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 SEPTEMBER 30, 2005

OR

o 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 o

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

Yes o No ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☒

As of October 31, 2005, 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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September 30, 2005

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Revenues				
Premiums	$ 104	$ 141	$ 359	$ 443
Contract charges	275	244	797	714
Net investment income	942	828	2,745	2,406
Realized capital gains and losses	26	(52)	51	(147)
	1,347	1,161	3,952	3,416
Costs and expenses				
Contract benefits	316	332	1,000	981
Interest credited to contractholder funds	589	485	1,736	1,397
Amortization of deferred policy acquisition costs	117	126	450	350
Operating costs and expenses	99	104	325	329
	1,121	1,047	3,511	3,057
Gain (loss) on disposition of operations	1	—	(7)	(17)
Income from operations before income tax expense and cumulative effect of change in accounting principle, after-tax	227	114	434	342
Income tax expense	68	38	120	120
Income before cumulative effect of change in accounting principle, after-tax	159	76	314	222
Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net income	$ 159	$ 76	$ 314	$ 47

See notes to condensed consolidated financial statements.

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

($ in millions, except par value data)	September 30, 2005	December 31, 2004
	(Unaudited)	
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $59,867 and $55,964)	$ 62,419	$ 59,291
Mortgage loans	7,836	7,318

Equity securities	297	214
Short-term	1,404	1,440
Policy loans	723	722
Other	697	704
Total investments	73,376	69,689
Cash	257	241
Deferred policy acquisition costs	3,729	3,176
Reinsurance recoverables, net	1,640	1,507
Accrued investment income	653	593
Other assets	521	818
Separate Accounts	14,906	14,377
Total assets	$ 95,082	$ 90,401
Liabilities		
Contractholder funds	$ 57,098	$ 53,939
Reserve for life-contingent contract benefits	11,798	11,203
Unearned premiums	33	31
Payable to affiliates, net	82	79
Other liabilities and accrued expenses	4,427	3,721
Deferred income taxes	370	638
Long-term debt	186	104
Separate Accounts	14,906	14,377
Total liabilities	88,900	84,092
Commitments and Contingent Liabilities (Note 4)		
Shareholder's Equity		
Redeemable preferred stock – series A, $100 par value, 1,500,000 shares authorized, 49,230 shares issued and outstanding	5	5
Redeemable preferred stock – series B, $100 par value, 1,500,000 shares authorized, none issued	—	—
Common stock, $227 par value, 23,800 shares authorized and outstanding	5	5
Additional capital paid-in	1,108	1,108
Retained income	4,409	4,178
Accumulated other comprehensive income:		
Unrealized net capital gains and losses	655	1,013
Total accumulated other comprehensive income	655	1,013
Total shareholder's equity	6,182	6,309
Total liabilities and shareholder's equity	$ 95,082	$ 90,401

See notes to condensed consolidated financial statements.

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

(in millions)	Nine Months Ended September 30, 2005	2004
	(Unaudited)	
Cash flows from operating activities		
Net income	$ 314	$ 47
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and other non-cash items	(125)	(104)
Realized capital gains and losses	(51)	147
Loss on disposition of operations	7	17
Cumulative effect of change in accounting principle	—	175
Interest credited to contractholder funds	1,736	1,397
Changes in:		
Contract benefit and other insurance reserves	(157)	(185)
Unearned premiums	2	2
Deferred policy acquisition costs	(115)	(227)
Reinsurance recoverables, net	(136)	(131)
Income taxes payable	(33)	(26)
Other operating assets and liabilities	(100)	(71)
Net cash provided by operating activities	1,342	1,041

Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	7,695	6,306
Equity securities	56	159
Investment collections		
Fixed income securities	3,507	3,264
Mortgage loans	894	525
Investment purchases		
Fixed income securities	(13,823)	(14,315)
Equity securities	(126)	(225)
Mortgage loans	(1,420)	(1,422)
Change in short-term investments, net	(116)	16
Change in other investments, net	(57)	(81)
Net cash used in investing activities	(3,390)	(5,773)
Cash flows from financing activities		
Redemption of mandatorily redeemable preferred stock	(19)	(13)
Contractholder fund deposits	8,175	9,722
Contractholder fund withdrawals	(6,042)	(4,680)
Dividends paid	(50)	(200)
Net cash provided by financing activities	2,064	4,829
Net increase in cash	16	97
Cash at beginning of the period	241	121
Cash at end of period	$ 257	$ 218

See notes to condensed consolidated financial statements.

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

1. General

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 September 30, 2005 and for the three-month and nine-month periods ended September 30, 2005 and 2004 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, 2004. 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 2005 presentation, certain amounts in the prior year's condensed consolidated financial statements and notes have been reclassified.

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 $48 million and $42 million, and cost of $38 million and $33 million at September 30, 2005 and December 31, 2004, respectively. Investments in limited partnership interests had a carrying value of $249 million and $172 million at September 30, 2005 and December 31, 2004, respectively.

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities, totaled $19 million and $38 million for the nine months ended September 30, 2005 and 2004, respectively.

Pending accounting standards

Financial Accounting Standards Board Staff Position No. FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP FAS 115-1")

In November 2005, the Financial Accounting Standards Board ("FASB") issued FSP FAS 115-1, which nullifies the guidance in paragraphs 10-18 of EITF Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" and references existing other than temporary impairment guidance. FSP FAS 115-1 clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell the security has not been made, and also provides guidance on the subsequent accounting for an impaired debt

security. FSP FAS 115-1 is effective for reporting periods beginning after December 15, 2005. The adoption of FSP FAS 115-1 is not expected to have a material impact on the Company's Condensed Consolidated Statements of Operations or Financial Position.

Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1")

In October 2005, the American Institute of Certified Public Accountants issued SOP 05-1. SOP 05-1 provides accounting guidance for deferred policy acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards ("SFAS") No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement or rider to a contract, or by the election of a feature or coverage within a contract. Internal replacement contracts are those that are substantially changed from the replaced contract and are accounted for as an extinguishment of the replaced contract. Nonintegrated contract features are accounted for as separately issued contracts. Modifications resulting from the election of a feature or coverage within a contract or from an integrated contract feature generally do not result in an internal replacement contract subject to SOP 05-1 provided certain conditions are met. The provisions of SOP 05-1 are effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company's accounting policy for internal replacements is generally consistent with the accounting guidance prescribed in SOP 05–1; therefore, the SOP is not expected to have a material impact on the Company's Condensed Consolidated Statements of Operations or Financial Position.

Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections ("SFAS No. 154")

In May 2005, the FASB issued SFAS No. 154, which replaces Accounting Principles Board ("APB") Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless determination of either the period specific effects or the cumulative effect of the change is impracticable. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. SFAS No. 154 is not expected to have a material impact on the Company's Condensed Consolidated Statements of Operations or Financial Position.

2. Related Party Transactions

Reinsurance

In the first quarter of 2005, the Company received fixed income securities with a fair value and amortized cost of $381 million and $358 million, respectively, and $5 million of accrued investment income for the settlement of a $386 million premium receivable due from American Heritage Life Insurance Company ("AHL"), an unconsolidated affiliate of the Company. The receivable related to two coinsurance agreements entered into in 2004 whereby the Company assumed certain interest-sensitive life insurance and fixed annuity contracts from AHL. Since the transaction was between affiliates under common control, the securities were recorded at amortized cost as of the date of settlement. The difference between the amortized cost and fair value of the securities was recorded as a non-cash dividend of $23 million ($15 million, after-tax).

Investments

In the first quarter of 2005, the Company purchased fixed income securities from AIC. The Company paid $655 million in cash for the securities, which includes the fair value of the securities of $649 million and $6 million for accrued investment income. Since the transaction was between affiliates under common control, the securities were recorded at the amortized cost of $623 million as of the date of sale. The difference between the amortized cost and fair value of the securities was recorded as a dividend of $26 million ($16 million, after-tax).

Surplus Notes

On August 1, 2005, ALIC entered into an agreement with Kennett Capital, Inc. ("Kennett"), an unconsolidated affiliate of ALIC, whereby ALIC sold to Kennett $100 million 5.06% surplus notes due July 1, 2035 issued by ALIC Reinsurance Company ("ALIC Re"), a wholly owned subsidiary of ALIC. As payment, Kennett issued a full recourse 4.86% note due July 1, 2035 to ALIC for the same amount. As security for the performance of Kennett's obligations under the agreement and note, Kennett granted ALIC a pledge of and security interest in Kennett's right, title and interest in the surplus notes and their proceeds. Under the terms of the agreement, ALIC may sell and Kennett may choose to buy additional surplus notes, if and when additional surplus notes are issued. The note due from Kennett is classified as other investments and the related surplus notes are classified as long-term debt in the Condensed Consolidated Statements of Financial Position.

3. Reinsurance

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

(in millions)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Premiums and contract charges				
Direct	$ 516	$ 516	$ 1,570	$ 1,541
Assumed				
Affiliate	5	4	13	13
Non-affiliate	7	2	20	6
Ceded—non-affiliate (1)	(149)	(137)	(447)	(403)

Premiums and contract charges, net of reinsurance	$ 379	$ 385	$ 1,156	$ 1,157

(1) Ceded non-affiliate is comprised of only premiums.

The effects of reinsurance on contract benefits are as follows:

(in millions)	Three months ended September 30, 2005	2004	Nine months ended September 30, 2005	2004
Contract benefits				
Direct	$ 427	$ 430	$ 1,351	$ 1,261
Assumed				
Affiliate	2	3	8	10
Non-affiliate	6	1	17	4
Ceded				
Non-affiliate	(119)	(102)	(376)	(294)
Contract benefits, net of reinsurance	$ 316	$ 332	$ 1,000	$ 981

Effective January 1, 2004, the Company adopted Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long Duration Contracts and for Separate Accounts" and, in connection therewith, recorded a cumulative effect of change in accounting principle due to an increase in benefit reserves of $94 million, after-tax ($145 million, pre-tax). The increase in benefit reserves was comprised of direct, assumed non-affiliate and ceded non-affiliate benefit reserves of $155 million, $4 million and $14 million, respectively.

4. 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 their par value was $166 million at September 30, 2005. 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 September 30, 2005, the amount due under the commercial paper program was $302 million and the cash surrender value of the policies was $307 million. The repayment guarantee expires April 30, 2006. In November of 2005, the Company received a request for the partial withdrawal of $248 million of the policyholder account value. The proceeds from these policies will be applied to the amount due under the commercial paper program.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include 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. Consequently, 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 September 30, 2005.

Regulation

The Company is subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to impose additional regulations regarding agent and broker compensation 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.

Legal and Regulatory Proceedings and Inquiries

Background

The Company and certain affiliates are involved in a number of lawsuits, regulatory inquiries, and other legal proceedings arising out of various aspects of its business. As background to the "Proceedings" sub-section 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, heard or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise and, in some cases, the timing of their resolutions relative to other similar matters involving other companies; the fact that some of the lawsuits 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 the lawsuits 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 the lawsuits, 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 damages. Often specific information about the relief sought, such as the amount of damages, is not available because plaintiffs have not requested specific relief in their pleadings. In our experience, monetary demands in pleadings bear little relation to the ultimate loss, if any, to the Company.

- In connection with regulatory examinations and proceedings, government authorities may seek various forms of relief, including penalties, restitution, and changes in business practices. The Company may not be advised of the nature and extent of relief sought until the final stages of the examination or proceeding.

- For the reasons specified above, it is not possible at this time to make meaningful estimates of the amount or range of loss that could result from the matters described below in the "Proceedings" subsection. The Company reviews these matters on an on-going basis and follows the provisions of Statement of Financial Accounting Standards 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 the ultimate liability in some of the matters described below in the "Proceedings" subsection in excess of amounts currently reserved 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 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 in the following paragraph.

AIC is defending certain matters relating to its agency program reorganization announced in 1999. These matters include a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") alleging retaliation under federal civil rights laws, 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, and a lawsuit filed in October 2004 by the EEOC alleging age discrimination with respect to a policy limiting the rehire of agents affected by the agency program reorganization. AIC is also defending a certified class action filed by former employee agents who terminated their employment prior to the agency program reorganization. These plaintiffs have asserted breach of contract and ERISA claims, and are seeking actual damages including benefits under Allstate employee benefit plans and payments provided in connection with the reorganization, as well as punitive damages. In late March 2004, in the first EEOC lawsuit and class action lawsuit, 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, including a worker classification issue. These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. This matter was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in April 2005. 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 has been defending certain matters relating to its life agency program reorganization announced in 2000. These matters have been the subject of an investigation by the EEOC with respect to allegations of age discrimination and retaliation and conciliation discussions between AIC and the EEOC. The outcome of these disputes is currently uncertain.

The Company has resolved through mediation and settlement all but one of its lawsuits brought by plaintiffs challenging trading restrictions the Company adopted in an effort to limit market-timing activity in its variable

annuity sub-accounts. In the one lawsuit the Company is still defending, the plaintiff seeks a variety of remedies including monetary and equitable relief. The Company has been vigorously defending this matter, but the outcome is currently uncertain.

The Company is currently undergoing periodic market conduct examinations by state insurance regulators. Regulators are focusing, as they have with other insurers, on the Company's compliance with the state's replacement sales and record-keeping processes with regard to life insurance and annuities among other issues. The ultimate outcome of these examinations is currently uncertain.

Other Matters

The Corporation and some of its subsidiaries, including the Company, have received interrogatories and demands for information from regulatory and enforcement authorities relating to various insurance products and practices. The areas of inquiry include variable annuity market timing, late trading and the issuance of funding agreements backing medium-term notes. The Corporation and some of its subsidiaries, including the Company, have also received interrogatories and demands for information from authorities seeking information relevant to on-going investigations into the possible violation of antitrust or insurance laws by unnamed parties and, in particular, seeking information as to whether any person engaged in activities for the purpose of price fixing, market allocation, or bid rigging. The Company believes that these inquiries are similar to those made to many financial services companies as part of industry-wide investigations by various authorities into the practices, policies and procedures relating to insurance and financial services products. The Corporation and its subsidiaries have responded and will continue to respond to these inquiries.

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 a number of class action lawsuits and other types of proceedings, some of which involve claims for substantial or indeterminate amounts. These actions are based on a variety of issues and target a range of the Company's 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 the actions described in this "Other Matters" subsection in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial condition of the Company.

5. Other Comprehensive Income

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

	Three months ended September 30,					
	2005			2004		
(in millions)	Pretax	Tax	After-tax	Pretax	Tax	After-tax
Unrealized holding (losses) gains arising during the period, net of related offsets	$ (521)	$ 182	$ (339)	$ 494	$ (173)	$ 321
Less: reclassification adjustments	(64)	22	(42)	(53)	19	(34)
Other comprehensive (loss) income	$ (457)	$ 160	(297)	$ 547	$ (192)	355
Net income			159			76
Comprehensive (loss) income			$ (138)			$ 431

	Nine months ended September 30,					
	2005			2004		
(in millions)	Pretax	Tax	After-tax	Pretax	Tax	After-tax
Unrealized holding losses arising during the period, net of related offsets	$ (596)	$ 209	$ (387)	$ (156)	$ 54	$ (102)
Less: reclassification adjustments	(45)	16	(29)	(109)	38	(71)
Other comprehensive loss	$ (551)	$ 193	(358)	$ (47)	$ 16	(31)
Net income			314			47
Comprehensive (loss) income			$ (44)			$ 16

6. Disposition

In the second quarter of 2005, the Company entered into negotiations to sell two of its wholly owned subsidiaries, Charter National Life Insurance Company ("Charter") and Intramerica Life Insurance Company ("Intramerica"), and recognized an estimated loss on disposition of $5 million ($2 million, after-tax). The estimated loss was reduced by $1 million in the third quarter of 2005 to $4 million ($1 million, after-tax). In August 2005, the Company reached a definitive agreement to sell Charter and Intramerica. The sale is pending regulatory approval and is expected to be completed prior to the end of the year. Upon completion of the sale, existing assets will decrease by approximately $473 million ($116 million and $297 million are classified as reinsurance recoverables and separate accounts, respectively) and liabilities will decrease by approximately $449 million ($113 million and $297 million are classified as contractholder funds and separate accounts, respectively). The Company expects to receive proceeds of approximately $25 million upon closing.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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", an affiliate of The Allstate Corporation) as of September 30, 2005, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2005 and 2004, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the 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 the 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 the 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, 2004, 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 24, 2005, which report includes an explanatory paragraph relating to a change in the Company's method of accounting for certain nontraditional long-duration contracts and separate accounts in 2004 and changes in the 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, 2004 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
November 7, 2005

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2005 AND 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 2004. We operate as a single segment entity, based on the manner in which financial information is used internally to evaluate performance and determine the allocation of resources.

HIGHLIGHTS

- Revenues increased 16.0% and 15.7% in the third quarter and first nine months of 2005, respectively, compared to the same periods in the prior year. The increases in both periods were due to higher net investment income, improved realized capital gains and losses and increased contract charges, partially offset by lower premiums.
- Net income increased 109.2% in the third quarter of 2005 compared to the same period in the prior year. The increase was primarily attributable to improved realized capital gains and losses, higher gross margin and lower taxes, partially offset by higher amortization of DAC. Net income improved by $267 million in the first nine months of 2005 compared to the same period in the prior year due primarily to an unfavorable cumulative effect of a change in accounting principle of $175 million, after-tax, that was recorded in the prior year and improved realized capital gains and loses in the current year.
- Investments increased 5.3% to $73.38 billion at September 30, 2005 compared to December 31, 2004, due primarily to increased contractholder funds and increased balances associated with securities lending.
- Contractholder fund deposits declined to $1.64 billion and $8.18 billion for the third quarter and first nine months of 2005, respectively, compared to $3.39 billion and $9.72 billion for the third quarter and first nine months of 2004, respectively.

OPERATIONS

We are pursuing the following actions and strategies to improve return on equity: maintaining and developing focused top-tier products, deepening distribution partner relationships, improving our cost structure, advancing our enterprise risk management program and leveraging the strength of the Allstate brand name across products and distribution channels. The execution of our business strategies has and may continue to involve simplifying our business model by changing the number and selection of products being marketed, for example, through such actions as our previously announced exit from the guaranteed investment contract market and the long-term care product market and the sale of our direct response distribution business in 2004; terminating underperforming distribution relationships; merging or disposing of unnecessary and/or non-strategic legal entities, such as the merger of Glenbrook Life and Annuity Company in 2005 and the pending sales of two legal entities for which the anticipated losses are reflected in the current year financial statements; reducing policy administration software systems; and other actions that we may determine are appropriate to successfully execute our business strategies.

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, variable annuities, fixed annuities and institutional products for which deposits are classified as contractholder funds or separate accounts liabilities. 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 September 30,	Nine Months Ended September 30,

(in millions)	2005	2004	2005	2004
Premiums				
Traditional life	$ 60	$ 71	$ 181	$ 220
Immediate annuities with life contingencies	37	66	160	209
Other	7	4	18	14
Total premiums	104	141	359	443
Contract charges				
Interest-sensitive life	184	170	542	491
Fixed annuities	16	13	49	41
Variable annuities	75	61	206	182
Total contract charges	275	244	797	714
Total premiums and contract charges	$ 379	$ 385	$ 1,156	$ 1,157

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2005	2004	2005	2004
Premiums				
Allstate agencies	$ 51	$ 67	$ 184	$ 194
Independent agents	31	10	58	41
Specialized brokers	22	51	115	165
Other	—	13	2	43
Total premiums	104	141	359	443
Contract charges				
Allstate agencies	129	115	388	344
Independent agents	66	60	185	177
Broker dealers	59	50	165	147
Banks	14	11	37	25
Specialized brokers	6	7	20	19
Other	1	1	2	2
Total contract charges	275	244	797	714
Total premiums and contract charges	$ 379	$ 385	$ 1,156	$ 1,157

Total premiums declined 26.2% and 19.0% in the third quarter and first nine months of 2005, respectively, compared to the same periods of 2004. In both periods, the decline was due to lower premiums on immediate annuities with life contingencies and traditional life products.

Contract charges increased 12.7% and 11.6% in the third quarter and first nine months of 2005, respectively, compared to the same periods of 2004. These increases were primarily due to higher contract charges on interest-sensitive life, variable annuities and, to a lesser extent, fixed annuities. The increases in the interest-sensitive life contract charges were attributable to in-force business growth resulting from deposits and credited interest more than offsetting surrenders and benefits. Higher variable annuity contract charges were primarily the result of higher account values and participation fees. Fixed annuity

contract charges for the third quarter and first nine months of 2005 reflect higher surrender charges compared with the same periods in the prior year.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual and institutional products, such as interest-sensitive life, fixed annuities and 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 September 30,		Nine Months Ended September 30,	
(in millions)	2005	2004	2005	2004
Contractholder funds, beginning balance	$ 57,328	$ 49,365	$ 53,939	$ 44,914
Impact of adoption of SOP 03-1(1)	—	—	—	421
Deposits				
Fixed annuities (immediate and deferred)	1,190	2,114	4,463	4,965
Institutional products (primarily funding agreements)	—	852	2,423	3,452
Interest-sensitive life	342	323	980	932
Variable annuity and life deposits allocated to fixed accounts	107	102	313	373
Total deposits	1,639	3,391	8,179	9,722
Interest credited	599	488	1,726	1,395
Maturities, benefits, withdrawals and other adjustments				

Maturities of institutional products	(909)	(820)	(2,202)	(1,915)
Benefits	(247)	(189)	(717)	(521)
Surrenders and partial withdrawals	(1,013)	(673)	(2,876)	(1,924)
Contract charges	(163)	(155)	(482)	(442)
Net transfers to separate accounts	(94)	(94)	(249)	(328)
Fair value hedge adjustments for institutional products	(64)	66	(237)	(46)
Other adjustments	22	(3)	17	100
Total maturities, benefits, withdrawals and other adjustments	(2,468)	(1,868)	(6,746)	(5,076)
Contractholder funds, ending balance	$ 57,098	$ 51,376	$ 57,098	$ 51,376

(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 ("DSI") from contractholder funds to other assets and the establishment of reserves for certain liabilities that are primarily related to income and other guarantees provided under fixed annuity, variable annuity and interest-sensitive life contracts.

Contractholder deposits decreased 51.7% and 15.9% in the third quarter and first nine months of 2005, respectively, compared to the same periods of 2004. The declines in both periods were the result of lower deposits on institutional products and fixed annuities. Fixed annuity deposits declined 43.7% and 10.1% in the third quarter and first nine months of 2005, respectively, due to lower deposits on traditional fixed annuities, partially offset by increased deposits on equity-indexed annuities. The declines in traditional fixed annuities were primarily due to lower consumer demand and our continued focus on achieving higher returns. Increases in short-term interest rates without corresponding increases in longer term rates have generally reduced the competitiveness of fixed annuity products relative to shorter term deposit products such as money market funds and certificates of deposit. A continuation of this environment will impact the level of expected fixed annuity deposits. We have prioritized the allocation of fixed income investments to support sales of retail products with the best sustainable growth and contribution to margins and to

maintain our retail market presence. There were no sales of institutional products during the current quarter. Our institutional business sales remain opportunistic. Average contractholder funds increased 13.6% in the third quarter and 14.8% in the first nine months of 2005 compared to the same periods of 2004.

Surrenders and partial withdrawals increased 50.5% in the third quarter and 49.5% in the first nine months of 2005 compared to the same periods of 2004 reflecting an annualized withdrawal rate of 9.2% for the third quarter and 9.1% for the first nine months of 2005 based on the beginning of period contractholder funds balance excluding institutional product reserves. This compares to an annualized withdrawal rate of 7.1% for the third quarter and 7.7% for the first nine months of 2004. These increases were primarily attributable to higher surrenders of market value adjusted annuities as a portion of these contracts entered a 30-45 day window in which there were no surrender charges or market value adjustments during the period. Surrenders and withdrawals may vary with changes in interest rates and equity market conditions and the aging of our in-force contracts.

Separate accounts liabilities represent contractholders' claims to the related 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 September 30,		Nine Months Ended September 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
Separate accounts liabilities, beginning balance	$ 14,341	$ 13,564	$ 14,377	$ 13,425
Impact of adoption of SOP 03-1(1)	—	—	—	(204)
Variable annuity and life deposits	486	361	1,414	1,322
Variable annuity and life deposits allocated to fixed accounts	(107)	(102)	(313)	(373)
Net deposits	379	259	1,101	949
Investment results	613	(152)	691	209
Contract charges	(73)	(64)	(209)	(189)
Net transfers from fixed accounts	94	94	249	328
Surrenders and benefits	(448)	(388)	(1,303)	(1,205)
Separate accounts liabilities, ending balance	$ 14,906	$ 13,313	$ 14,906	$ 13,313

(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 increased as of September 30, 2005 compared to December 31, 2004. The increase was attributable to net deposits, positive investment results and transfers from fixed accounts more than offsetting surrenders and benefits and contract charges. Net variable annuity and life deposits increased 46.3% and 16.0% in the third quarter and first nine months of 2005. Variable product deposits may vary with equity market conditions and consumer preferences related to our product features. 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 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 13.8% in the three months ended September 30, 2005 and 14.1% in the first nine months of 2005 compared to the same periods of 2004. The increases in both periods were primarily due to the effect of higher portfolio balances. Portfolio yields increased slightly in the third quarter of 2005 compared to the same period in the prior year but were unchanged in the nine-month period. Portfolio balances as of September 30, 2005 increased 5.3% from December 31, 2004 due primarily to increased contractholder funds and increased balances associated with securities lending.

Net income analysis is presented in the following table.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Premiums	$ 104	$ 141	$ 359	$ 443
Contract charges	275	244	797	714
Net investment income	942	828	2,745	2,406
Periodic settlements and accruals on non-hedge derivative instruments (1)	14	15	49	33
Contract benefits	(316)	(332)	(1,000)	(981)
Interest credited to contractholder funds(2)	(578)	(481)	(1,671)	(1,372)
Gross margin	441	415	1,279	1,243
Amortization of DAC and DSI	(125)	(107)	(352)	(332)
Operating costs and expenses	(99)	(104)	(325)	(329)
Income tax expense	(63)	(69)	(179)	(205)
Realized capital gains and losses, after-tax	17	(34)	33	(95)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	(2)	(15)	(106)	(28)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(10)	(10)	(32)	(21)
Loss on disposition of operations, after-tax	—	—	(4)	(11)
Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net income	$ 159	$ 76	$ 314	$ 47

(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) Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled $11 million and $4 million in the three months ended September 30, 2005 and 2004, respectively, and $65 million and $25 million in the first nine months of 2005 and 2004, respectively.

Gross margin, a non-GAAP measure, represents premiums and contract charges, net investment income and periodic settlements and accruals on non-hedge derivative instruments, less contract benefits and interest credited to contractholder funds excluding amortization of DSI. We reclassify periodic settlements and accruals on non-hedge derivative instruments into gross margin to report them in a manner consistent with the economically hedged investments, replicated assets or product attributes (e.g. net investment income or interest credited to contractholder funds) and by doing so, appropriately reflect trends in product performance. 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 life and annuities, 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 three components that are utilized to further analyze the business: investment margin, benefit margin, and contract charges and fees. 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 previous table.

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

	Three Months Ended September 30,							
	Investment Margin		Benefit Margin		Contract Charges and Fees		Gross Margin	
(in millions)	2005	2004 (3)	2005	2004 (3)	2005	2004 (3)	2005	2004
Premiums	$ —	$ —	$ 104	$ 141	$ —	$ —	$ 104	$ 141
Contract charges	—	—	156	138	119	106	275	244
Net investment income	942	828	—	—	—	—	942	828
Periodic settlements and accruals on non-hedge derivative instruments (1)	14	15	—	—	—	—	14	15
Contract benefits	(134)	(132)	(182)	(200)	—	—	(316)	(332)
Interest credited to contractholder funds(2)	(578)	(481)	—	—	—	—	(578)	(481)
	$ 244	$ 230	$ 78	$ 79	$ 119	$ 106	$ 441	$ 415

	Nine Months Ended September 30,							
	Investment Margin		Benefit Margin		Contract Charges and Fees		Gross Margin	
(in millions)	2005	2004 (3)	2005	2004 (3)	2005	2004 (3)	2005	2004
Premiums	$ —	$ —	$ 359	$ 443	$ —	$ —	$ 359	$ 443
Contract charges	—	—	459	403	338	311	797	714

Net investment income	2,745	2,406	—	—	—	—	2,745	2,406
Periodic settlements and accruals on non-hedge derivative instruments (1)	49	33	—	—	—	—	49	33
Contract benefits	(397)	(388)	(603)	(593)	—	—	(1,000)	(981)
Interest credited to contractholder funds(2)	(1,671)	(1,372)	—	—	—	—	(1,671)	(1,372)
	$ 726	$ 679	$ 215	$ 253	$ 338	$ 311	$ 1,279	$ 1,243

(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) Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled $11 million and $4 million in the three months ended September 30, 2005 and 2004, respectively, and $65 million and $25 million in the first nine months of 2005 and 2004, respectively.

(3) The prior period has been restated to conform to the current period presentation. In connection therewith, contract charges related to guaranteed minimum death, income, accumulation and withdrawal benefits on variable annuities have been reclassified to benefit margin from maintenance charges. Additionally, amounts previously presented as maintenance charges and surrender charges are now presented in the aggregate as contract charges and fees. These reclassifications did not result in a change in gross margin.

Gross margin increased 6.3% in the third quarter of 2005 and increased 2.9% in the first nine months of 2005 compared to the same periods of 2004. The increases in both periods were the result of higher investment margin and contract charges and fees, partially offset by a lower 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 and periodic settlements and accruals on non-hedge derivative instruments over interest credited to contractholder funds and the implied interest on life-contingent immediate annuities included in the reserve for life-contingent contract benefits. Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating investment margin. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
Annuities	$ 171	$ 161	$ 504	$ 465
Life insurance	41	37	133	122
Institutional products	32	32	89	92
Total investment margin	$ 244	$ 230	$ 726	$ 679

Investment margin increased 6.1% in the third quarter of 2005 and 6.9% in the first nine months of 2005 compared to the same periods of 2004 due primarily to higher average contractholder funds. As of September 30, 2005, 73% of our interest-sensitive life and fixed annuity contracts, excluding market value adjusted annuities and equity indexed annuities, have a guaranteed crediting rate of 3% or higher. Of these contracts, 80% have crediting rates that are at the minimum as of September 30, 2005. For all interest-sensitive life and fixed annuity contracts, excluding market value adjusted annuities and equity indexed annuities, the approximate difference between the weighted average crediting rate and the average guaranteed crediting rate was 48 basis points as of September 30, 2005 compared to 49 basis points as of June 30, 2005.

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

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Interest-sensitive life	6.2%	6.4%	4.6%	4.8%	1.6%	1.6%
Fixed annuities – deferred annuities	5.4	5.8	3.8	4.1	1.6	1.7
Fixed annuities – immediate annuities with and without life contingencies	7.3	7.6	6.7	6.8	0.6	0.8
Institutional	5.0	3.1	3.9	2.1	1.1	1.0
Investments supporting capital, traditional life and other products	6.5	7.0	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 nine months ended September 30.

	Weighted Average Investment Yield		Weighted Average Interest Crediting Rate		Weighted Average Investment Spreads	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Interest-sensitive life	6.3%	6.5%	4.7%	4.8%	1.6%	1.7%
Fixed annuities – deferred annuities	5.5	5.8	3.8	4.1	1.7	1.7
Fixed annuities – immediate annuities with and without life contingencies	7.4	7.6	6.7	6.9	0.7	0.7

Institutional	4.4	3.0	3.4	2.0	1.0	1.0
Investments supporting capital, traditional life and other products	6.8	7.0	N/A	N/A	N/A	N/A

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

(in millions)	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Fixed annuities – immediate annuities with life contingencies	$ 7,847	$ 7,617
Other life contingent contracts and other	3,951	3,393
Reserve for life-contingent contract benefits	$ 11,798	$ 11,010
Interest-sensitive life	$ 8,014	$ 7,056
Fixed annuities – deferred annuities	33,383	29,357
Fixed annuities – immediate annuities without life contingencies	3,429	3,110
Institutional	11,827	11,276
Market value adjustments related to derivative instruments and other	445	577
Contractholder funds	$ 57,098	$ 51,376

Benefit margin is a component of gross margin, both of which are non-GAAP measures. Benefit margin represents life and life-contingent immediate annuity premiums, cost of insurance contract charges and variable annuity contract charges for contract guarantees less contract benefits. Benefit margin excludes the implied interest on life-contingent immediate annuities, which is included in the calculation of investment margin. 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.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004(1)	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004(1)
Life insurance	$ 94	$ 98	$ 270	$ 292
Annuities	(16)	(19)	(55)	(39)
Total benefit margin	$ 78	$ 79	$ 215	$ 253

(1) The prior period has been restated to conform to the current period presentation.

Benefit margin declined 1.3% in the third quarter of 2005 and 15.0% in the first nine months of 2005 compared to the same periods of 2004. The decline in the third quarter was due primarily to the absence of

margin on certain products resulting from the disposal of our direct response distribution business in the prior year, partially offset by improved mortality experience on immediate annuities with life contingences. The decline for the nine month period was primarily driven by the disposal of our direct response business and unfavorable mortality experience on immediate annuities with life contingences, partially offset by growth of our in-force business. In addition, the nine-month period was unfavorably impacted by an increase in the reserve for guarantees related to variable contracts of $9 million that resulted from our annual comprehensive evaluation of the assumptions used in our valuation models, partially offset by better than anticipated equity market performance. The evaluation resulted in a refined measurement of exposure. There was no comparable 2004 adjustment to reserves for variable contract guarantees, because the reserves were established in the first quarter of 2004 as part of the cumulative effect of the change in accounting for such guarantees.

Upon the adoption of Statement of Position No. 03-1, “Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts”, on January 1, 2004, reserves were established for death and income benefits provided under variable annuities and secondary guarantees on certain interest-sensitive life contracts and fixed annuities.

Annuity benefit margin will continue to be adversely impacted by certain closed blocks of life-contingent immediate annuities whose benefit payments are anticipated to extend beyond their original pricing expectations. The annuity benefit margin in future periods will fluctuate based on the timing of annuitant deaths on these life-contingent immediate annuities and the annual evaluation of assumptions used in our valuation models for variable and fixed annuity guarantees.

Amortization of DAC and DSI, excluding amortization related to realized capital gains and losses, increased 16.8% or $18 million in the three months ended September 30, 2005 and 6.0% or $20 million in the first nine months of 2005 compared to the same periods of 2004 as a result of higher gross margin. DAC and DSI amortization related to realized capital gains and losses, after-tax, decreased $13 million in the third quarter and increased $78 million in the first nine months of 2005 compared to the same periods in the prior year. The increase in the nine-month period was due to increased realized capital gains on investments supporting certain fixed annuities.

In the first quarter of 2005, we performed our annual comprehensive evaluation of the assumptions used in our valuation models for all investment products, including variable and fixed annuities and interest-sensitive and variable life products, which resulted in net DAC and DSI amortization acceleration of $7 million (commonly referred to as “DAC and DSI unlocking”). The DAC and DSI unlocking includes amortization acceleration on fixed annuities of $62 million and $3 million on interest-sensitive and variable life products, partially offset by amortization deceleration on variable annuities of $58 million. The amortization acceleration on fixed annuities was primarily due to higher than expected lapses on market value adjusted annuities and faster than anticipated investment portfolio yield declines. The amortization deceleration on variable annuities was mostly attributable to better than anticipated equity market performance and persistency.

In the prior year, the comparable DAC and DSI unlocking was a net acceleration of amortization of $0.5 million, which included deceleration of amortization related to interest-sensitive life and acceleration of amortization related to fixed annuities.

Operating costs and expenses declined slightly in the three months and nine months ended September 30, 2005 compared to the same periods in the prior year. The following table summarizes operating costs and expenses.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Non-deferrable acquisition costs	$ 39	$ 36	$ 115	$ 105
Other operating costs and expenses	60	68	210	224
Total operating costs and expenses	$ 99	$ 104	$ 325	$ 329

Non-deferrable acquisition costs for the third quarter of 2005 increased 8.3% and increased 9.5% in the first nine months of 2005 compared to the same periods in the prior year as a result of higher premium taxes and non-deferrable commissions. The decline in other operating costs and expenses in the third quarter of 2005 compared to the same period in the prior year was attributable to lower employee and technology expenses and the effect of a change in the financial statement classification of a reinsurance ceding allowance. In the nine-month period, the effect of expense reimbursements in 2004 related to our direct response distribution business that was sold in 2004 partially offset the variances described for the third quarter.

INVESTMENTS

An important component of our financial results is the return on our investment portfolio. The composition of the investment portfolio at September 30, 2005 is presented in the table below.

(in millions)	Investments	Percent to total
Fixed income securities (1)	$ 62,419	85.1%
Mortgage loans	7,836	10.7
Equity securities	297	0.4
Short-term	1,404	1.9
Policy loans	723	1.0
Other	697	0.9
Total	$ 73,376	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $59.9 billion.

Total investments increased to $73.38 billion at September 30, 2005 from $69.69 billion at December 31, 2004, due primarily to increased contractholder funds and increased balances associated with securities lending.

Total investments at amortized cost related to collateral, due to securities lending and other security repurchase and resale transactions, increased to $3.65 billion at September 30, 2005, from $2.93 billion at December 31, 2004.

At September 30, 2005, 93.9% of the 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 rating of Aaa, Aa, A or Baa from Moody’s or a rating of AAA, AA, A or BBB from S&P, Fitch or Dominion; or a comparable internal rating if an externally provided rating is not available.

The unrealized net capital gains on fixed income and equity securities at September 30, 2005 were $2.56 billion, a decrease of $775 million or 23.2% since December 31, 2004. The net unrealized gain for the fixed income portfolio totaled $2.55 billion, comprised of $2.91 billion of unrealized gains and $358 million of unrealized losses at September 30, 2005. This is compared to a net unrealized gain for the fixed income portfolio totaling $3.33 billion at December 31, 2004, comprised of $3.49 billion of unrealized gains and $163 million of unrealized losses.

Of the gross unrealized losses in the fixed income portfolio at September 30, 2005, $309 million or 86.3% were related to investment grade securities and are believed to be primarily a result of a rising interest rate environment. Of the remaining $49 million of losses in the fixed income portfolio, $40 million or 81.6% were in the corporate fixed income portfolio, and $9 million or 18.4% were in the asset-backed securities portfolio. The $40 million of corporate fixed income gross unrealized losses were primarily comprised of securities in the consumer goods, financial services, communications, and transportation sectors. The gross unrealized losses in these sectors were primarily company specific and interest rate related. Approximately $20.4 million of the total gross unrealized losses in the corporate fixed income portfolio were associated with the automobile industry, which includes direct debt issuances of automobile manufacturers, captive automotive financing companies and automobile parts and equipment suppliers,

which are reported in the consumer goods and financial services sectors. Values in the automobile industry were primarily depressed due to company specific conditions. Additionally, approximately $6 million of the total gross unrealized losses in the corporate fixed income portfolio and $7 million of the total gross unrealized losses in the asset-backed securities portfolio were associated with the airline industry for which values were depressed due to company or issue specific conditions and economic issues, including fuel costs. We expect eventual recovery of these securities. Every security was included in our portfolio monitoring process.

The gross and net unrealized gain for the common and non-redeemable preferred stock portfolio totaled $9 million at both September 30, 2005 and December 31, 2004.

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 amortized cost for fixed income securities or cost for equity 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 recognize impairment on securities in an unrealized loss position for which we do not have the intent and ability to hold until recovery.

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 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.

	September 30, 2005			December 31, 2004		
(in millions)	Amortized cost	Fair value	Percent of total Fixed Income portfolio	Amortized cost	Fair value	Percent of total Fixed Income portfolio
Problem	$ 108	$ 117	0.2%	$ 71	$ 71	0.1%
Restructured	—	—	—	43	46	0.1
Potential problem	139	158	0.2	168	179	0.3
Total net carrying value	$ 247	$ 275	0.4%	$ 282	$ 296	0.5%
Cumulative write-downs recognized (1)	$ 228			$ 231		

(1) Cumulative write-downs recognized only reflects write-downs related to securities within the problem, potential problem and restructured categories.

We have experienced an increase in the amortized cost of fixed income securities categorized as problem as of September 30, 2005 compared to December 31, 2004. The increase was primarily related to the addition of securities to the problem category as a result of company specific issues, including the third quarter bankruptcy filings of certain airlines. The decrease in the amortized cost of fixed income securities categorized as restructured and potential problem as of September 30, 2005 compared to December 31, 2004 was primarily related to dispositions. Dispositions included sales, where specific developments caused a change in our outlook and intent to hold the security, and calls.

We also evaluated each of these securities through our portfolio monitoring process at September 30, 2005 and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these securities were temporary in nature and that we have the intent and ability to hold until recovery. While these balances may increase in the future, particularly if economic conditions are unfavorable, management expects 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 September 30,		Nine Months Ended September 30,	
(in millions)	2005	2004	2005	2004
Write-downs	$ (9)	$ (27)	$ (22)	$ (72)
Dispositions	22	1	120	(11)
Valuation of derivative instruments	(32)	(22)	(101)	(60)
Settlement of derivative instruments	45	(4)	54	(4)
Realized capital gains and losses, pretax	26	(52)	51	(147)
Income tax (expense) benefit	(9)	18	(18)	52
Realized capital gains and losses, after-tax	$ 17	$ (34)	$ 33	$ (95)

Dispositions in the above table include sales, losses recognized in anticipation of dispositions 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. In certain situations new factors such as negative developments, subsequent credit deterioration, relative value opportunities, market liquidity concerns and portfolio reallocations can subsequently change our previous intent to continue holding a security.

A changing interest rate environment will also drive changes in our portfolio duration targets at a tactical level. A duration target and range is established with an economic view of liabilities relative to a long-term portfolio view. Tactical duration adjustments within management's approved ranges are accomplished through both cash market transactions and derivative activities that generate realized gains and losses and through new purchases. As a component of our approach to managing portfolio duration, realized gains and losses on derivative instruments are most appropriately considered in conjunction with the unrealized gains and losses on the fixed income portfolio. This approach mitigates the impacts of general interest rate changes to the overall financial condition of the Company.

Because of changes in existing market conditions and asset return assumptions, certain changes are planned within the investment portfolio impacting approximately $118 million of securities at the end of the third quarter of 2005. These changes result from continued asset-liability management strategies, on-going comprehensive reviews of our portfolios, and changes being made to our strategic asset allocations. Approximately $80 million of these securities were in an unrealized loss position, and, therefore, with the change in our intent to hold these investments, we recognized $4 million of anticipated disposition write-downs during the quarter.

In the first quarter of 2005, because of an anticipated rise in interest rates, as well as changes in existing market conditions and long term asset return assumptions, certain changes were planned within various portfolios. These included continued asset-liability management strategies; on-going

comprehensive reviews of our portfolios; and changes being made to our strategic asset allocations, including a decision to pursue yield enhancement strategies. At that time, we identified, in total, approximately $1.3 billion of securities we would consider selling to achieve these objectives. Of that $1.3 billion, approximately $1.1 billion of securities were in an unrealized loss position, for which we recognized $29 million of write-downs due to a change in intent to hold these securities until recovery. Of the $1.1 billion of securities with write-downs in the first quarter, $185 million with write-downs of $5 million have been sold and we continue to consider selling approximately $11 million with write-downs of $1 million. The remaining $907 million of securities with write-downs of $23 million have been re-designated as being held to recovery within the available-for-sale category, primarily as a consequence of a lower than expected interest rate environment. The difference between the current carrying value and par value of the re-designated securities will be recognized in net investment income over the remaining life of the securities, pursuant to the guidance in Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer".

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.

(in millions)	September 30, 2005	December 31, 2004
Redeemable preferred stock	$ 5	$ 5
Common stock, retained earnings and other Shareholder's equity items	5,522	5,291
Accumulated other comprehensive income	655	1,013
Total shareholder's equity	6,182	6,309
Debt	186	104
Total capital resources	$ 6,368	$ 6,413

Shareholder's equity declined in the first nine months of 2005 when compared to December 31, 2004, due to decreases in unrealized net capital gains on investments and dividends, partially offset by net income. The Company paid dividends of $50 million to Allstate Insurance Company ("AIC", the Company's parent) in the first nine months of 2005. In addition, a dividend of $16 million was recorded in connection with the purchase of fixed income securities from AIC and a non-cash dividend of $15 million was recorded as a result of the settlement of certain reinsurance transactions with an unconsolidated affiliate (see Note 2 to the condensed consolidated financial statements).

Debt increased $82 million as of September 30, 2005 compared to December 31, 2004 as a result of the issuance of 5.06% surplus notes due July 1, 2035 by ALIC Reinsurance Company ("ALIC Re"), a wholly owned subsidiary of ALIC (see Note 2 to the condensed consolidated financial statements) partially offset by the redemption of mandatory redeemable preferred stock.

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), risk exposures, operating leverage, AIC's ratings and other factors. There have been no changes to our insurance financial strength ratings since December 31, 2004.

In connection with developments at AIC, in October 2005, Standard & Poor's affirmed the AA insurance financial strength ratings of the Company and our rated affiliates, with a revised rating outlook of 'Negative' (from 'Stable'). Also in October 2005, Moody's affirmed the Aa2 insurance financial strength ratings of the Company and our rated affiliates. Furthermore, in November 2005, A.M. Best affirmed the A+ insurance financial strength ratings of the Company and our rated affiliates.

Liquidity Sources and Uses As reflected in our Condensed Consolidated Statements of Cash Flows, higher operating cash flows in the first nine months of 2005 when compared to the first nine months of 2004 primarily related to higher investment income, partially offset by higher policy benefits and lower premiums. Cash flows used in investing activities decreased in the first nine months of 2005 due to lower cash flows from financing activities, partially offset by higher cash flows from operating activities.

Lower cash flow from financing activities during the first nine months of 2005 when compared to the first nine months of 2004 reflect lower institutional and fixed annuity contractholder fund deposits, higher fixed annuity withdrawals, including increased surrenders of market value adjusted annuities, and institutional product maturities. For quantification of the changes in contractholder funds, see the operations section of the MD&A.

We have access to additional borrowing to support liquidity through the Corporation as follows:

- A commercial paper program with a borrowing limit of $1.00 billion to cover short-term cash needs. As of September 30, 2005, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance fluctuates daily.

- A five-year revolving credit facility expiring in 2009 totaling $1.00 billion to cover short-term liquidity requirements. This facility 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. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior, unsecured, nonguaranteed long-term debt. There were no borrowings during the first

nine months of 2005. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.

- The capacity of the Corporation to issue up to an additional $1.35 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 Securities and Exchange Commission ("SEC") in August 2003.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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 include but are not limited to those discussed or identified in this document (including the risks described below) and 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".

A decrease in our financial strength ratings may have an adverse effect on our competitive position.

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be under the insurer's control. The insurance financial strength ratings of both AIC and ALIC are A+, AA and Aa2 from A.M. Best, Standard and Poor's and Moody's, respectively. Because all of these ratings are subject to continuous review, the retention of these ratings cannot be assured. A multiple level downgrade in any of these ratings could have a material adverse effect on our sales, our competitiveness, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Actions taken to simplify our business model and improve profitability may not be successful and may result in losses and costs.

We are pursuing strategies intended to improve our return on equity. Actions that we have taken and may continue to take include changing the number and selection of products being marketed, terminating underperforming distribution relationships, merging or disposing of unnecessary and/or non-strategic legal entities, reducing policy administration software systems, and other actions that we may determine are appropriate to successfully execute our business strategies. The actions that we have taken and may take in the future may not achieve their intended outcome and could result in lower premiums and contract charges, restructuring costs, losses on disposition or losses related to the discontinuance of individual products or distribution relationships.

Changes in market interest rates may lead to a significant decrease in the sales and profitability of spread-based products

Our ability to manage the investment margin for spread-based products is dependent upon maintaining profitable spreads between investment yields and interest crediting rates. As interest rates decrease or remain at low levels, proceeds from investments that have matured or that have been prepaid or sold may be reinvested at lower yields, reducing investment margin. Lowering interest-crediting rates can offset decreases in investment margin on some products. However, these changes could be limited by market conditions, regulatory or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in asset yields. Decreases in the rates offered on products could make those products less attractive, leading to lower sales and/or changes in the level of surrenders and withdrawals for these products. Non-parallel shifts in interest rates, such as increases in short-term rates without accompanying increases in medium- and long-term rates, can influence customer demand for fixed annuities, which could impact the level and profitability of new customer deposits. Increases in market interest rates can also have negative effects, for example by increasing the attractiveness of other investments, which can lead to higher surrenders at a time when the investment asset values are lower as a result of the increase in interest rates. For certain products, principally fixed annuity and interest-sensitive life products, the earned rate on assets could lag behind market yields. We may react to market conditions by increasing crediting rates, which could narrow spreads. Unanticipated surrenders could result in DAC unlocking or affect the recoverability of DAC and thereby increase expenses and reduce profitability.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness 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 providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission under the Securities Exchange Act is made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended September 30, 2005, there were 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 and regulatory proceedings and inquiries" in Note 4 of the Company's Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Item 6. Exhibits

(a) Exhibits

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

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)

November 7, 2005

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

Exhibit No.	Description
10.1	Investment Management Agreement between Allstate Investments, LLC and ALIC Reinsurance Company, effective July 1, 2005.
10.2	Surplus Note Purchase Agreement between Allstate Life Insurance Company and Kennett Capital, Inc., effective August 1, 2005.
10.3	Pledge and Security Agreement between Allstate Life Insurance Company and Kennett Capital, Inc., effective August 1, 2005.
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated November 7, 2005, 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

Investment Management Agreement

Between

ALLSTATE INVESTMENTS, LLC

And

ALIC REINSURANCE COMPANY

This Agreement made and effective as of July 1, 2005, between ALLSTATE INVESTMENTS, LLC, a Delaware limited liability company ("ALLSTATE INVESTMENTS"), and ALIC REINSURANCE COMPANY, a special purpose financial captive insurance company organized under the laws of the State of South Carolina ("ALIC Re").

WITNESSETH:

WHEREAS, ALIC Re desires that ALLSTATE INVESTMENTS furnish or cause to be furnished certain services and facilities; and

WHEREAS, ALLSTATE INVESTMENTS desires to furnish or cause to be furnished certain services and facilities subject to the terms and conditions hereinafter set forth;

NOW, THEREFORE, it is agreed as follows:

ARTICLE 1
INVESTMENT MANAGEMENT SERVICES

1.1 Appointment. ALIC Re hereby engages ALLSTATE INVESTMENTS as the investment manager of the investment assets (the "Trust Assets") transferred by ALIC Re to The Bank of New York as Trustee ("Trustee") under the Trust Agreement dated as of July 1, 2005 (the "Trust Agreement") and grants ALLSTATE INVESTMENTS the power and authority to advise, manage, and direct the investment and reinvestment of such assets for the period and on the terms and conditions set forth herein. Such activities shall be conducted subject to and in accordance with the investment objectives, restrictions, and strategies set forth in the Investment Policy and Plan (the "Policy") adopted by the Board of Directors of ALIC Re, and in accordance with such other limitations and guidelines as may be established from time to time for such assets by such Board (such investment objectives, restrictions, strategies, limitations, and guidelines herein referred to collectively as the "Investment Guidelines"); provided, however, that the Policy and the Investment Guidelines shall in all events be in accordance with the terms and conditions of the Trust Agreement. ALLSTATE INVESTMENTS hereby

accepts such responsibility and agrees during such period to render the services and to assume the obligations herein set forth, all as more fully described in Exhibit A, attached hereto (the "Services"). ALIC Re may from time to time reach agreement with ALLSTATE INVESTMENTS that only certain of the listed Services will be provided.

1.2 Charges and Expenses. ALIC Re agrees to pay ALLSTATE INVESTMENTS a fee for the Services equal to ALLSTATE INVESTMENTS' actual cost of managing the Trust Assets, including the provision of all administrative, reporting or other services required to manage such assets and provide the Services. To the extent any of ALLSTATE INVESTMENTS' costs are determined by allocations from ALIC Re, the allocation shall be made in accordance with the general provisions of the NAIC expense classification and allocation guidelines applicable to all inter-company allocations among The Allstate Corporation and its insurance affiliates. All brokerage commissions and other direct transaction charges payable to third parties shall be in addition to any fees payable to ALLSTATE INVESTMENTS for Services and may be paid from the Trust Assets or may be paid by ALLSTATE INVESTMENTS and reimbursed by ALIC Re.

1.3 Payment. ALLSTATE INVESTMENTS will charge ALIC Re for the Services via the monthly expense allocation process, and payments will be through the monthly intercompany settlement process. The process will be completed by personnel of ALLSTATE INVESTMENTS and ALIC Re in the most timely and effective method available.

ARTICLE 2
MISCELLANEOUS PROVISIONS

2.1 Scope of Services. The scope of, and the manner in which, ALLSTATE INVESTMENTS provides the Services to ALIC Re shall be reviewed periodically by ALLSTATE INVESTMENTS and ALIC Re.

2.2 Standard of Performance. ALLSTATE INVESTMENTS shall discharge its duties hereunder at all times in good faith and with that degree of prudence, diligence, care and skill which a prudent person rendering services as an institutional investment manager would exercise under similar circumstances. The provisions of this Agreement shall not be interpreted to imply any obligation on the part of ALLSTATE INVESTMENTS to observe any standard of care other than as set forth in this Section 2.2.

2.3 Books and Records. Upon reasonable notice, and during normal business hours, ALIC Re shall be entitled to, at its own expense, inspect records that pertain to the computation of charges for the Services. ALLSTATE INVESTMENTS shall at all times maintain correct and complete books, records and accounts of all Services. ALIC Re shall have unconditional right of ownership of any records prepared on its behalf under this Agreement. ALLSTATE INVESTMENTS shall maintain and make available for review by any regulator having jurisdiction over ALIC Re, documentation showing the calculation of all such charges. ALIC Re may request a review of such charges for the

Services and such review will occur promptly thereafter.

2.4 Liability of ALLSTATE INVESTMENTS. In the absence of ALLSTATE INVESTMENTS' willful or negligent misconduct (or the willful or negligent misconduct of its officers, directors, agents, employees, controlling persons, shareholders, and any other person or entity affiliated with ALLSTATE INVESTMENTS or retained by it to perform or assist in the performance of its obligations under this Agreement), neither ALLSTATE INVESTMENTS nor any of its officers, directors, employees or agents shall be subject to liability to ALIC Re for any act or omission in the course of, or connected with, rendering the Services hereunder.

2.5 Independent Contractor. ALLSTATE INVESTMENTS shall for all purposes be deemed to be an independent contractor. All persons performing duties hereunder at all times during the term of this Agreement shall be under the supervision and control of ALLSTATE INVESTMENTS and shall not be deemed employees of ALIC Re as a result of this Agreement and the Services provided hereunder. ALLSTATE INVESTMENTS shall have no power or authority to bind ALIC Re or to assume or create an obligation or responsibility, express or implied, on behalf of ALIC Re, nor shall it represent to anyone that it has such power or authority, except as expressly provided in this Agreement. Nothing in this Agreement shall be deemed to create a partnership between or among the parties, whether for purposes of taxation or otherwise.

2.6 Assignment. ALLSTATE INVESTMENTS shall not assign its obligations or rights under this Agreement without the written consent of ALIC Re. ALLSTATE INVESTMENTS may terminate this Agreement in its entirety, and ALIC Re may cancel its participation in the arrangements under this Agreement, each by giving six months written notice to the other party to this Agreement; provided, however, that in the event that ALIC Re ceases to be an affiliate of ALLSTATE INVESTMENTS, this Agreement shall terminate immediately. Under no circumstances will the initial term, or any renewal term, of this Agreement exceed five (5) years.

2.7 Notices. All communications provided for hereunder shall be in writing, and if to ALIC Re, mailed or delivered to ALIC Re at its office at the address listed in ALIC Re's Statutory Annual Statement Blank, Attention: Secretary or addressed to any party at the address such party may hereafter designate by written notice to the other parties.

2.8 Counterpart Signatures. 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.

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

Allstate Investments, LLC

By: /s/ Eric A. Simonson
Name: Eric A. Simonson
Title: Chairman of the Board, President and Chief Investment Officer
Date: 7/8/05

ALIC Reinsurance Company

By: /s/ John C. Pintozzi
Name: John C. Pintozzi
Title: Chairman of the Board and President
Date: 7/8/05

Exhibit A
INVESTMENT SERVICES

A. Appointment. This Exhibit A details the Services to be provided by ALLSTATE INVESTMENTS pursuant to the Investment Management Agreement between ALLSTATE INVESTMENTS and ALIC Re to which this Exhibit A is attached. For purposes of this Exhibit A, the trust account created under the Trust Agreement will be referred to as the "Account".

B. ALLSTATE INVESTMENTS as Agent. ALLSTATE INVESTMENTS shall be granted and shall exercise full investment discretion and authority to direct the Trustee in buying, selling or otherwise disposing of or managing the Trust Assets and in the performance of the services rendered hereunder, and shall do so as ALIC Re's agent only, subject to ALLSTATE INVESTMENTS' adherence to the Policies and Investment Guidelines. ALIC Re hereby authorizes ALLSTATE INVESTMENTS to exercise all such powers with respect to the Trust Assets as may be necessary or appropriate for the performance by ALLSTATE INVESTMENTS of its obligations under this Agreement, subject to the supervision of the Board of Directors of ALIC Re (the "Board"), and any limitations contained herein.

C. Investment Advisory Services. In furtherance of the foregoing, and in carrying out its obligations to manage the investment and reinvestment of the Trust Assets, ALLSTATE INVESTMENTS shall, as appropriate and consistent with the Investment Guidelines:

(a) perform research and obtain and evaluate such information relating to the economics, industries, businesses, markets, new investment structures, techniques, practices, and financial data as ALLSTATE INVESTMENTS deems appropriate in the discharge of its duties under this Agreement; (b) consult with and furnish to the Board recommendations with respect to overall investment strategies for the Trust Assets; (c) seek out and implement specific investment opportunities, consistent with such overall investment strategies approved by the Board, including making and carrying out day-to-day decisions to acquire or dispose of permissible investments and managing the investment of the Trust Assets; (d) regularly report to the Board with respect to the implementation of investment strategies and any other activities in connection with management of the Trust Assets, including furnishing to the Board, within 45 days after the end of each quarter, a report concerning investment activity during the quarter; (e) maintain all required accounts, records, memoranda, instructions or authorizations relating to the acquisition or disposition the Trust Assets; (f) determine the securities to be purchased or sold by the Trustee and direct the Trustee to place orders either directly with the issuer, with any broker-dealer or underwriter that specializes in the securities for which the order is made, or with any other broker or dealer that ALLSTATE INVESTMENTS selects; and (g) perform the services hereunder in a manner consistent with investment objectives and policies of ALIC Re as detailed in the respective Investment Guidelines, as amended from time to time, and in compliance, as appropriate,

with the applicable provisions of the insurance laws and regulations of ALIC Re's domicile, as amended, and any other applicable laws.

D. Allocation of Brokerage. ALLSTATE INVESTMENTS is authorized in its sole discretion to select the brokers or dealers that will execute the purchases and sales of securities for the Account. In making such selection, ALLSTATE INVESTMENTS shall use its best efforts to obtain for the Account the most favorable net price and execution available, taking into account all appropriate factors, including price, dealer spread or commission, if any, and size and difficulty of the transaction. If, in the judgment of ALLSTATE INVESTMENTS, ALIC Re would be benefited by supplemental investment research, ALLSTATE INVESTMENTS is authorized, but not obligated, to select brokers or dealers on the basis of research information, materials, or services they could furnish to ALLSTATE INVESTMENTS for potential use in supplementing ALLSTATE INVESTMENTS' own information and in making investment decisions for the Account. The expenses of ALLSTATE INVESTMENTS and the charges to ALIC Re may not necessarily be reduced as a result of receipt of such supplemental information. Subject to the above requirements, nothing shall prohibit ALLSTATE INVESTMENTS from selecting brokers or dealers with which it or ALIC Re is affiliated.

E. Service to Other Clients. ALIC Re acknowledges that ALLSTATE INVESTMENTS may perform services for clients other than ALIC Re that are similar to the services to be performed pursuant to this Agreement, and that ALLSTATE INVESTMENTS is free to do so provided that its services pursuant to this Agreement are not in any way impaired. ALIC Re agrees that ALLSTATE INVESTMENTS may provide investment advice to any of its other clients that may differ from advice given to ALIC Re, or take action with respect to assets owned by it or its other clients that may differ from the action taken with respect to the Account, so long as ALLSTATE INVESTMENTS, to the extent reasonable and practicable, allocates investment opportunities to each account managed by it on a fair and equitable basis relative to ALLSTATE INVESTMENTS' other clients. It is understood that ALLSTATE INVESTMENTS shall have no obligation to purchase or sell, or to recommend for purchase or sale for the Account, any security that ALLSTATE INVESTMENTS, its affiliates, employees or agents may purchase or sell for its or their own accounts or for the account of any other client, if, in the opinion of ALLSTATE INVESTMENTS, such transaction or investment appears unsuitable, impractical or undesirable for the Account. It is agreed that ALLSTATE INVESTMENTS may use any supplemental investment research obtained for the benefit of ALIC Re in providing investment advice to its other clients or its own accounts. Conversely, such supplemental information obtained by the placement of business for ALLSTATE INVESTMENTS or other entities advised by ALLSTATE INVESTMENTS will be considered by and may be useful to ALLSTATE INVESTMENTS in carrying out its obligations to ALIC Re.

F. Allocation of Trades. It is acknowledged that securities held in the Account may also be held by separate investment accounts or other funds for which

ALLSTATE INVESTMENTS may act as a manager. If purchases or sales of securities for ALIC Re or other entities for which ALLSTATE INVESTMENTS acts as investment manager arise for consideration at or about the same time, ALIC Re agrees that ALLSTATE INVESTMENTS may make transactions in such securities, insofar as feasible, for the respective entities in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of ALLSTATE INVESTMENTS during the same period may increase the demand for securities being purchased or the supply of securities being sold, ALIC Re recognizes that there may be an adverse effect on price.

It is agreed that, on occasions when ALLSTATE INVESTMENTS deems the purchase or sale of a security to be in the best interests of an Allstate affiliate as well as other accounts or companies, it may, to the extent permitted by applicable laws and regulations, but will not be obligated to, aggregate the securities to be so sold or purchased for such Allstate affiliate with those to be sold or purchased for other accounts or companies in order to obtain favorable execution and lower brokerage commissions. In that event, allocation of the securities purchased or sold, as well as the expenses incurred in the transaction, will be made by ALLSTATE INVESTMENTS in the manner it considers to be most equitable and consistent with its obligations to such Allstate affiliate and to such other accounts or companies. ALIC Re recognizes that in some cases this procedure may adversely affect the size of the position obtainable for ALIC Re.

G. Contracts; Authorized Signatories. ALLSTATE INVESTMENTS shall have the full power, right and authority, as ALIC Re's agent, in accordance with this Agreement and the Investment Guidelines, to negotiate and apply for and direct the Trustee to enter into, execute, deliver, amend, modify and/or terminate legal documents of every kind and nature relating to or required by the investment of the Trust Assets. All such documents will be entered into in the name of the Trustee and all such documents shall be legally binding on the Trustee and ALIC Re. Those certain employees and officers of ALLSTATE INVESTMENTS who are authorized to execute transactions and sign documentation pursuant to the policies and procedures adopted pursuant to authorization of the ALLSTATE INVESTMENTS' Board of Directors, as they may be amended from time to time, shall also be authorized to the same extent to direct the Trustee to execute transactions and sign documentation on behalf of ALIC Re in connection with transactions entered into on behalf of the Account pursuant to this Agreement.

H. <u>Compliance with Legal Requirements.</u> ALLSTATE INVESTMENTS shall make all reasonable efforts to comply with and cause to be complied with all applicable laws, rules, and regulations of ALIC Re's domicile, and any federal, state or municipal authority governing this Agreement, the services rendered hereunder, the Account and the assets held therein. Without limiting the foregoing, ALLSTATE INVESTMENTS shall comply with all securities laws and other laws applicable to the services provided under this Agreement.

I. <u>Transaction Procedures.</u> The Trust Assets are or will be held in trust by

the Trustee pursuant to the Trust Agreement. ALLSTATE INVESTMENTS shall not act as trustee or custodian of the Trust Assets and shall not, under any circumstances, have or be deemed to have ownership, custody or physical control of any of the Trust Assets. ALLSTATE INVESTMENTS may, however, issue instructions to, and communicate with, the Trustee for the Account as may be necessary and appropriate in connection with provision of its services pursuant to this Agreement. At the option of ALLSTATE INVESTMENTS, instructions by ALLSTATE INVESTMENTS to the Trustee may be made orally or by computer, electronic instruction systems or telecommunications terminals. ALLSTATE INVESTMENTS will confirm that the Trustee has effected such instructions either by access to the Trustee's computerized identification system or by telephonic confirmation. The Trustee will confirm with ALLSTATE INVESTMENTS receipt of trade instructions orally or by computer for the Account. ALLSTATE INVESTMENTS will instruct all brokers, dealers and counterparties executing orders with respect to the Trust Assets to forward to ALLSTATE INVESTMENTS copies of all confirmations.

J. <u>Recordkeeping.</u> ALLSTATE INVESTMENTS shall keep and maintain an accurate and detailed accounting of each transaction concerning the Trust Assets and of all receipts, disbursements, and other transactions relating to the purchase and sale transactions arising hereunder. ALLSTATE INVESTMENTS agrees to preserve such records for the greater of (i) six years; (ii) the required period pursuant to the insurance laws of ALIC Re's domicile and related regulations; or (iii) such other time period that ALIC Re may from time to time request. ALLSTATE INVESTMENTS acknowledges that all such records shall be the property of ALIC Re and shall be made available, within five (5) business days of receipt of a written request, to ALIC Re, its accountants, auditors or other representatives of ALIC Re for inspection and/or copying (at ALIC Re's expense) during regular business hours. In addition, ALLSTATE INVESTMENTS shall provide any materials, reasonably related to the investment advisory services provided hereunder, as may be reasonably requested in writing by the directors or officers of ALIC Re, or as may be required by any governmental agency with jurisdiction hereunder.

ALLSTATE INVESTMENTS further agrees to prepare and furnish to ALIC Re and to other persons designated by ALIC Re, at such regular intervals and other times as may be specified by ALIC Re from time to time (i) such balance sheets, income and expense statements and other financial statements and reports, and (ii) such other statements, reports and information, in each case, regarding the Trust Assets as ALIC Re shall from time to time reasonably require.

In the event of termination of this Agreement for any reason, all such records or copies thereof shall be returned promptly to ALIC Re, free from any claim or retention of rights by ALLSTATE INVESTMENTS.

EXHIBIT 10.2

SURPLUS NOTE PURCHASE AGREEMENT

Between

ALLSTATE LIFE INSURANCE COMPANY,
as Seller

and

KENNETT CAPITAL, INC.,
as Purchaser

Dated as of August 1, 2005

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SCHEDULES AND EXHIBITS

Schedule I Notice Information
Exhibit A Form of Kennett Note

This SURPLUS NOTE PURCHASE AGREEMENT, dated as of August 1, 2005, is made by and between Allstate Life Insurance Company, a life insurance company domiciled in Illinois (together with its successors and assigns, the "Seller"), and Kennett Capital, Inc., a corporation organized under the laws of the State of Delaware (together with its successors and assigns, the "Purchaser").

RECITALS

WHEREAS, the Seller desires to sell to the Purchaser on the date hereof and from time to time hereafter, and the Purchaser desires to purchase from the Seller, surplus notes (the "Surplus Notes") issued by ALIC Reinsurance Company (the "Issuer") in an aggregate principal amount up to $750,000,000 (the "Authorized Principal Amount"); and

WHEREAS, as consideration for the sale of the Surplus Notes the Seller shall receive one or more notes (the "Kennett Notes") from the Purchaser with an aggregate principal amount equal to the aggregate principal amount of the Surplus Notes, which shall not exceed the Authorized Principal Amount;

NOW, THEREFORE, for full and fair consideration, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions. The following capitalized terms shall have the following meanings:

"Agreement" means this Surplus Note Purchase Agreement, as the same may from time to time be amended, supplemented or otherwise modified in accordance with the terms hereof.

"Authorized Principal Amount" has the meaning specified in the first WHEREAS clause in the recitals hereof.

"Business Day" means any day other than a Saturday or a Sunday or any day on which banking institutions in Chicago, Illinois, are authorized or obligated by law, regulation or executive order to be closed.

"Event of Default" has the meaning specified in Section 5.01 hereof.

"Holder" means, with respect to any Kennett Note, the Person in whose name such Kennett Note is registered in the Kennett Note Register.

"Interest Payment Date" means each December 1 and June 1, commencing December 1, 2005, provided that if such day is not a Business Day, the next succeeding Business Day.

"Interest Period" means, with respect to any Kennett Note, (a) in the case of the initial interest period with respect to such Kennett Note, the period from, and including, the date such Kennett Note was issued to the Seller to, but excluding, the immediately following Payment Date, (b) thereafter, the period from, and including, the preceding Payment Date to, but excluding, the next succeeding Payment Date, and (c) in the case of the final interest period with respect to such Kennett Note, the period from, and including, the preceding Payment Date to, but excluding, the Maturity Date.

"Interest Rate" means, with respect to each Kennett Note, the yield calculated as the sum of (a) the 10 Year CMT Rate, as set forth in the corresponding Surplus Notes, plus (b) such spread as set forth in the corresponding Surplus Notes less 20 basis points.

"Issuer" has the meaning specified in the first WHEREAS clause in the recitals hereof.

"Kennett Note Register" has the meaning specified in Section 4.01 hereof.

"Kennett Notes" has the meaning specified in the second WHEREAS clause in the recitals hereof.

"Maturity Date" means, with respect to a Kennett Note, the date on which all outstanding unpaid principal on such Kennett Note becomes due and payable, whether at the Stated Maturity Date or by acceleration pursuant to Section 5.02.

"Payment Date" means any Interest Payment Date or Maturity Date.

"Person" means an individual, corporation (including a business trust), partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated association or government or any agency or political subdivision thereof.

"Purchaser" has the meaning specified in the introduction to this Agreement.

"Record Date" means the date on which the Holders of any Kennett Note entitled to receive a payment with respect to principal or interest on the next succeeding Payment Date are determined, such date as to any Payment Date being five (5) Business Days prior to such Payment Date.

"Seller" has the meaning specified in the introduction to this Agreement.

"Series" means a series of Surplus Notes all having the same maturity date and terms authorized by the Issuer by or pursuant to a particular board resolution duly adopted by the Issuer's board of directors authorizing corporate action by the Issuer.

"Series 2005-A Notes" means Surplus Notes of the Issuer in the principal amount of $50,000, 000 denominated as Series 2005-A Notes issued on July 1, 2005.

"Series 2005-B Notes" means Surplus Notes of the Issuer in the principal amount of $50,000,000 denominated as Series 2005-B Notes issued on July 1, 2005.

"Stated Maturity Date" means, with respect to each Kennett Note, the thirtieth (30th) anniversary of the issuance date of such Kennett Note, provided such date is a Business Day.

"Surplus Notes" has the meaning specified in the first WHEREAS clause in the recitals hereof.

"10 Year CMT Rate" means the 10 Year Constant Maturity Treasury Yield, and shall be recalculated every ten years on the anniversary date of the first Interest Payment Date for each Series of Surplus Notes.

"10 Year Constant Maturity Treasury Yield" means the ten year Constant Maturity Treasury Yield as reported in the Wall Street Journal.

Section 1.02 Other Definitional Provisions.

(a) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; and Section and subsection references contained in this Agreement are references to Sections or subsections in or to this Agreement unless otherwise specified.

ARTICLE II
PURCHASE AND SALE OF SURPLUS NOTES

Section 2.01 Purchase and Sale of Surplus Notes. Upon the terms and subject to the conditions set forth in this Agreement, and in reliance on the covenants and agreements herein set forth, on the date hereof, the Seller shall sell and the Purchaser may purchase the Series 2005-A Notes and the Series 2005-B Notes of the Issuer. From time to time from and after the date hereof, the Seller may, on ten (10) Business Days' notice to the Purchaser, offer to sell to the Purchaser, and the Purchaser may purchase, additional Series of Surplus Notes as may be purchased by Seller from the Issuer, up to the Authorized Principal Amount. As security for the performance of the Purchaser's obligations under this Agreement, the parties hereto shall, concurrent with this Agreement, enter into a Pledge and Security Agreement wherein Purchaser grants a pledge of and security interest in the Purchaser's right, title and interest in the Surplus Notes and the other collateral identified therein.

Section 2.02 Delivery and Payment. The Seller shall deliver the Series 2005-A Notes and the Series 2005-B Notes to the Purchaser on the date hereof. Against delivery of the Series 2005-A Notes, the Series 2005-B Notes or any additional Series of Surplus Notes, the Purchaser shall transfer to a Seller Kennett Notes with an aggregate principal amount equal to the aggregate principal amount of such Surplus Notes.

Section 2.03 Forms of Kennett Notes. The Kennett Notes shall be issued substantially in the form of the Kennett Note attached as Exhibit A hereto and shall be duly executed and delivered by the Purchaser as hereinafter provided.

ARTICLE III
TERMS AND CONDITIONS OF REPAYMENT OF KENNETT NOTES; MATURITY

Section 3.01 Interest. The Kennett Notes shall bear interest during each Interest Period at the Interest Rate. Interest shall be due and payable on each Interest Payment Date. Interest shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

Section 3.02 Principal. The principal of each Kennett Note shall be due and payable on the Stated Maturity Date.

Section 3.03 Payments by the Purchaser.

(a) On any Payment Date, the Purchaser shall pay in accordance with the terms of this Agreement: (i) all accrued but unpaid interest on the Kennett Notes and (ii) any principal payments due with respect to the Kennett Notes, if any.

(b) Any interest or principal that has not been paid when due shall accrue interest at a rate per annum equal to the Interest Rate from and including, for each such amount, the Payment Date therefor, up to but excluding the date on which each such amount is actually paid.

(c) All payments required to be made by the Purchaser with respect to this Article III shall be made: (i) by Wire Transfer of immediately available funds and/or the transfer of marketable securities (valued at their fair market value) not later than 1:00 p.m., Chicago time, and (ii) to the account of the Seller, or to such other account as the Seller may have most recently designated in writing for such purpose by notice to the Purchaser.

(d) The Purchaser and any agent of the Purchaser may treat the Person in whose name any Kennett Note is registered on the Kennett Note Register as the owner of such Kennett Note on the applicable Record Date for the purpose of receiving payments of principal and interest on such Kennett Note and on any other date for all other purposes whatsoever (whether or not such payment is overdue), and neither the Purchaser nor any agent of the Purchaser shall be affected by notice to the contrary.

Section 3.04 Prepayment. The Purchaser may prepay the Kennett Notes, in part or in full, irrespective of whether the Issuer has prepaid any amounts with respect to the Surplus Notes. In addition, the Purchaser shall prepay principal and accrued interest on the Kennett Notes to the extent that the Issuer prepays or redeems the Surplus Notes, such prepayment to be made within three (3) Business Days of prepayment or redemption of the Surplus Notes and in the manner specified in Section 3.03(c).

ARTICLE IV
REGISTRATION OF KENNETT NOTES; TRANSFER AND EXCHANGE

Section 4.01 Kennett Note Register. The Purchaser shall keep a register (the "Kennett Note Register") at its office in Northbrook, Illinois, in which it shall provide for the registration of the Kennett Notes and the registration of transfers of the Kennett Notes. Such Kennett Note Register shall be in written form or in any other form capable of being converted into written form within a reasonable time. Upon surrender for registration of transfer of any Kennett Note at the office of the Purchaser and in compliance with the restrictions set forth in any legend appearing on any Kennett Note, the Purchaser shall execute and deliver, in the name of the designated transferee or transferees, one or more new Kennett Notes of any authorized denomination and of like terms.

Section 4.02 Exchanges and Transfers. At the option of any Holder, Kennett Notes may be exchanged for one or more Kennett Notes, of any authorized denomination and of like terms, upon surrender of the Kennett Notes to be exchanged at the office of the Purchaser or such other office as the Purchaser may designate for such purposes. Whenever any Kennett Note is surrendered for exchange, the Purchaser shall execute and deliver the Kennett Note that the Holder making the exchange is entitled to receive. Any Kennett Notes issued upon any registration of transfer or exchange of a Kennett Note shall be the valid obligations of the Purchaser, evidencing the same debt, and entitled to the same benefits under this Agreement, as the Kennett Note surrendered upon such registration of transfer or exchange. Every Kennett Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Purchaser duly executed by the Holder thereof or its attorney duly authorized in writing. No service charge shall be made to a purchaser for any registration of transfer or exchange of a Kennett Note, but the Purchaser may

require payment of a sum sufficient to cover the expenses of delivery (if any) not made by regular mail or any tax or other governmental charge payable in connection therewith.

ARTICLE V
EVENTS OF DEFAULT

Section 5.01 Events of Default. The occurrence of either of the following events shall constitute an "Event of Default" hereunder:

(a) default is made in the payment of any installment of interest on the Kennett Notes when such interest becomes due and payable and such default continues for a period of 30 days, or

(b) default is made in the payment of the principal of the Kennett Notes when such principal becomes due and payable.

Section 5.02 Remedies Upon an Event of Default. Upon the occurrence of an Event of Default, the Seller may give notice of such Event of Default to the Purchaser and demand payment of the entire outstanding principal amount of such Kennett Notes, plus all accrued but unpaid interest, plus interest on such overdue principal and overdue interest at the Interest Rate, plus such further amounts as shall be necessary to cover the Seller's costs and expenses of collection, including reasonable attorneys' fees.

ARTICLE VI
MISCELLANEOUS

Section 6.01 Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be delivered by the following means: (i) hand delivery, (ii) overnight courier service (e.g., FedEx, Airborne Express, or DHL); (iii) registered or certified U.S. mail, postage prepaid and return receipt requested; or (iv) facsimile transmission. If any notice or other communication provided for herein is sent by any party by electronic e-mail it shall not be deemed to have been delivered to the addressee if the party sending such notice or communication receives a response from the intended addressee that he or she will not be able to retrieve e-mail due to vacation, other absence from the office, system failure or other reason. All such notices shall be delivered to the parties as set forth on Schedule I hereof. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 6.02 Amendments, Waivers.

(a) Except as otherwise expressly provided herein, no amendment or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

(b) The Seller and the Purchaser may amend any provision of this Agreement to effectuate the division of any Kennett Notes held by the Seller into paid and unpaid portions and the surrender of the paid portion.

(c) Each such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. A failure or delay in exercising any right, power or privilege with respect to this Agreement will not be

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presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise of that right, power or privilege or the exercise of any other right, power or privilege.

Section 6.03 Successors and Assigns; Third Party Beneficiaries. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors. This Agreement shall not be transferred or assigned under any circumstances. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and permitted transferees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

Section 6.04 Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 6.05 Binding Effect. This Agreement shall remain in full force and effect until such time as all of the Kennett Notes issued by the Purchaser shall have been repaid in full and cancelled.

Section 6.06 GOVERNING LAW; CONSENT TO JURISDICTION. THIS AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS.

Section 6.07 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 6.08 Entire Agreement. This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and supersedes any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

Section 6.09 Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the first date written above.

ALLSTATE LIFE INSURANCE COMPANY
as Seller

By: /s/ Barry S. Paul
Name: Barry S. Paul
Title: Assistant Vice President and Assistant Treasurer

KENNETT CAPITAL, INC.
as Purchaser

By: /s/ Steven C. Verney
Name: Steven C. Verney
Title: Treasurer

SCHEDULE I
to
Surplus Note Purchase Agreement between Allstate Life Insurance Company and Kennett Capital, Inc.

NOTICE INFORMATION

Address for Notices to Seller:

Allstate Life Insurance Company
3100 Sanders Road
Northbrook, Illinois 60062
Attention: Allstate Financial - Chief Financial Officer
Facsimile: 847-326-5052

Address for Notices to Purchaser:

Kennett Capital, Inc.
42 Read's Way, Suite 124
New Castle Corporate Commons
New Castle, Delaware 19720-1642
Attention: Executive Vice President
Facsimile: 302-324-5253

EXHIBIT A

FORM OF KENNETT NOTE

[ISSUE DATE]

Kennett Capital, Inc., a corporation duly organized and existing under the laws of the State of Delaware (the "Company"), for value received hereby promises to pay to Allstate Life Insurance Company, or its assigns, the outstanding balance of the principal sum of [   ] in cash on [STATED MATURITY DATE], and to pay interest thereon semi-annually on the first day of December and June in each year, commencing [FIRST INTEREST DATE], at the rate per annum set forth below, until the principal hereof is paid in full, except that the final payment of any accrued and unpaid interest shall be concurrent with the final payment of principal. The initial per annum rate of interest will be [%]. Thereafter, once every ten years beginning on [DATE (10 years after FIRST INTEREST DATE)], the rate of interest will reset (effective as of that date) to a per annum rate equal to the then current ten year Constant Maturity Treasury Yield as reported in the Wall Street Journal plus [% (an amount equal to the spread for the corresponding Surplus Notes purchased by the Purchaser, less 20 basis points)]. Interest will be computed on the basis of a 360-day year of twelve 30-day months. All principal and interest shall be paid at the principal corporate office of the Company or such other place, which shall be acceptable to the Company, as the holder hereof shall designate in writing to the Company, in collected and immediately available funds in lawful money of the United States of America. Principal and interest shall be payable on the terms and conditions set forth below

1. The Company covenants that if:

(a) default is made in the payment of any installment of interest on this Kennett Note when such interest becomes due and payable and such default continues for a period of 30 days, or

(b) default is made in the payment of the principal of this Kennett Note when such principal becomes due and payable,

the Company will, upon demand by the holder of this Kennett Note, pay to it the whole amount of the principal of this Kennett Note, plus accrued interest, with interest upon the overdue principal and upon overdue installments of interest at the rate borne by this Kennett Note; and, in addition thereof, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable attorneys' fees.

2. Each payment made hereunder will be credited first to accrued but unpaid interest, if any, and the balance of such payment will be credited to the principal amount hereof.

3. In the event that any payment of principal or interest on this Kennett Note is scheduled to be made on a day that is not a Business Day, then such payment shall be made on the next following Business Day and no additional interest shall accrue as a result of payment on such following Business Day. For the purpose of this Paragraph 5, "Business Day" shall mean any day that is not a Saturday, Sunday or any other day on which banking institutions in the State of Illinois are permitted or required by any applicable law to close.

4. In the event the Company consolidates or merges into another entity or transfers substantially all of its assets to another entity, the entity into which the Company consolidates or merges

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or to which the assets of the Company are transferred must assume the liability of the Company hereunder.

5. This Kennett Note shall be construed in accordance with, and governed by, the laws of the State of Illinois.

IN WITNESS WHEREOF, the Company has caused this Kennett Note to be executed in its name and attested to by its authorized officer, and its corporate seal to be hereunto affixed, all as of the date first written above.

KENNETT CAPITAL, INC.

(CORPORATE SEAL)

By: ______________________________

Name:

Title:

Attest: ______________________________

EXHIBIT 10.3

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this "Pledge Agreement") is dated as of August 1, 2005 and made by and between KENNETT CAPITAL, INC. (the "Pledgor") and ALLSTATE LIFE INSURANCE COMPANY (the "Secured Party").

W I T N E S S E T H

WHEREAS, the Secured Party and the Pledgor have entered into a Surplus Note Purchase Agreement dated August 1, 2005 (the "Surplus Note Purchase Agreement"), under which the Secured Party has agreed to sell, and the Pledgor may purchase from the Secured Party, certain surplus notes issued by ALIC Reinsurance Company (the "Issuer"); and

WHEREAS, as security for the payment and performance by the Pledgor of its obligations under the Surplus Note Purchase Agreement, the Pledgor has agreed to grant a pledge of and security interest in the Pledgor's right, title and interest in and to the surplus notes issued by the Issuer and purchased by the Pledgor (the "Surplus Notes");

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the Pledgor and the Secured Party hereby agree as follows:

ARTICLE I

GRANT OF PLEDGE AND SECURITY INTEREST

Section 1.1 Grant of Security Interest. To secure the payment in full when due by the Pledgor to the Secured Party under the Surplus Note Purchase Agreement of all amounts (including fees, charges and expenses) which accrue and become due thereunder and the timely performance by the Pledgor of each of its other obligations thereunder (collectively, the "Secured Obligations"), the Pledgor hereby pledges and grants to the Secured Party a security interest in all of the Pledgor's right, title and interest in, to and under the following (collectively, the "Collateral"): (a) the Surplus Notes and all certificates or instruments evidencing the same and all proceeds thereof, all accessions thereto and substitutions therefor; (b) all interest, distributions and other proceeds from time to time received, receivable or otherwise distributed to Pledgor in respect of or in exchange for any or all of the Surplus Notes; and (c) all "Proceeds" (as such term is defined in the Uniform Commercial Code as in effect in the State of Illinois or any other relevant jurisdiction (the "UCC")) of any of the foregoing.

Section 1.2 Perfection of Security Interest; Delivery of Collateral.

(a) All certificates, agreements or instruments representing or evidencing the Collateral, to the extent not previously delivered to the Secured Party, shall immediately upon receipt thereof by Pledgor be delivered to and held by the Secured Party pursuant to the provisions hereof. All Collateral shall be in suitable form for transfer by delivery or shall be

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accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Secured Party. The Secured Party shall have the right, at any time upon the occurrence of an Event of Default and without notice to Pledgor, to endorse, assign or otherwise transfer to or to register in its own name any or all of the Collateral. In addition, the Secured Party shall have the right at any time to exchange certificates representing or evidencing Collateral for certificates of smaller or larger denominations.

(b) The Pledgor agrees to take all other actions which may be necessary under the laws of the State of Illinois or may be requested by the Secured Party to protect and perfect the interest of the Secured Party in the Collateral created hereby and to ensure that such interest is senior in rank to the claims of any other creditor of the Pledgor claiming an interest in and to the Collateral, including the filing of UCC-1 financing statements (including any continuation statements with respect to such financing statements when applicable) identifying the Surplus Notes and naming the Pledgor as debtor and the Secured Party as secured party. The Pledgor shall deliver to the Secured Party file-stamped copies or other evidence of such filings. Notwithstanding the agreements set forth in this Section 1.2, the Pledgor hereby authorizes the Secured Party to take, and appoints the Secured Party as its attorney-in-fact for the purpose of taking, any action necessary under the UCC to perfect, and to maintain the perfection and priority of, the Secured Party's interest in the Collateral, including, without limitation, the filing of any such financing and continuation statements.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1 Representations, Warranties and Covenants as to the Pledgor. The Pledgor hereby represents, warrants and covenants to the Secured Party:

(a) Title to Collateral. The Surplus Notes and all of the other Collateral in existence on the date hereof are, and all Surplus Notes and all of the other Collateral issued subsequent to the date hereof will be, owned by the Pledgor free and clear of any lien or encumbrance. The Pledgor has not (i) filed or consented to the filing with any governmental authority of any financing statement or analogous document under the UCC or any other applicable laws covering any Collateral, (ii) made any assignment to any other person of any interest in the Collateral or (iii) entered into any security agreement or similar instrument or arrangement covering all or any part of the Collateral with any other person, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect.

(b) Organization. The Pledgor is a corporation organized under the laws of the State of Delaware.

(c) Principal Office. The Pledgor maintains its chief executive office at 42 Read's Way, Suite 124, New Castle, Delaware 19720-1642.

(d) No Liens. Pledgor is as of the date hereof, and at the time of any delivery of any Collateral to the Secured Party pursuant to Article I of this Pledge Agreement, Pledgor

will be, the sole legal and beneficial owner of the Collateral. All Collateral is on the date hereof, and will be, so owned by Pledgor free and clear of any lien except for the lien created by this Pledge Agreement.

(e) Due Authorization. The execution and delivery to the Secured Party of this Pledge Agreement by the Pledgor, the delivery to the Secured Party of the Surplus Notes together with any necessary endorsements, and the consummation of the transactions provided for in this Pledge Agreement have been duly authorized by the Pledgor by all necessary corporate action on its part and this Pledge Agreement constitutes a legal, valid and binding obligation of the Pledgor, enforceable against the Pledgor in accordance with its terms, and except in each case as enforcement may be limited by bankruptcy, insolvency, examination, suspension of payments, fraudulent transfer, reorganization, moratorium and other similar laws of general applicability affecting the enforcement of creditors' rights generally, public policy and general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or law).

(f) No Conflict. The execution and delivery of this Pledge Agreement, the delivery of the Collateral, the consummation of the transactions contemplated hereby and the fulfillment of the terms hereof will not conflict with or result in the breach of any of the material terms and provisions of, constitute (with or without notice or lapse of time or both) a default under, or result in the creation of any lien upon any property or assets of the Pledgor pursuant to, any indenture, contract, agreement, mortgage, deed of trust or other instrument to which the Pledgor is a party or by which it or any of its properties is bound.

(g) No Violation. The execution and delivery of this Pledge Agreement, the delivery of the Collateral, the consummation of the transactions contemplated hereby and the fulfillment of the terms hereof will not conflict with or violate any organizational or governing documents of the Pledgor or any law, treaty, rule or regulation, or any judgment, order or decree, or determination of an arbitrator or governmental authority applicable to or binding upon the Pledgor.

(h) No Proceedings. There are no actions at law, suits in equity or proceedings by or before any governmental commission, bureau or administrative agency pending or, to the best knowledge of the Pledgor, threatened against the Pledgor or any of its assets, that would adversely affect the ability of the Pledgor to perform its obligations under this Pledge Agreement.

(i) No Authorization Required. Except for such authorizations or approvals as shall have been obtained prior to the date hereof, no authorization or approval of any governmental agency or commission or public or quasi-public body or authority with jurisdiction over the Pledgor or any of its assets is necessary for the due execution and delivery of this Pledge Agreement or for the validity or enforceability hereof.

Section 2.2 Delivery of Pledged Collateral; Filings.

Pledgor has delivered, or will deliver, to the Secured Party all certificates representing the Surplus Notes and has delivered, or will deliver, to the Secured Party an

appropriate UCC-1 financing statement to be filed with the Secretary of State of the State of Delaware, the State in which the Pledgor is located, evidencing the lien created by this Pledge Agreement, and such delivery, filing and pledge of the Collateral pursuant to this Pledge Agreement will create a valid and perfected first priority security interest in the Collateral securing the payment of the Secured Obligations pursuant to the UCC in effect in each applicable jurisdiction, including, without limitation, the States of Illinois and Delaware.

Section 2.3 Distributions; etc. So long as no Event of Default shall have occurred, Pledgor shall be entitled to receive and retain, and to utilize free and clear of the lien of this Pledge Agreement and all distributions of interest or other funds in respect of the Surplus Notes to the extent made in accordance with the provisions of the Surplus Note Purchase Agreement; provided, however, that any and all such distributions consisting of rights or interests in the form of securities shall be, and shall be forthwith delivered to the Secured Party to hold as additional Collateral and shall, if received by Pledgor, be received in trust for the benefit of the Secured Party, be segregated from the other property or funds of Pledgor, and shall be forthwith delivered to the Secured Party as Collateral in the same form as so received (with any necessary endorsement).

Section 2.4 Transfers and Other Liens. Pledgor shall not (i) sell, convey, assign or otherwise dispose of, or grant any option or right with respect to, any of the Collateral except as permitted by the Surplus Note Purchase Agreement or (ii) create or permit to exist any lien or encumbrance upon or with respect to any Collateral, other than the lien and security interest granted to the Secured Party pursuant to this Pledge Agreement.

ARTICLE III

EVENTS OF DEFAULT; REMEDIES

Section 3.1 Events of Default. Each of the following events shall constitute an event of default (each, an "Event of Default") under this Pledge Agreement: (i) any material breach by the Pledgor of any term, provision or covenant of the Surplus Note Purchase Agreement; (ii) any material breach by the Pledgor of any term, provision or covenant of this Pledge Agreement; (iii) the Secured Party ceases to have a perfected first priority lien on, and security interest in, the Collateral; or (iv) the Pledgor becomes subject to bankruptcy, insolvency, reorganization, liquidation, conservation, rehabilitation or other similar proceedings.

Section 3.2 Remedies Upon Default.

(a) Upon the occurrence of an Event of Default, all rights of Pledgor to receive distributions which it would otherwise be authorized to receive and retain pursuant to Section 2.3 hereof shall cease and all such rights shall thereupon become vested in the Secured Party, which shall thereupon

have the sole right to receive and hold as Collateral such distributions.

(b) All distributions which are received by Pledgor contrary to the provisions of paragraph (a) of this Section 3.2 shall be received in trust for the benefit of the Secured Party,

shall be segregated from other funds of Pledgor and shall immediately be paid over to the Secured Party as Collateral in the same form as so received (with any necessary endorsement).

(c) If an Event of Default shall have occurred, Secured Party shall have the right, in addition to the other rights and remedies provided for herein or otherwise available to it to be exercised from time to time, (i) to retain and apply the distributions to the Secured Obligations, and (ii) to exercise all the rights and remedies of a secured party on default under the UCC in effect in the State of Illinois at that time, and the Secured Party may also in its sole discretion, without notice except as specified below, sell the Collateral or any part thereof (including, without limitation, any partial interest in the Surplus Notes) in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Secured Party's offices or elsewhere, at such price or prices and upon such other terms as the Secured Party may deem commercially reasonable. Secured Party may be the purchaser of any or all of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at such sale, to use and apply any of the Secured Obligations owed to it as a credit on account of the purchase price of any Collateral payable by it at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of Pledgor, and Pledgor hereby waives, to the fullest extent permitted by law, all rights of redemption, stay and/or appraisal which it now has, or may at any time in the future have, under any rule of law or statute now existing or hereafter enacted. Pledgor acknowledges and agrees that five days' notice to Pledgor of the time and place of any public sale or the time after which any private sale or other intended disposition is to take place shall constitute reasonable notification of such matters. No notification need be given to Pledgor if it has signed, after the occurrence of an Event of Default, a statement renouncing or modifying any right to notification of sale or other intended disposition. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefore, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Pledgor hereby waives, to the fullest extent permitted by law, any claims against the Secured Party arising by reason of the fact that the price at which any Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if the Secured Party accepts the first offer received and does not offer such Collateral to more than one offeree. The Secured Party shall not be liable for any incorrect or improper payment made pursuant to this Section in the absence of gross negligence or willful misconduct.

(d) Pledgor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities law, the Secured Party may be compelled, with respect to any sale of all or any part of the Collateral, to limit purchasers to persons who will agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges that any such private sales may be at prices and on terms less favorable to the Secured Party than those obtainable through a public sale without such restrictions (including, without limitation, a public offering made pursuant to a registration statement under the Securities Act), and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that the Secured Party shall have no obligation to engage in public sales and no obligation to delay the sale of any

Collateral for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would agree to do so.

Section 3.3 Application of Proceeds. All distributions held from time to time by the Secured Party and all proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral pursuant to the exercise by the Secured Party of its remedies as a secured creditor as provided herein shall be applied, together with any other sums then held by the Secured Party pursuant to this Pledge Agreement, promptly by the Secured Party as follows:

First, to the payment of all costs and expenses, fees, commissions and taxes of such sale, collection or other realization, including, without limitation, compensation to the Secured Party and its agents and counsel, and all expenses, liabilities and advances made or incurred by the Secured Party in connection therewith, together with interest on each such amount at the highest rate then in effect under the Surplus Note Purchase Agreement from and after the date such amount is due, owing or unpaid until paid in full;

Second, without duplication of amounts applied pursuant to clause First above, to the indefeasible payment in full in cash of the Secured Obligations in accordance with the terms of the Surplus Note Purchase Agreement; and

Third, the balance, if any, to the persons lawfully entitled thereto (including Pledgor or its successors or assigns).

Section 3.4 Expenses. Pledgor will upon demand pay to the Secured Party the amount of any and all expenses, including the fees and expenses of its counsel and the fees and expenses of any experts and agents, which the Secured Party may incur in connection with (i) the collection of the Secured Obligations, (ii) the enforcement and administration of this Pledge Agreement, (iii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iv) the exercise or enforcement of any of the rights of the Secured Party hereunder or (v) the failure by Pledgor to perform or observe any of the provisions hereof. All amounts payable by Pledgor under this Section 3.4 shall be due upon demand and shall be part of the Secured Obligations. Pledgor's obligations under this Section 3.4 shall survive the termination of this Pledge Agreement and the discharge of Pledgor's other obligations hereunder.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Notices. All demands, notices, instructions and communications hereunder shall be in writing and shall be deemed to have been duly given when received. All notices or communications under this Pledge Agreement shall be addressed as follows:

Notices to Secured Party:

Allstate Life Insurance Company
3100 Sanders Road
Northbrook, Illinois 60062
Attention: Allstate Financial – Chief Financial Officer
Facsimile: 847-326-5052

Notices to Pledgor:

Kennett Capital, Inc.
42 Read's Way, Suite 124
New Castle Corporate Commons
New Castle, Delaware 19720-1642
Attention: Executive Vice President
Facsimile: 302-324-5253

Section 4.2 Termination; Release. When all the Secured Obligations have been paid in full, this Pledge Agreement shall terminate. Upon termination of this Pledge Agreement, the Secured Party shall, upon the request and at the sole cost and expense of Pledgor, forthwith assign, transfer and deliver to Pledgor, against receipt and without recourse to or warranty by the Secured Party, such of the Collateral to be released (in the case of a release) as may be in the possession of the Secured Party and as shall not have been sold or otherwise applied pursuant to the terms hereof, and, with respect to any other Collateral, proper instruments (including UCC termination statements on Form UCC-3) acknowledging the termination of this Pledge Agreement or the release of such pledged Collateral, as the case may be.

Section 4.3 Continuing Security Interest; Assignment. This Pledge Agreement shall create a continuing security interest in the Collateral and shall (i) be binding upon Pledgor, its successors and assigns and (ii) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of the Secured Party and each of its successors, transferees and assigns; no other persons (including, without limitation, any other creditor of Pledgor) shall have any interest herein or any right or benefit with respect hereto.

Section 4.4 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Pledge Agreement shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Pledge Agreement and shall in no way affect the validity or enforceability of the other provisions of this Pledge Agreement.

Section 4.5 Further Assurances. The Pledgor agrees to do and perform, from time to time, any and all acts and to execute any and all further instruments required or reasonably requested by the Secured Party to maintain the perfection and the priority of the Secured Party's interest and to effect more fully the purposes of this Pledge Agreement.

Section 4.6 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Secured Party, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exhaustive of any rights, remedies, powers and privileges provided by law.

Section 4.7 Amendment. This Pledge Agreement may not be modified, amended, waived or supplemented except by a writing signed by each of the parties hereto.

Section 4.8 Headings. The headings herein are for purposes of reference only and shall not otherwise affect the meaning or interpretation of any provision hereof.

Section 4.9 **GOVERNING LAW. THIS PLEDGE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LOCAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO ITS PRINCIPLES OF CHOICE OF LAW.**

Section 4.10 Submission to Jurisdiction. Pledgor hereby irrevocably submits to the jurisdiction of the federal and state courts of competent jurisdiction in the State of Illinois in any suit or proceeding arising out of this Pledge Agreement or the transactions contemplated hereby and agrees to be bound by any judgment rendered by such courts in connection with this Pledge Agreement and waives any and all objections to jurisdiction that it may have under the laws of Illinois or any other jurisdiction.

IN WITNESS WHEREOF, the undersigned have caused this Pledge Agreement to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

KENNETT CAPITAL, INC.

By: /s/ Steven C. Verney
Name: Steven C. Verney
Title: Treasurer

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Barry S. Paul
Name: Barry S. Paul
Title: Assistant Vice President and Assistant Treasurer

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

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Allstate Life Insurance Company and subsidiaries for the three-month and nine-month periods ended September 30, 2005 and 2004, as indicated in our report dated November 7, 2005; because we did not perform an audit, we expressed no opinion on such financial information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, is incorporated by reference in the following Registration Statements:

Form S-3 Registration Nos.	Form N-4 Registration Nos.
333-100068	333-102934
333-102319	333-114560
333-102325	333-114561
333-104789	333-114562
333-105331	333-121691
333-112233	333-121693
333-112249	
333-117685	
333-119296	
333-119706	
333-121739	
333-121741	
333-121742	
333-121745	
333-121811	
333-121812	
333-123847	
333-125937	
333-129157	

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Chicago, Illinois
November 7, 2005

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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15(d)-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

c) 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

d) 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.

November 7, 2005

/s/ Casey J. Sylla

Casey J. Sylla
Chairman of the Board and President

CERTIFICATIONS

I, John C. Pintozzi, 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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15(d)-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

c) 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

d) 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.

November 7, 2005

/s/ John C. Pintozzi
John C. Pintozzi
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 September 30, 2005 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.

November 7, 2005

/s/ Casey J. Sylla
Casey J. Sylla
Chairman of the Board and President

/s/ John C. Pintozzi
John C. Pintozzi
Senior Vice President and Chief Financial Officer