Fellow Shareholders, I believe people are the key to all success. All success emanates from people. Strategies, processes, machines and money are necessary ingredients but it is people who dream, initiate, create and maintain success.

Consequently, one of my responsibilities as CEO is to ensure Allstate has a diverse group of talented people. We made progress in 2007 despite a highly competitive environment and senior management retirements. Employees are embracing Our Shared Vision and believe in our direction. They earned good profit sharing company contributions. We did not do as well with Agency Owners, where satisfaction was down, reflecting a tougher competitive environment that led to lower growth and bonuses. Our senior management team is functioning well despite several significant retirements, most importantly the retirement of our Chairman, Ed Liddy. Ed’s exceptional leadership has created significant shareholder value and led to one of the smoothest leadership transitions of a major corporation. I will miss him.

**OUR PLAN IS TO REINVENT PROTECTION AND RETIREMENT FOR THE CONSUMER**

Reinvent means to remake completely, to make anew. It will require us to operate outside of normal conventions by focusing more intently on the consumer. This will competitively differentiate Allstate and lead to long-term profitable growth.

Your Choice Auto®, which provides customers with accident forgiveness and deductible rewards, has been a fabulous product reinvention, having sold more than 3.2 million policies. Our latest new product is Allstate GreenSM, which addresses the reality that many consumers have to drive and buy insurance but don’t want to pollute.

We will push to reinvent all aspects of our business. Share the journey and fun with us by sending your ideas to reinventeveryday@allstate.com.

**GREAT COMPANIES DELIVER GREAT RESULTS**

This is my 14th year at Allstate and the competitive market conditions we experienced in 2007 were the toughest I have seen. Nevertheless, we delivered the second-highest annual profit ever.

Looking forward, continuation of a difficult operating environment in 2008 will play to our strengths. Our strategy of focusing on value and not just price in auto insurance enables us to invest in improving customer satisfaction and growth. Allstate Financial’s goal of raising returns will continue to be a challenge but this is a better environment to provide retirement security.

We have a high-quality, well-diversified portfolio that should enable us to weather a soft U.S. economy, the unwinding of excess leverage, and tumultuous financial markets. One of our challenges will be having the fortitude to quickly seize opportunities in the face of an uncertain future.

**LEADERSHIP OF ALLSTATE BRINGS WITH IT A RESPONSIBILITY TO IMPROVE OUR SOCIETY**

Businesses need to step up and drive positive change in America. Allstate will continue to lead positive change in our country:

- We are waging a campaign to better prepare and protect America through a broad-based coalition called ProtectingAmerica.org. It is imperative that our country improve the way it deals with large catastrophes. More than 300 organizations have joined the coalition and legislation has passed the U.S. House of Representatives. Until such time as a viable national solution is implemented, we will continue to responsibly reduce our catastrophe exposure to be sure we are financially strong for all of our 17 million customer households.
- We also must focus on keeping American workers competitive in this rapidly changing global economy. Globalization has helped America grow and prosper, is good for our investment portfolio and enables us to leverage a broader set of skills to deliver good value for our customers. Allstate supports lifelong learning and education so our country can continue to prosper.
- Government accountability and transparency also must be improved. Allstate owns $25 billion of municipal bonds and has a vested interest in financially sound public entities. The Sarbanes-Oxley Act of 2002 improved the accountability and transparency for our investments in the private sector. Similar legislation for government entities would improve our investments in the public sector.

The Allstate Foundation continues to help communities across America and more than 3,000 non-profit organizations. Our signature programs on teen driving and domestic violence have made meaningful differences in people’s lives. I have had tears in my eyes as I listen to stories of domestic violence victims. We give out more than money; we provide hope and freedom.
President and Chief Executive Officer

Thomas J. Wilson

combined ratio has been below 90 percent over core business operations. Our Property-Liability
more profit the company is generating from its and claim expenses. The lower the number, the
percent of premiums that goes to pay operating
put, the Property-Liability combined ratio is the average regardless of industry profitability. Simply
which over time has outperformed the industry
strengths that allow us to compete on a broader
operating efficiency and good value for customers—
powerful brand. Together, these capabilities add up to
risk management, superior service delivery and a
of product differentiation, effective expense and
competitive personal lines market, with a combination
shareholder value. Allstate is well positioned in a
Maintaining profitability is essential to protecting
navigating the profit cycle
and our approaches to managing earnings volatility.

NAVIGATING THE PROFIT CYCLE

Maintaining profitability is essential to protecting shareowner value. Allstate is well positioned in a competitive personal lines market, with a combination of product differentiation, effective expense and risk management, superior service delivery and a powerful brand. Together, these capabilities add up to operating efficiency and good value for customers—strengths that allow us to compete on a broader basis than price alone. Evidence of this can be seen in Allstate’s Property-Liability combined ratio, which over time has outperformed the industry average regardless of industry profitability. Simply put, the Property-Liability combined ratio is the percent of premiums that goes to pay operating and claim expenses. The lower the number, the more profit the company is generating from its core business operations. Our Property-Liability combined ratio has been below 90 percent over the last two years—an underlying indication of our ability and commitment to shareholder value. Our belief is that this performance should ultimately translate into a stock price more in line with our historic range.

As 2007 unfolded, competitive pressure in auto insurance steadily moderated. In the first quarter, large insurers filed substantially more price decreases than increases; by the third and fourth quarters, the opposite was true. The homeowners market is less competitive than auto insurance and is in transition as the industry copes with a rapid increase in risk of loss from mega-catastrophes. In general, homeowner margins declined, but this was partly offset by the absence of large hurricanes. In homeowners, Allstate is focused on risk reduction and improving margins using the same capabilities that make us successful in auto insurance. We will continue to monitor the margin compression we saw in 2007 and adjust rates as needed in order to maintain our combined ratio.

INNOVATING FOR LONG-TERM GROWTH

Chances are, consumers don’t associate the insurance industry with creativity, speed or innovation to meet their changing needs. We believe we can fundamentally change this, and create sustainable growth, by using Allstate’s unique combination of brand, product differentiation and breadth, extensive distribution and operational strength. Our vision is to reinvent protection and retirement for the consumer.

2007 at a Glance

This year was one of the most challenging economic, political and competitive environments Allstate has faced in several years. Against the backdrop of compressed margins in our market and a share price that closed the year 20 percent lower, our discussions with shareholders in 2007 centered on three primary areas of concern: the current state of the profit cycle in the property and casualty business; Allstate’s sources of long-term growth; and our approaches to managing earnings volatility.

ADDRESSING EARNINGS VOLATILITY

In today’s unpredictable economic and investment environment, reducing volatility in earnings is increasingly important. Historically, the single largest influence on earnings volatility for Allstate has been catastrophe losses from earthquakes and hurricanes. More than 12 years ago, we began taking steps to mitigate our exposure to catastrophes. In 2004 and 2005, as it became clear that the United States may be in a period of substantially greater hurricane risk due to warmer oceans, we significantly increased these efforts. We extensively purchased reinsurance to lower our risk of loss. We restructured coverage and pricing, changed policy language and raised rates. We also reduced our exposure by limiting new business and declining continuing coverage to some customers in some coastal areas, instead offering them alternatives from other insurance companies when we could. We also began advocating legislative changes, at both the state and federal levels, to help markets address increased risks.

Of further concern for investors today is the earnings volatility of a financial services company’s investment portfolio—in particular, the diversity, quality and productivity of its assets. Allstate’s investment portfolio totals more than $118 billion and is highly diversified. It generates significant annual cash flow and has primarily high-quality fixed income investments that back up our liabilities.

I thank you for the privilege and honor of serving you.

Edward M. Liddy
Chairman

Since 1994, I’ve had the pleasure of helping grow and lead one of the finest corporations in America.

Allstate is an extraordinary company with an amazing heritage and the best employees and agencies in the business. I’ve always been proud of what we do and the excellence in which we do it. We help restore peoples’ lives when bad things happen to them and we help them prepare for the future.

Serving our customers and shareholders has been a highlight of my personal and professional life. As I prepare to retire at the end of April, I do it with great confidence and satisfaction. I know that Allstate is in very good hands for the future.

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I thank you for the privilege and honor of serving you.
Great ideas, great innovation, great companies, great cultures—they all come from a desire to create new possibilities. To rethink the past, and to reimagine the future. Allstate is becoming this kind of reinvention company. In fact, we already are. For years, the people of Allstate have imagined the impossible and made it reality. Groundbreaking achievements like advocating seatbelt and air bag legislation. Applying data to help homeowners anticipate household safety concerns. Introducing a Treasury-Linked Annuity that helps people more safely manage retirement income. Or creating the industry-leading menu of Allstate® Your Choice Auto and Allstate® Your Choice Home coverage options. What’s next? More. We want to forever improve the way consumers understand, buy, experience and value protection and retirement services.

Reinventing Protection & Retirement

In an industry that needs to become more consumer focused, innovative and relationship driven, Allstate is in a position to create—and profit from—lasting change.

The promise of protection has been fundamental to Allstate for more than 75 years. We’ve stood behind our customers. We’ve earned their trust. But the definition of protection is changing, and it’s being redefined by those same consumers. Today, they are more informed. More diverse. More connected. More value conscious. More demanding. For Allstate, this is a good thing. It’s forcing us to shake off any complacency, sharpen our competitiveness and see the world the way our customers do, through their needs, desires, uncertainties and dreams. This is why today we speak in terms of “protection and retirement” rather than “insurance and annuities.” These words express a different mind-set, a higher purpose and a more meaningful benefit to our customers. As we deliver this reinvention, we’ll become known for helping people like no one else can.

REINVENTING OUR PRODUCTS

Through several innovations, Allstate is already transforming industry definitions and redefining consumer expectations of insurance and retirement planning. Several years ago, we saw an opportunity to bring a more distinct and meaningful choice of insurance products to the market. We began looking at customers in new ways, using our proprietary database of insurance consumers, one of the largest in the business. Through sophisticated analytical tools and modeling, we identified important differences between consumers and became the first large company to offer tiers of pricing rather than broad categories.

Today, while most of our industry competitors are just developing sophisticated pricing plans, Allstate is on its fourth generation of tiered pricing, and we’re constantly refining our data and analysis. In 2000, for example, Allstate brand standard auto had seven pricing tiers for our customers; currently we have 384 potential tiers. What’s the benefit? More accurate matching of risk to price. Sophisticated pricing plans allow us to attract and retain higher lifetime-value customers through tailored options, rewarding them with premiums that more accurately reflect their risk profile. This pricing discipline allows us to segment our risk in ways that improve our efficiency while increasing customer satisfaction. It’s proven to be an engine for product innovation, top-line growth and bottom-line performance.

Sophistication in product pricing and features led to the development of the Allstate® Your Choice Auto product, which has been one of our most successful launches. By the close of 2007, we sold more than 3.2 million Your Choice Auto policies, and the product is now available in 46 states. Your Choice Auto includes Platinum, Gold and Value packages offering accident forgiveness, deductible rewards and other options that let customers tailor coverage to their particular needs. We’ve found that 80 percent of Your Choice Auto customers would recommend the product to others, compared to a 65 percent referral rate for our standard auto policy customers. Furthermore, 93 percent of Your Choice Auto customers said they were likely to renew their policies, versus 85 percent for standard.

We’ve begun introducing Your Choice Home, which includes a claim-free bonus and a guaranteed renewal for claims, as well as special coverage options for prized collections or home businesses. At the close of 2007, Your Choice Home had been introduced in 15 states. Sophisticated analysis also allowed Allstate to develop a product for higher-risk drivers. Allstate BlueSM was launched in 2007. Early results in the 12 states that it is available are encouraging. In addition, Allstate GreenSM, a new eco-friendly insurance option that offers consumers a convenient way to help the environment, is now being piloted in Colorado and Ohio.

Allstate’s product reinvention isn’t limited to the property and casualty marketplace. In financial services, consumer focus led to the development of our patented Treasury-Linked Annuity. The Treasury-Linked Annuity protects consumers with a crediting rate that automatically increases with Treasury rates. Since its inception in 2002, Allstate has sold more than $3.4 billion of this product.

REINVENTING THE CONSUMER EXPERIENCE

For most consumers, it’s probably fair to say that insurance or retirement planning are things they’d rather not think about. Interacting with their insurance company means they’ve suffered a loss or an accident, they have a claim, or they’re shopping for new coverage. They’re under stress. They’re worried. They’re confused. We see this as an opportunity to change their expectations and reinvent their experience.

Creating a more personalized, thoughtful and efficient customer experience has clear benefits to Allstate and its shareholders. First, retention. Satisfied Allstate customers stay with us longer, purchase more (and more profitable) products and recommend us to others. Then there’s operating efficiency. The more efficiently we operate, the
better we can attract and retain life-long customers, and the more effectively we can support our customers during the claims process.

In terms of claims management, an area in which we’ve long been an industry leader, better analysis and segmentation also enables us to enhance our ability to provide timely and appropriate claim handling. Our claims processing system, Next Gen, is a technology and service platform that supports our reinvention of the consumer experience. As with tiered pricing, Next Gen is bringing far more segmentation and analysis to the claims process than we’ve had before, improving communication with policyholders on the status of claims and assigning claims to personnel with the correct training and authority to resolve them quickly, all of which help improve customer satisfaction. We expanded deployment of Next Gen in 2007 to fully include property claims service, and have begun testing Next Gen for our auto and casualty claims areas.

Another dimension of service is choice—giving customers the power to decide which products and options they want, what they’re willing to pay and how they want them delivered. In a reinvented protection and retirement marketplace, providing real choice includes not only a family of products but also a diversity of distribution channels. Allstate has created an extensive distribution network to engage customers on their terms: local service and information from an agency owner, bank or investment advisor; claims service or information through our 1-800-ALLSTATE call centers.

Reinventing Relationships

Representing the interests of 17 million households means more than insuring consumers or offering them investments. That’s why Allstate takes a stand on public policy in its communities and for society.

Our purpose as an organization is to help people realize their hopes and dreams. We do this by offering products and services that help protect them from life’s uncertainties and prepare them for the future. Every day, we perform our work within a network of relationships, including our agencies, regulators, policymakers and public interest groups as well as consumers. We see an opportunity to make these complex relationships stronger, simpler and more productive in ways that benefit consumers, our economy, our company and, ultimately, our shareholders.

CHAMPIONING OUR CUSTOMERS

When you’re in the business of preparing and protecting customers, you’re also in the business of advocating positions that impact customers. This can be as fundamental as giving them efficient online tools to access and manage their Allstate policies and assets. Or clearly articulating their rights as customers and responding quickly to their needs in times of crisis. But it’s also much more that’s not as visible to customers. To serve their needs properly—particularly to deliver the kinds of experiences that create loyalty and drive future growth—Allstate is an advocate on key issues at the local and national levels. In fact, for years we’ve sought opportunities to create meaningful change on many subjects where our customers’ interests and our corporate expertise align.

For example, Allstate was an early advocate for seat belt use and automobile air bags. We’ve advanced solutions on issues as diverse as asbestos legislation, credit-based insurance scoring, and modernization of the insurance regulatory system. Today, we are outspoken on driver safety issues, particularly among teen drivers, as well as consumer education and protection, home construction standards, building codes and retirement funding. Within our operations, every day we take measures to safeguard our customers’ private information. We use sophisticated financial management tools to ensure our ability to pay claims. We also follow explicit service guidelines designed to make customer experiences more positive, more personal and less frustrating. In our advertising and marketing, we not only promote our products and services, we promote safe driving habits—so that when customers hear the phrase “That’s Allstate’s stand,” they understand the truth behind it.

ADVOCATING SOCIAL & PUBLIC POLICY

Rather than being just a participant in our industry, we prefer to act as an advocate for society. Allstate has a clear corporate interest in supporting legislative changes to help markets deal with increased risks—changes that also protect the lives and assets of Americans. By leading a public dialogue, Allstate seeks to further transform the role of insurance in our country and enhance opportunities for long-term growth.

In 2007, as a member of ProtectingAmerica.org, Allstate continued to raise awareness, educate the public and policymakers, and offer a comprehensive, integrated solution that will address the significant challenge of catastrophe planning in the United States. Allstate helped form ProtectingAmerica.org in 2005, a coalition that is advancing a way to better prepare and protect America from natural catastrophe. The coalition now has more than 300 member-organizations that include first responders, emergency management professionals, building code experts and disaster relief organizations such as the American Red Cross. The potential for widespread losses due to mega-catastrophes has grown higher year after year. There are more people living in harm’s way while the value of homes in disaster-prone areas has increased. More than half of Americans now live in coastal counties—an increase of 33 million people since 1980—and one-third of Americans live in areas exposed to major earthquake risk. To raise awareness and help advance specific legislation, ProtectingAmerica.org is working with policymakers at the local, state and national levels throughout the country.

ProtectingAmerica.org achieved a major milestone in November 2007 when the U.S. House of Representatives passed The Homeowners’ Defense Act, a bill that helps create a public-private partnership to address the impact of large natural catastrophes. The partnership expects the Senate to take further action in 2008. At the state level, a growing number of policymakers are voicing their support, and legislation is being considered in an increasing number of states. In the long run, one of our most important catastrophe management efforts will be advocating for a comprehensive national plan that includes privately financed, publicly administered catastrophe funds at the state and national levels.
Reinventing Leadership

From our scale, innovation, execution, risk management, investments and our human energy, Allstate is prepared to deliver value to customers and shareholders that sets a new standard for our industry.

For most competitors in the insurance industry, success is defined by a traditional set of numbers: combined ratio, return on equity, and total returns to shareholders. At Allstate, we also see a deeper definition of value. Our goal is to grow the value of our company for customers, associates, shareholders, our communities and society. Not just economic growth. Value in terms of customer experiences, when we innovate to meet unanswered needs and hidden demand. Value measured in expanded opportunities, when we develop our people to perform at new levels. Value for our shareholders in terms of profitable growth. And value from our presence in our communities and our positive role in society, which is returned to us in the form of enhanced reputation, loyalty and brand strength. In an industry that needs to become more focused on consumer needs and more creative, these are the measurements that will determine success in the future. That's exactly how we plan to raise the bar in our industry.

LEADING BY EXAMPLE

One of our operating principles is a relentless focus on those few things that provide the greatest impact. Allstate has been able to consistently deliver value ahead of the competition through an intense focus on operational excellence—the ability to run all aspects of our business exceptionally well over time. Achieving this higher standard of financial leadership in our industry was a challenge in 2007. Yet our efficiency and discipline produced a combined ratio of 89.8 for the year, meaning that for every dollar we earned in premiums, it cost us 89.8 cents to operate our Property-Liability business. Further, we delivered on our combined ratio commitment given to shareholders at the beginning of the year. As noted in the 2007 at a Glance section of this report, our low combined ratio is the result of disciplined focus on balancing profitability and growth, our sophisticated pricing expertise and strong, continuous expense management.

Managing all of our businesses effectively means measuring all of our businesses together. We do this through a discipline called Enterprise Risk and Return Management. It’s a process that combines data from across Allstate with an economic model that allows us to fully balance risk and reward. Allstate stochastically models the risks inherent in its property and casualty and financial services businesses holistically, not just within each business or within each risk class. This leads to a deeper understanding of our business as a whole, assures solvency, enables better business decisions and increases shareholder value.

LEADING IN TOTAL RETURNS

Our overall capital management strategy has produced a strong record in the 12 years that Allstate has operated as a fully public company. While we outperformed our peers in many measures in 2007, the year clearly presented challenges. The market has been tough on financial services stocks. We accept the responsibility to buck that trend and raise our value.

During the year, our long record of sound management of shareholder capital was reflected in an increase in dividends per share to $1.52, up 8.6 percent from 2006. We repurchased 61 million common shares for $3.55 billion, representing nearly 10 percent of shares outstanding at the beginning of the year.

Looking at the longer term, since Allstate’s initial public offering in 1993, we have raised dividends an average of 10.8 percent annually. Our consistency in dividends puts us in an exclusive group—among the top 10 percent of all American companies who have raised dividends every year for the past 13 years. Our repurchases since our public offering have totaled more than 40 percent of our issued common stock, for more than $16 billion. In sum, over this time, we’ve increased total shareholder value by 389 percent and returned to shareholders about two out of every three dollars of earnings we’ve generated. Our employees continue to share in this growth. In 2007, our non-bonus-eligible employees received a profit-sharing match of $1.42 for every $1 of Basic Pre-tax Deposits they contributed to The Savings and Profit Sharing Fund of Allstate Employees.

In 2008, we believe our four operational priorities—consumer focus, enterprise risk and return optimization, operational excellence and aggressive capital management—will continue to deliver excellent returns and help us continue to outperform the industry.

brand. Our brand is well known and trusted, and when combined with our marketing strength, encourages our consumers to think differently about insurance. Our brand gives our customers confidence and gives Allstate credibility when we innovate and introduce new products. We have the opportunity to dramatically increase our share by reinventing in such markets as motorcycles, commercial auto, life insurance and retirement, since many of our auto and home insurance customers do not currently buy these products from us today. Our brand is a means to efficiently reach and capture that opportunity.

Our four operational priorities—consumer focus, enterprise risk and return optimization, operational excellence and aggressive capital management—will continue to deliver excellent returns and help us continue to outperform the industry.
An experienced, energetic and dedicated Senior Management Team guides Allstate’s vision and puts our strategy into action. This highly collaborative team shares responsibility for delivering our results and driving our reinvention.

Joan M. Crockett  
Senior Vice President,  
Human Resources,  
Allstate Insurance Company  
Ms. Crockett retired on March 31, 2008

Frederick F. Cripe  
Senior Vice President,  
Product Operations,  
Allstate Insurance Company

George E. Ruebenson  
President, Allstate Protection,  
Allstate Insurance Company

Michele Coleman Mayes  
Vice President and  
General Counsel,  
The Allstate Corporation

Michael J. Roche  
Senior Vice President, Claims,  
Allstate Insurance Company

Thomas J. Wilson  
Chairman of the Board  
Effective May 1, 2008,  
President and Chief  
Executive Officer,  
The Allstate Corporation

Dan Hale  
Vice President and  
Chief Financial Officer,  
The Allstate Corporation  
Mr. Hale retired on March 31, 2008

Joan H. Walker  
Senior Vice President,  
Corporate Relations, and  
Interim Chief Marketing Officer,  
Allstate Insurance Company

Catherine S. Brune  
Senior Vice President and  
Chief Information Officer,  
Allstate Insurance Company

Eric A. Simonson  
Senior Vice President and  
Chief Investment Officer,  
Allstate Insurance Company

James E. Hohmann  
President and Chief  
Executive Officer,  
Allstate Financial

Steven P. Sorenson  
Senior Vice President,  
Protection Distribution,  
Allstate Insurance Company

James D. DeVries*  
Senior Vice President,  
Human Resources,  
Allstate Insurance Company  
As of March 24, 2008

* Not pictured
**LONG-TERM VALUE**

During 2007, Allstate’s long record of sound management of shareholder capital was reflected in dividends per share of $1.52, an increase of 8.6 percent from 2006. Consistent dividend policy has led to an annual average increase of 10.8 percent since our initial public offering in 1993, and we increased dividends every year since 1994. In 2007, Allstate repurchased $4 billion in common shares for $3.55 billion, representing nearly 10 percent of shares outstanding at the beginning of the year. Upon the completion of the current $4 billion program in 2008, Allstate’s board authorized us to begin a new program for $2 billion of shares, to be completed by March 31, 2009.

**2007 RESULTS**

Allstate’s strategy and operating performance in 2007 delivered on our commitments, generated excellent results and enabled us to strengthen our competitive position. Revenues reached $36.8 billion—the highest in our history—and net income of $4.6 billion ($7.77 per diluted share) was the second highest in our history. Return on equity was 21.2 percent, reflecting both the strong operating results and aggressive capital management. Our Property-Liability combined ratio of 89.8 is an indication of our ability and commitment to deliver shareholder value. We believe this performance should ultimately translate into a stock price more in line with our historic range.

**Get more financial information at ir.allstate.com**

*For a definition of terms, please see the Non-GAAP and Operating Measures on the last page; also available online at www.allstate.com/annualreport/definitions*
We believe that investors’ understanding of Allstate’s performance is enhanced by our disclosure of the following non-GAAP and operating financial measures. Our methods of calculating these measures may differ from those used by other companies and therefore comparability may be limited.

Operating income is income before dividends on preferred securities and cumulative effect of change in accounting principle after-tax, excluding:
- realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in operating income,
- amortization of deferred acquisition costs (DAC) and deferred sales inducements (DSI), to the extent they resulted from the recognition of realized capital gains and losses,
- realized gains on disposition of operations, after-tax, and
- adjustments for other significant nonrecurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years.

Net income is the GAAP measure that is most directly comparable to operating income.

We use operating income as an important measure to evaluate our results of operations. We believe that the measure provides a way to evaluate our business or economic trends. Accordingly, operating income excludes the effect of items that tend to be highly variable from period to period and highlights the results from ongoing operations and the underlying profitability of our business. A byproduct of excluding these items is that the transparency and understanding of their significance to net income variability and profitability while recognizing these or similar items may recur in subsequent periods.

Operating income is used by management along with the other components of net income to assess our performance. We use adjusted measures of operating income and operating income per diluted share in incentive compensation. Therefore, we believe it is useful for investors to evaluate net income, operating income, and their components separately and in the aggregate when reviewing and evaluating our performance.

We note that investors, financial analysts, financial and business media organizations and rating agencies utilize operating income results in their evaluation of our and our industry’s financial performance and in their investment decisions, recommendations and communications as it represents a reliable, representative and consistent measurement of the industry and the Company and management’s performance. We note that the price-to-earnings multiple commonly used by insurance investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income and does not reflect the overall profitability of our business.

Non-GAAP and Operating Measures

<table>
<thead>
<tr>
<th>Operating income ($ in millions, except per share data)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>$2,662</td>
<td>$3,091</td>
<td>$1,582</td>
<td>$4,888</td>
<td>$3,863</td>
</tr>
<tr>
<td>Realized capital gains and losses</td>
<td>196</td>
<td>591</td>
<td>549</td>
<td>286</td>
<td>1,235</td>
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<tr>
<td>Income tax expense</td>
<td>(62)</td>
<td>(199)</td>
<td>(189)</td>
<td>(100)</td>
<td>(437)</td>
</tr>
<tr>
<td>Realized capital gains and losses, after-tax</td>
<td>134</td>
<td>392</td>
<td>360</td>
<td>186</td>
<td>798</td>
</tr>
<tr>
<td>DAC and DSI amortization relating to realized capital</td>
<td>(30)</td>
<td>(89)</td>
<td>(103)</td>
<td>36</td>
<td>12</td>
</tr>
<tr>
<td>gains and losses, after-tax</td>
<td>(0.05)</td>
<td>(0.13)</td>
<td>(0.16)</td>
<td>0.06</td>
<td>0.02</td>
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<tr>
<td>Nonrecurring items, after-tax</td>
<td>--</td>
<td>(22)</td>
<td>(18)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Reclassification of periodic settlements and accruals</td>
<td>(15)</td>
<td>(32)</td>
<td>(40)</td>
<td>(36)</td>
<td>(29)</td>
</tr>
<tr>
<td>on non-hedge derivative instruments, after-tax</td>
<td>(0.02)</td>
<td>(0.04)</td>
<td>(0.06)</td>
<td>(0.05)</td>
<td>(0.05)</td>
</tr>
<tr>
<td>Loss on disposition of operations, after-tax</td>
<td>(26)</td>
<td>(6)</td>
<td>(12)</td>
<td>(63)</td>
<td>(8)</td>
</tr>
<tr>
<td>Dividends on preferred securities of subsidiary trust,</td>
<td>(5)</td>
<td>--</td>
<td>--</td>
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</tr>
<tr>
<td>after-tax</td>
<td>(0.04)</td>
<td>(0.01)</td>
<td>(0.02)</td>
<td>(0.10)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle,</td>
<td>(16)</td>
<td>(175)</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>after-tax</td>
<td>(0.02)</td>
<td>(0.25)</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Net income</td>
<td>$2,705</td>
<td>$2,181</td>
<td>$1,765</td>
<td>$4,993</td>
<td>$4,636</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Per diluted share</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>$1.77</td>
<td>$1.41</td>
<td>$1.37</td>
<td>$0.76</td>
<td>$0.67</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Premiums and deposits ($ in millions)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life and annuity premiums*</td>
<td>$1,365</td>
<td>$1,045</td>
<td>$918</td>
<td>$899</td>
<td>$870</td>
</tr>
<tr>
<td>Deposits to contractholder funds</td>
<td>10,373</td>
<td>13,616</td>
<td>12,004</td>
<td>10,046</td>
<td>8,632</td>
</tr>
<tr>
<td>Depreciation of securities other than</td>
<td>1,391</td>
<td>1,268</td>
<td>1,482</td>
<td>713</td>
<td>136</td>
</tr>
<tr>
<td>Change in unearned premiums and other</td>
<td>(34)</td>
<td>(10)</td>
<td>(9)</td>
<td>--</td>
<td>(11)</td>
</tr>
<tr>
<td>adjustment</td>
<td>Total premiums and deposits</td>
<td>$11,908</td>
<td>$16,918</td>
<td>$14,395</td>
<td>$11,646</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Book value per share ($ in millions, except per share data)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominator: Shareholders’ equity</td>
<td>$20,565</td>
<td>$21,823</td>
<td>$20,186</td>
<td>$21,846</td>
<td>$21,851</td>
</tr>
<tr>
<td>Denominator: Shares outstanding and dilutive potential</td>
<td>708.2</td>
<td>688.0</td>
<td>651.0</td>
<td>6271</td>
<td>566.4</td>
</tr>
<tr>
<td>Book value per share</td>
<td>$29.04</td>
<td>$31.72</td>
<td>$31.01</td>
<td>$34.84</td>
<td>$36.58</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Book value per share, excluding the impact of unrealized net capital gains on fixed income securities</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominator: Shareholders’ equity</td>
<td>$20,565</td>
<td>$21,823</td>
<td>$20,186</td>
<td>$21,846</td>
<td>$21,851</td>
</tr>
<tr>
<td>Unrealized net capital gains on fixed income securities</td>
<td>2,307</td>
<td>2,134</td>
<td>1,255</td>
<td>947</td>
<td>266</td>
</tr>
<tr>
<td>Adjusted shareholders’ equity</td>
<td>18,258</td>
<td>18,689</td>
<td>18,941</td>
<td>20,899</td>
<td>21,585</td>
</tr>
<tr>
<td>Denominator: Shares outstanding and dilutive potential</td>
<td>708.2</td>
<td>688.0</td>
<td>651.0</td>
<td>6271</td>
<td>566.4</td>
</tr>
<tr>
<td>Book value per share, excluding the impact of unrealized net capital gains on fixed income securities</td>
<td>$12.78</td>
<td>$12.62</td>
<td>$12.09</td>
<td>$13.33</td>
<td>$13.11</td>
</tr>
</tbody>
</table>

*life and annuity contract changes in the amount of $919 million, $1,027 million, $1,131 million, $1,065 million and $996 million for 2003, 2004, 2005, 2006 and 2007, respectively, which are also revenues recognized for GAAP, have been excluded from the table, but are a component of the Consolidated Statements of Operations line item life and annuity premiums and contract changes.