the conservator, receiver, liquidator or statutory successor is specifically exempted from arbitration proceeding by applicable state law of the insolvency.
- C. Arbitration shall be initiated by the delivery of written notice of demand for arbitration ("Arbitration Notice") by one party to another. Such written notice shall contain a brief statement of the issue(s), remedies sought, and the failure of the parties to reach amicable agreement as provided in Paragraph A above.
- D. The arbitrators and umpire shall be present or former disinterested officers of life reinsurance or insurance companies other than the two parties to the Agreement or any company owned by, or affiliated with, either party. Each party shall appoint an individual as arbitrator and the two so appointed shall then appoint the umpire. If either party refuses or neglects to appoint an arbitrator within thirty (30) days after delivery of the Arbitration Notice, the other party may appoint the second arbitrator. If the two arbitrators do not agree on an umpire within thirty (30) days of the appointment of the second appointed arbitrator, each of the two arbitrators shall nominate three individuals. Each arbitrator shall then decline two of the nominations presented by the other arbitrator. The umpire shall be chosen from the remaining two nominations by drawing lots.
- E. The arbitration hearings shall be held in the city in which the Reinsurer's head office is located or any such other place as may be mutually agreed. Each party shall submit its case to the arbitrators and umpire within one hundred and eighty (180) days of the selection of the umpire or within such longer period as may be agreed.

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- F. The arbitration panel shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The arbitration panel shall interpret this Agreement as an honorable engagement; they are relieved of all judicial formalities and may abstain from following strict rules of law. The arbitration panel shall be solely responsible for determining what evidence shall be considered and what procedure they deem appropriate and necessary in the gathering of such facts or data to decide the dispute.
- G. The decision in writing of the majority of the arbitration panel shall be final and binding upon the parties. Judgment may be entered upon the final decision of the arbitration panel in any court having jurisdiction.
- H. The jointly incurred costs of the arbitration are to be borne equally by both parties. Jointly incurred costs are specifically defined as any costs that are not solely incurred by one of the parties (e.g., attorneys' fees, expert witness fees, travel to the hearing site, etc.). Costs incurred solely by one of the parties shall be borne by that party. Once the panel has been selected, the panel shall agree on one billable rate for each of the arbitrators and umpire and that sole cost shall be disclosed to the parties and become payable as a jointly incurred cost as described above.

ARTICLE XIII 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 XIV 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. This Agreement may not be terminated by either party except as provided for in Article VI.
- B. TERMINATION FOR NEW BUSINESS. This agreement will be terminated for new business as of the Effective Date.

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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, to such address or addresses each party may designate from time to time for receipt of notices or communications. The initial notice addresses are as follows:

If to the Reinsurer: Allstate Life Insurance Company
3100 Sanders Road, Suite M5A
Northbrook, Illinois 60062-7154
Attention: Steve Shebik,
Senior Vice President and
Chief Financial Officer
Facsimile No.: (847) 326-5054

If to the Ceding Company: Columbia Universal Life Insurance Company
3100 Sanders Road
Northbrook, Illinois 60062-7154
Attention: Errol Cramer, Appointed Actuary
Facsimile No.: (847) 402-7376

All notices and other communications required or permitted under the terms of this Agreement that are addressed pursuant to 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.

- 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.

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- 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 by 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. SURVIVAL. All provisions of this Agreement shall survive its termination to the extent necessary to carry out the purposes of this Agreement or to ascertain and enforce the parties' rights or obligations hereunder existing at the time of termination.
- O. CALENDAR DAYS. Unless otherwise specified, all references to "day" in this Agreement shall mean calendar days.

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: _____ /s/
 Name: Samuel H. Pilch
 Title: Group Vice President and Controller
 Date: July 27, 2004

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

By: _____ /s/
 Name: James P. Zils
 Title: Treasurer
 Date: July 27, 2004

EXHIBIT A

ELIGIBLE AND INELIGIBLE POLICIES

Policies eligible for reinsurance under this Agreement are defined as all life and health insurance policies and certificates assumed, issued, or reinsured by the Ceding Company prior to June 1, 2004. For the avoidance of doubt, this Agreement is intended to include all policies, certificates, and contracts assumed, issued, or reinsured by the Ceding Company, expressly excluding any policies covered under that certain Reinsurance Agreement between the parties effective June 30, 2000 as amended by an Amended and Restated Reinsurance Agreement dated June 1, 2004, under which Ceding Company's annuity and supplementary business is reinsured on a 100% coinsurance basis.

EXHIBIT B
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.

FIRST AMENDMENT TO
REINSURANCE AGREEMENT

THIS FIRST AMENDMENT TO REINSURANCE AGREEMENT (this "First Amendment"), dated this 26th day of July, 2004, is made by and between COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Texas ("Ceding Company") and ALLSTATE LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Illinois ("Reinsurer").

RECITALS

WHEREAS, Ceding Company and Reinsurer entered into a Reinsurance Agreement, effective as of June 1, 2004 (the "Agreement"); and

WHEREAS, Ceding Company and Reinsurer desire to make certain amendments to the Agreement as more particularly described herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration and for the mutual covenants set forth below, the parties hereto, intending legally to be bound, hereby agree as follows:

1. This First Amendment shall be effective as of July 1, 2004.
2. The parties hereby amend the Agreement by adding the following provisions to the Agreement:

ARTICLE XVI
TRUST

A. TRUST. At any time after the occurrence of any of the following events, Ceding Company shall have the right, upon delivery of written notice to Reinsurer, to require that Reinsurer establish a trust reasonably acceptable to Ceding Company (the "Trust") and deposit assets, which qualify as admissible assets of Reinsurer under statutory accounting principles and the laws of the State of Texas, therein having a fair market value equal to the amount of the Statutory Reserves of the Policies:

- (1) if Reinsurer's RBC ratio falls between 125%-150% of the NAIC Company Action Level RBC ("CAL RBC"); provided, however, if Reinsurer's Statutory Reserves ceded pursuant to the Agreement and the Amended and Reinstated Reinsurance Agreement, dated as of June 1, 2004 between Ceding Company and Reinsurer ("Ceded Statutory Reserves") are less

than \$200 million the provisions of Article XVI(A) will not be triggered; or

- (2) if Reinsurer's RBC ratio falls below 125% of CAL RBC, then the provisions of Article XVI(A) shall be triggered regardless of Reinsurer's Ceded Statutory Reserves; and
- (3) Reinsurer's obligation to maintain the Trust shall remain in effect only for such period as the events listed in either (1) or (2) above remains in effect.

B. TRUST. Upon the receipt of Ceding Company's notice to require the establishment of a trust pursuant to Article XVI(A) hereof, and without further action by Reinsurer, Reinsurer will be deemed to have transferred and assigned to the Trust assets of Reinsurer having an aggregate market value as of the effective date of such notice equal to the aggregate Statutory Reserves established by Ceding Company as of such date with respect to the Policies (without giving effect to the reinsurance under this Agreement), together with all interest, dividend, or other investment income accrued on such assets from the date of Reinsurer's receipt of such notice until the date of the Trust's receipt of such assets. Reinsurer shall cooperate with Ceding Company in effecting the creation and funding of the Trust pursuant to Article XVI(A) hereof, including without limitation by promptly transferring amounts to the Trust described in the preceding sentence and by executing and delivering such other documents, instruments and certificates effectuating the establishment, funding, and maintenance of the Trust described in this Article and reasonably requested by the Ceding Company. Reinsurer shall maintain the Trust assets at a minimum level equal to Statutory Reserves, and Ceding Company shall provide all approvals and take any other action necessary to reduce the Trust assets upon Reinsurer's request.

ARTICLE XVII
NOVATION; REPLACEMENT

At the option of Reinsurer, Reinsurer may at any time (i) assume

the Policies on a novation basis pursuant to an assumption reinsurance agreement to be entered into by Ceding Company and Reinsurer at such time having terms mutually agreeable to the parties or (ii) replace the Policies pursuant to replacement offers made to the owners of such Policies. Reinsurer will be responsible for paying all costs and obtaining all approvals. The parties hereto shall cooperate in good faith with each other in effecting any assumption or replacement under this Article.

3. Capitalized terms used but not defined herein shall have the meaning given to them in the Agreement.
4. Unless expressly modified by this First Amendment, the terms and conditions of the Agreement remain unchanged and in full force and effect.
5. This First Amendment shall be binding on the parties hereto, including their affiliates, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first set forth above.

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

ALLSTATE LIFE INSURANCE COMPANY

By: _____ /s/

By: _____ /s/

Name: James P. Zils

Name: Samuel H. Pilch

Title: Treasurer

Title: Group Vice President and Controller

AMENDED AND RESTATED

REINSURANCE AGREEMENT

BETWEEN

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

AND

ALLSTATE LIFE INSURANCE COMPANY

RECITALS

This Amended and Restated Reinsurance Agreement dated and effective as of June 1, 2004 (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 and Reinsurer entered into that certain Reinsurance Agreement, effective June 30, 2000 ("Original Agreement"), pursuant to which the Ceding Company ceded to the Reinsurer, and the Reinsurer accepted on a coinsurance basis 100% of the Ceding Company's Net Ceded Liabilities (as defined in Article I below) under certain annuity contracts and supplemental agreements.

WHEREAS, the Ceding Company and Reinsurer desire to amend the Original Agreement and to restate all its terms, covenants and conditions as set forth below.

NOW THEREFORE, in consideration of the above stated premises and the promises and the mutual agreements set forth below the Ceding Company and the Reinsurer agree as follows.

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

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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. "Effective Date" shall mean the effective date of this Agreement, which shall be June 30, 2000. The Amended and Restated version of this Agreement dated June 1, 2004 shall become effective June 1, 2004.

D. "Excluded Liabilities" shall mean (i) Extra-Contractual Obligations, and (ii) liabilities ceded by Ceding Company under Third-Party Reinsurance Agreements.

E. "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 or disputes 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.

F. "Initial Settlement Date" shall have the meaning set forth in Article IV of this Agreement.

G. "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.

H. "Net Ceded Liabilities" shall mean any and all liabilities of the Ceding Company arising under the Policies, but shall not include Excluded Liabilities.

I. "Net Statutory Reserves" shall have the meaning set forth in Article V of this Agreement.

- J. "Policy or Policies" shall mean the annuity 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.
- K. "Terminal Accounting and Settlement" shall have the meaning set forth in Article XIV of this Agreement.
- L. "Third-Party Reinsurance Agreements" shall mean any written reinsurance agreements under

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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 any Policy except with Reinsurer's prior written consent, including, but not limited to any changes to comply 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, purchase payments or other non-guaranteed elements that are or affect required purchase payments or are used to determine contract values. The Ceding Company agrees, while this Agreement is in effect, to set such discretionary interest rates, cost of insurance rates, or other non-guaranteed elements to be declared on the Policies and the effective dates thereof only with Reinsurer's written approval. 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, or other non-guaranteed elements.
- F. Ceding Company shall not make any changes or modifications to any of the Policies, nor

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waive or exercise any of its rights under any of the Policies without the prior written consent of Reinsurer.

- G. Conversions, exchanges, or replacements of Policies are not reinsured under this Agreement, unless agreed to in writing by Reinsurer.

ARTICLE IV CLAIMS

- A. Reinsurer shall not be liable to pay Ceding Company for any Extra-Contractual Obligations, except to the extent such liabilities or obligations arise directly from and are proximately caused by the gross negligence or willful acts or omissions of Reinsurer, its agents, contractors or employees in the performance of Reinsurer's duties and obligations under this Agreement or that certain Administrative Services Agreement dated June 1, 2004 by and between the Ceding Company and Reinsurer ("Administrative Services Agreement") whereby Ceding Company has engaged Reinsurer to service the Policies.

In the event of a change in the amount of the Ceding Company's liability on a Policy due to a misstatement of age or sex, the Reinsurer's liability will be changed proportionately.

- B. In the event that the Administrative Services Agreement is terminated for any reason and is not replaced by another services agreement for the Policies between Ceding Company and Reinsurer or any of its affiliates or subsidiaries, the following subsections, shall then apply;
 - 1. The Ceding Company shall notify the Reinsurer, as soon as possible, whenever the Ceding Company has received a notice on any Policy reinsured under this Agreement.
 - 2. The Ceding Company shall promptly provide the Reinsurer with proper claim papers and proofs when requesting payment. The Reinsurer shall promptly pay its share of each claim in a lump sum. Reinsurer shall have the right to approve all claim payments, and any decision by Ceding Company to contest, compromise or litigate a claim shall be subject to Reinsurer's prior written approval.

ARTICLE V
RESERVE TRANSFERS

The parties acknowledge that an initial reserve transfer occurred under the original Reinsurance Agreement effective June 30, 2000, as described below.

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- A. On June 30, 2000, an estimate was 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 were 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 of the Original Agreement ("Initial Settlement Date"), Ceding Company paid to Reinsurer, or received 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 also paid to Reinsurer, or received 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) through (g) attributable to the Policies (or portion of such policies) ceded to Reinsurer under the Original Agreement. The applicable portion of these items were calculated as of the effective date of the Original Agreement and were 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
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

- (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.

- (ii) The amount transferred under Paragraph A of this Article V.
- (iii) Interest on cash transferred at an effective rate of seven percent (7%) per annum, simple rate, from the effective date of the Original Agreement to the Initial Settlement Date.

ARTICLE VI
SETTLEMENT AND REPORTING

A. While this Agreement is in effect, Ceding Company shall pay to Reinsurer no less frequently than quarterly, with respect to eligible Policies, a reinsurance premium equal to (or the accounting equivalent of) the sum of Items (a) and (b) less (c) below.

- (a) Gross premiums (direct and reinsurance assumed) collected by Ceding Company during the settlement period.
- (b) Policy loan repayments collected by Ceding Company with respect to the Policies.
- (c) Gross premiums refunded by Ceding Company during the settlement period to policyholders.

B. While this Agreement is in effect, Reinsurer shall pay to Ceding Company no less frequently than quarterly, a benefit and expense allowance equal to (or the accounting equivalent of) the sum of Items (a), (b), (c), (d), (e) and (f), as applicable for the period since the date of Reinsurer's last payment to Ceding Company.

- (a) Net Benefits paid or incurred by Ceding Company with respect to the Policies.
- (b) Commissions and other sales compensation paid or incurred by Ceding Company with respect to the Policies.

- (c) Premium taxes paid or incurred by Ceding Company with respect to the Policies.
- (d) Policy loan distributions to policyholders paid or incurred by Ceding Company with respect to the Policies.
- (e) Net reinsurance premiums paid or incurred by Ceding Company to another reinsurer with respect to the Policies.
- (f) So long as Ceding Company and Reinsurer remain affiliates, general insurance expenses and insurance taxes, licenses and fees excluding income taxes (Annual Statement Page 4 Lines 23 and 24) paid or incurred by Ceding Company with respect to the Policies shall be paid by Reinsurer to Ceding Company.

C. Ceding Company will provide Reinsurer with accounting reports on a time schedule determined by Reinsurer, which schedule shall be no less frequently than quarterly within fifteen (15) days following 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.

D. Settlements as set out in Article VI, Paragraphs 1 and 2 will occur on a time schedule determined by Reinsurer, which schedule shall be no less frequently than quarterly within sixty (60) days following the end of each calendar quarter.

E. In the event the Administrative Services Agreement is terminated for any reason and is not replaced by another services agreement for the Policies between Ceding Company and Reinsurer or any of its affiliates or subsidiaries, then subsections A. through D. above shall be of no force and effect and this subsection E. shall apply in lieu thereof.

- 1. Reinsurance premiums are payable monthly in arrears. The Ceding Company shall calculate the amount of reinsurance premium due within

45 days after the end of each month, and shall send the Reinsurer a statement showing premiums, expense allowances, claims, reserves and other information for the applicable month as requested by Reinsurer.

2. If an amount is due the Reinsurer, the Ceding Company shall pay that amount together with the statement. If Ceding Company fails to pay the amount due within 45 days after the close of the month ("Premium Due Date"), then interest shall accrue on the amount due beginning on the day following the Premium Due Date up to and including the day such premium payment is paid by the Ceding Company. The rate of interest charged per month shall be the greater of: (i) the 30 Day Treasury Bill rate as published in the Money Rate Section or any successor section of the Wall Street Journal on the first business day following the Premium Due Date, or (ii) 4% per annum.

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The payment of reinsurance premium is a condition precedent to the liability of the Reinsurer for reinsurance covered by this Agreement. In the event that reinsurance premiums are not paid within 60 days after the Premium Due Date, the Reinsurer shall have the right to terminate the reinsurance under all policies having reinsurance premiums in arrears, with 30 days prior written notice.

If all reinsurance premiums in arrears, including any that become in arrears during the 30 day notice period, are not paid before the expiration of the notice period, the Reinsurer will be relieved of all liability under those Policies as of the last date to which premiums have been paid for each Policy. Reinsurance on Policies on which reinsurance premiums subsequently fall due will automatically terminate as of the last date to which premiums have been paid for each Policy, unless reinsurance premiums on those Policies are paid on or before their respective Premium Due Dates.

Terminated reinsurance may be reinstated, subject to approval by the Reinsurer, within 45 days of the date of termination, and upon payment of all reinsurance premiums in arrears including any interest accrued thereon. The Reinsurer will have no liability for any claims incurred between the date of termination and the date of the reinstatement of the reinsurance. The right to terminate reinsurance shall not prejudice the Reinsurer's right to collect premiums for the period during which reinsurance was in force prior to the expiration of the 30 days notice.

3. If an amount is due the Ceding Company, the Reinsurer shall remit such amount within 60 days of receipt of the statement. If the Reinsurer fails to pay the amount due within the 60 day period, then interest shall accrue from the day following the end of the 60 day period up to and including the day the Reinsurer pays the amount due. Interest shall be at the rate described in paragraph E.2. above.

ARTICLE VII TAX MATTERS

With respect to this Agreement, the Ceding Company and the Reinsurer hereby make the election as set forth in Exhibit B 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 VIII 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

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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 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 clerical error, 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 X INSPECTION OF RECORDS

Either party, their respective employees or authorized representatives, may

audit, inspect and examine, during regular business hours, at the home office of either party, any and all books, records, statements, correspondence, reports, trust accounts and their related documents or other documents that relate to the Policies covered under this Agreement. The audited party agrees to provide a reasonable workspace for such audit, inspection or examination and to cooperate fully and to faithfully disclose the existence of and produce any and all necessary and reasonable materials requested by such auditors, investigators, or examiners. The party performing a routine audit shall provide no less than five (5) working days advance notice to the other party. The expense of the respective party's employee(s) or authorized representative(s) engaged in such activities will be borne solely by such party.

ARTICLE XI
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

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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, 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 XII
ARBITRATION

A. Prior to initiation of arbitration, the Reinsurer and Ceding Company agree that they will first negotiate diligently and in good faith to agree on a mutually satisfactory resolution of any dispute. Provided, however that if any such dispute cannot be resolved within sixty (60) days (or such longer period as the parties may agree) after written notice invoking the negotiation period of this article is delivered by either party, the Reinsurer and the Ceding Company agree that they will submit this dispute to arbitration as described below.

B. The Reinsurer and the Ceding Company intend that any and all disputes between them under or with respect to this Agreement be resolved without resort to any litigation. As a condition precedent to any right of action hereunder, any dispute or difference between the Ceding Company and the Reinsurer relating to the interpretation or performance of this Agreement, including its formation or validity, or any transaction under this Agreement, whether arising before or after termination, shall be submitted to arbitration. Arbitration shall be the method of dispute resolution, regardless of the insolvency of either party, unless the conservator, receiver, liquidator or statutory successor is specifically exempted from arbitration proceeding by applicable state law of the insolvency.

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C. Arbitration shall be initiated by the delivery of written notice of demand for arbitration ("Arbitration Notice") by one party to another. Such written notice shall contain a brief statement of the issue(s), remedies sought, and the failure of the parties to reach amicable agreement as provided in Paragraph A above.

D. The arbitrators and umpire shall be present or former disinterested officers of life reinsurance or insurance companies other than the two parties to the Agreement or any company owned by, or affiliated with,

either party. Each party shall appoint an individual as arbitrator and the two so appointed shall then appoint the umpire. If either party refuses or neglects to appoint an arbitrator within thirty (30) days after delivery of the Arbitration Notice, the other party may appoint the second arbitrator. If the two arbitrators do not agree on an umpire within thirty (30) days of the appointment of the second appointed arbitrator, each of the two arbitrators shall nominate three individuals. Each arbitrator shall then decline two of the nominations presented by the other arbitrator. The umpire shall be chosen from the remaining two nominations by drawing lots.

- E. The arbitration hearings shall be held in the city in which the Reinsurer's head office is located or any such other place as may be mutually agreed. Each party shall submit its case to the arbitrators and umpire within one hundred and eighty (180) days of the selection of the umpire or within such longer period as may be agreed.
- F. The arbitration panel shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The arbitration panel shall interpret this Agreement as an honorable engagement; they are relieved of all judicial formalities and may abstain from following strict rules of law. The arbitration panel shall be solely responsible for determining what evidence shall be considered and what procedure they deem appropriate and necessary in the gathering of such facts or data to decide the dispute.
- G. The decision in writing of the majority of the arbitration panel shall be final and binding upon the parties. Judgment may be entered upon the final decision of the arbitration panel in any court having jurisdiction.
- H. The jointly incurred costs of the arbitration are to be borne equally by both parties. Jointly incurred costs are specifically defined as any costs that are not solely incurred by one of the parties (e.g., attorneys' fees, expert witness fees, travel to the hearing site, etc.). Costs incurred solely by one of the parties shall be borne by that party. Once the panel has been selected, the panel shall agree on one billable rate for each of the arbitrators and umpire and that sole cost shall be disclosed to the parties and become payable as a jointly incurred cost as described above.

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ARTICLE XIII 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 XIV 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. This Agreement may not be terminated by either party, except as provided for in Article VI.
- B. TERMINATION FOR NEW BUSINESS. This agreement will be terminated for new business effective May 31, 2004 at 11:59pm.

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, to such address or addresses each party may designate from time to time for receipt of notices or communications. The initial notice addresses are as follows:

If to the Reinsurer: Allstate Life Insurance Company
3100 Sanders Rd.
Northbrook, Illinois 60062
Attn: Steve Shebik, Senior Vice President and
Chief Financial Officer
Facsimile No.: (847) 326-5054

If to the Ceding Company: Columbia Universal Life Insurance Company
3100 Sanders Rd.
Northbrook, Illinois 60062

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Attn: Errol Cramer, Appointed Actuary
Facsimile No.: (847) 402-7376

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 by 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

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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. SURVIVAL. All provisions of this Agreement shall survive its termination to the extent necessary to carry out the purposes of this Agreement or to ascertain and enforce the parties' rights or obligations hereunder existing at the time of termination.

O. PRIOR AGREEMENT SUPERCEDED. Subject to state regulatory approval, this Amended and Restated Reinsurance Agreement supercedes in its entirety, the Original Agreement dated June 30, 2000.

P. CALENDAR DAYS. Unless otherwise specified, all references to "day" in this Agreement shall mean calendar days.

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: _____ /s/

Name: Samuel H. Pilch

Title: Group Vice President and Controller

Date: July 27, 2004

COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY

By: _____ /s/

Name: James P. Zils

Title: Treasurer

Date: July 27, 2004

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, issued, or reinsured by the Ceding Company. For the avoidance of doubt, this Agreement is intended to include all policies, certificates, and contracts assumed, issued, or reinsured by the Ceding Company, expressly excluding any contracts covered under that certain Reinsurance Agreement between the parties dated June 1, 2004, under which Ceding Company's life and health business is reinsured on a 100% coinsurance.

EXHIBIT B

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.

FIRST AMENDMENT TO
AMENDED AND RESTATED REINSURANCE AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED REINSURANCE AGREEMENT (this "First Amendment"), dated this 26th day of July, 2004, is made by and between COLUMBIA UNIVERSAL LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Texas ("Ceding Company") and ALLSTATE LIFE INSURANCE COMPANY, a life insurance company domiciled in the State of Illinois ("Reinsurer").

RECITALS

WHEREAS, Ceding Company and Reinsurer entered into an Amended and Restated Reinsurance Agreement, effective as of June 1, 2004 (the "Agreement"); and

WHEREAS, Ceding Company and Reinsurer desire to make certain amendments to the Agreement as more particularly described herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration and for the mutual covenants set forth below, the parties hereto, intending legally to be bound, hereby agree as follows:

1. This First Amendment shall be effective as of July 1, 2004.
2. The parties hereby amend the Agreement by adding the following provisions to the Agreement:

ARTICLE XVI
TRUST

A. TRUST. At any time after the occurrence of any of the following events, Ceding Company shall have the right, upon delivery of written notice to Reinsurer, to require that Reinsurer establish a trust reasonably acceptable to Ceding Company (the "Trust") and deposit assets, which qualify as admissible assets of Reinsurer under statutory accounting principles and the laws of the State of Texas, therein having a fair market value equal to the amount of the Statutory Reserves of the Policies:

- (1) if Reinsurer's RBC ratio falls between 125%-150% of the NAIC Company Action Level RBC ("CAL RBC"); provided, however, if Reinsurer's Statutory Reserves ceded pursuant to the Agreement and the Amended and Reinstated Reinsurance Agreement, dated as of June 1, 2004 between

Ceding Company and Reinsurer ("Ceded Statutory Reserves") are less than \$200 million the provisions of Article XVI(A) will not be triggered; or

- (2) if Reinsurer's RBC ratio falls below 125% of CAL RBC, then the provisions of Article XVI(A) shall be triggered regardless of Reinsurer's Ceded Statutory Reserves; and
- (3) Reinsurer's obligation to maintain the Trust shall remain in effect only for such period as the events listed in either (1) or (2) above remains in effect.

B. TRUST. Upon the receipt of Ceding Company's notice to require the establishment of a trust pursuant to Article XVI(A) hereof, and without further action by Reinsurer, Reinsurer will be deemed to have transferred and assigned to the Trust assets of Reinsurer having an aggregate market value as of the effective date of such notice equal to the aggregate Statutory Reserves established by Ceding Company as of such date with respect to the Policies (without giving effect to the reinsurance under this Agreement), together with all interest, dividend, or other investment income accrued on such assets from the date of Reinsurer's receipt of such notice until the date of the Trust's receipt of such assets. Reinsurer shall cooperate with Ceding Company in effecting the creation and funding of the Trust pursuant to Article XVI(A) hereof, including without limitation by promptly transferring amounts to the Trust described in the preceding sentence and by executing and delivering such other documents, instruments and certificates effectuating the establishment, funding, and maintenance of the Trust described in this Article and reasonably requested by the Ceding Company. Reinsurer shall maintain the Trust assets at a minimum level equal to Statutory Reserves, and Ceding Company shall provide all approvals and take any other action necessary to reduce the Trust assets upon Reinsurer's request.

ARTICLE XVII
NOVATION; REPLACEMENT

At the option of Reinsurer, Reinsurer may at any time (i) assume the Policies on a novation basis pursuant to an assumption reinsurance agreement to be entered into by Ceding Company and Reinsurer at such time having terms mutually agreeable to the parties or (ii) replace the Policies pursuant to replacement offers made to the owners of such Policies. Reinsurer will be responsible for paying all costs and obtaining all approvals. The parties hereto shall cooperate in good faith with each other in effecting any assumption or replacement under this Article.

3. Capitalized terms used but not defined herein shall have the meaning given to them in the Agreement.

4. Unless expressly modified by this First Amendment, the terms and conditions of the Agreement remain unchanged and in full force and effect.

5. This First Amendment shall be binding on the parties hereto, including their affiliates, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first set forth above.

COLUMBIA UNIVERSAL LIFE INSURANCE
COMPANY

ALLSTATE LIFE INSURANCE COMPANY

By: _____ /s/

By: _____ /s/

Name: James P. Zils

Name: Samuel H. Pilch

Title: Treasurer

Title: Group Vice President and Controller

CERTIFICATIONS

I, Casey J. Sylla, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allstate Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2004

/s/ CASEY J. SYLLA

Casey J. Sylla
Chairman of the Board and President

CERTIFICATIONS

I, Steven E. Shebik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allstate Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2004

/s/ STEVEN E. SHEBIK

Steven E. Shebik
Senior Vice President and Chief Financial Officer

CERTIFICATIONS PURSUANT TO 18 UNITED STATES CODE §1350

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended June 30, 2004 of Allstate Life Insurance Company filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of Allstate Life Insurance Company.

August 10, 2004

/s/ CASEY J. SYLLA

Casey J. Sylla
Chairman of the Board and President

/s/ STEVEN E. SHEBIK

Steven E. Shebik
Senior Vice President and Chief Financial Officer

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