

APPENDIX C – DEFINITIONS OF NON-GAAP MEASURES

Measures that are not based on accounting principles generally accepted in the United States of America (“non-GAAP”) are defined and reconciled to the most directly comparable GAAP measure. We believe that investors’ understanding of Allstate’s performance is enhanced by our disclosure of the following non-GAAP measures. Our methods for calculating these measures may differ from those used by other companies and therefore comparability may be limited.

Operating income (“operating profit” or “operating earnings”) is net income applicable to common shareholders, 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,
- valuation changes on embedded derivatives that are not hedged, after-tax,
- amortization of deferred policy acquisition costs (“DAC”) and deferred sales inducements (“DSI”), to the extent they resulted from the recognition of certain realized capital gains and losses or valuation changes on embedded derivatives that are not hedged, after-tax,
- business combination expenses and the amortization of purchased intangible assets, after-tax,
- gain (loss) on disposition of operations, after-tax, and
- adjustments for other significant non-recurring, 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 applicable to common shareholders 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 investors with a valuable measure of the company’s ongoing performance because it reveals trends in our insurance and financial services business that may be obscured by the net effect of realized capital gains and losses, valuation changes on embedded derivatives that are not hedged, business combination expenses and the amortization of purchased intangible assets, gain (loss) on disposition of operations and adjustments

for other significant non-recurring, infrequent or unusual items. Realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and gain (loss) on disposition of operations may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions, the timing of which is unrelated to the insurance underwriting process. Consistent with our intent to protect results or earn additional income, operating income includes periodic settlements and accruals on certain derivative instruments that are reported in realized capital gains and losses because they do not qualify for hedge accounting or are not designated as hedges for accounting purposes. These instruments are used for economic hedges and to replicate fixed income securities, and by including them in operating income, we are appropriately reflecting their trends in our performance and in a manner consistent with the economically hedged investments, product attributes (e.g. net investment income and interest credited to contractholder funds) or replicated investments. Business combination expenses are excluded because they are non-recurring in nature and the amortization of purchased intangible assets is excluded because it relates to the acquisition purchase price and is not indicative of our underlying insurance business results or trends. Non-recurring items are excluded because, by their nature, they are not indicative of 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 to determine operating income is 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 applicable to common shareholders to assess our performance. We use adjusted measures of operating income in incentive compensation. Therefore, we believe it is useful for investors to evaluate net income applicable to common shareholders, 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

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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 a substitute for net income applicable to common shareholders and does not reflect the overall profitability of our business.

The following table reconciles consolidated operating income and net income applicable to common shareholders for the years ended December 31.

						Per diluted common share				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Operating income	\$2,113	\$2,367	\$2,670	\$2,148	\$662	\$5.19	\$5.40	\$5.68	\$4.36	\$1.27
Realized capital gains and losses, after-tax	19	451	385	216	324	0.05	1.03	0.82	0.44	0.62
Valuation changes on embedded derivatives that are not hedged, after-tax	(1)	(15)	(16)	82	(12)	—	(0.03)	(0.03)	0.17	(0.02)
DAC and DSI amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(3)	(3)	(5)	(42)	(108)	—	(0.01)	(0.01)	(0.09)	(0.21)
DAC and DSI unlocking relating to realized capital gains and losses, after-tax	—	—	7	4	3	—	—	0.01	0.01	—
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	2	7	(7)	(33)	(35)	—	0.02	(0.01)	(0.07)	(0.07)
Business combination expenses and the amortization of purchased intangible assets, after-tax	(32)	(45)	(55)	(81)	(42)	(0.08)	(0.10)	(0.12)	(0.16)	(0.08)
Gain (loss) on disposition of operations, after-tax	2	(16)	(515)	12	(5)	—	(0.04)	(1.10)	0.02	(0.01)
Loss on extinguishment of debt, after-tax	—	—	(319)	—	—	—	—	(0.68)	—	—
Postretirement benefits curtailment gain, after-tax	—	—	118	—	—	—	—	0.25	—	—
Change in accounting for investments in qualified affordable housing projects, after-tax	(45)	—	—	—	—	(0.11)	—	—	—	—
Net income applicable to common shareholders	\$2,055	\$2,746	\$2,263	\$2,306	\$787	\$5.05	\$6.27	\$4.81	\$4.68	\$1.50

Combined ratio excluding the effect of catastrophes, prior year reserve reestimates and amortization of purchased intangible assets (“underlying combined ratio”) is a non-GAAP ratio, which is computed as the difference between four GAAP operating ratios: the combined ratio, the effect of catastrophes on the combined ratio, the effect of prior year non-catastrophe reserve reestimates on the combined ratio, and the effect of amortization of purchased intangible assets on the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our Property-Liability business that may be obscured by catastrophe losses, prior year reserve reestimates and amortization of purchased intangible assets. Catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence

of occurrence and magnitude, and can have a significant impact on the combined ratio. Prior year reserve reestimates are caused by unexpected loss development on historical reserves. Amortization of purchased intangible assets relates to the acquisition purchase price and is not indicative of our underlying insurance business results or trends. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. We also provide it to facilitate a comparison to our outlook on the underlying combined ratio. The most directly comparable GAAP measure is the combined ratio (“recorded combined ratio”). The underlying combined ratio should not be considered a substitute for the combined ratio and does not reflect the overall underwriting profitability of our business.

The following table reconciles the Property-Liability underlying combined ratio to the Property-Liability combined ratio.

	Twelve months ended December 31,				
	2015	2014	2013	2012	2011
Combined ratio excluding the effect of catastrophes, prior year reserve reestimates and amortization of purchased intangible assets (“underlying combined ratio”)	88.7	87.2	87.3	87.2	89.3
Effect of catastrophe losses	5.7	6.9	4.5	8.8	14.7
Effect of prior year non-catastrophe reserve reestimates	0.3	(0.4)	(0.1)	(1.0)	(0.8)
Effect of amortization of purchased intangible assets	0.2	0.2	0.3	0.5	0.2
Combined ratio (“recorded combined ratio”)	94.9	93.9	92.0	95.5	103.4
Effect of prior year catastrophe reserve reestimates	—	0.1	(0.3)	(1.5)	(0.5)

Underwriting margin is calculated as 100% minus the combined ratio.

Operating income return on common shareholders’ equity is a ratio that uses a non-GAAP measure.

It is calculated by dividing the rolling 12-month operating income by the average of common shareholders’ equity at the beginning and at the end of the 12-months, after excluding the effect of unrealized net capital gains and losses. Return on common shareholders’ equity is the most directly comparable GAAP measure. We use operating income as the numerator for the same reasons we use operating income, as discussed above. We use average common shareholders’ equity excluding the effect of unrealized net capital gains and losses for the denominator as a representation of common shareholders’ equity primarily attributable to the company’s earned and realized business operations because it eliminates the effect of items that are unrealized and vary significantly between periods due to external economic developments such as capital market conditions like changes in equity prices and interest rates, the amount and timing of which are unrelated to the insurance underwriting process. We use it to supplement our evaluation of net income applicable to common shareholders and return on common shareholders’ equity because it excludes the effect of items that tend to be highly variable from period to period. We believe that this measure is useful to investors and that it provides a valuable tool for investors when considered along with return on common shareholders’ equity because it eliminates the after-tax effects of realized and unrealized net capital gains and losses that can fluctuate significantly from period to period

and that are driven by economic developments, the magnitude and timing of which are generally not influenced by management. In addition, it eliminates non-recurring items that are not indicative of our ongoing business or economic trends. A byproduct of excluding the items noted above to determine operating income return on common shareholders’ equity from return on common shareholders’ equity is the transparency and understanding of their significance to return on common shareholders’ equity variability and profitability while recognizing these or similar items may recur in subsequent periods. We use adjusted measures of operating income return on common shareholders’ equity in incentive compensation. Therefore, we believe it is useful for investors to have operating income return on common shareholders’ equity and return on common shareholders’ equity when evaluating our performance. We note that investors, financial analysts, financial and business media organizations and rating agencies utilize operating income return on common shareholders’ equity 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 utilization of capital. Operating income return on common shareholders’ equity should not be considered a substitute for return on common shareholders’ equity and does not reflect the overall profitability of our business.

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The following tables reconcile return on common shareholders' equity and operating income return on common shareholders' equity for the years ended December 31.

(\$ in millions)	2015	2014	2013	2012	2011
Return on common shareholders' equity					
Numerator:					
Net income applicable to common shareholders	\$2,055	\$2,746	\$2,263	\$2,306	\$787
Denominator:					
Beginning common shareholders' equity ⁽¹⁾	\$20,558	\$20,700	\$20,580	\$18,298	\$18,617
Ending common shareholders' equity ⁽¹⁾	18,279	20,558	20,700	20,580	18,298
Average common shareholders' equity	\$19,419	\$20,629	\$20,640	\$19,439	\$18,458
Return on common shareholders' equity	10.6%	13.3%	11.0%	11.9%	4.3%
Operating income return on common shareholders' equity					
Numerator:					
Operating income	\$2,113	\$2,367	\$2,670	\$2,148	\$662
Denominator:					
Beginning common shareholders' equity	\$20,558	\$20,700	\$20,580	\$18,298	\$18,617
Unrealized net capital gains and losses	1,926	1,646	2,834	1,400	948
Adjusted beginning common shareholders' equity	18,632	19,054	17,746	16,898	17,669
Ending common shareholders' equity	18,279	20,558	20,700	20,580	18,298
Unrealized net capital gains and losses	620	1,926	1,646	2,834	1,400
Adjusted ending common shareholders' equity	17,659	18,632	19,054	17,746	16,898
Average adjusted common shareholders' equity	\$18,146	\$18,843	\$18,400	\$17,322	\$17,284
Operating income return on common shareholders' equity	11.6%	12.6%	14.5%	12.4%	3.8%

⁽¹⁾ Excludes equity related to preferred stock of \$1,746 million, \$1,746 million and \$780 million as of December 31, 2015, 2014 and 2013.

Definition of Additional Non-GAAP Measure used in the Chairman and CEO letter

Measures that are not based on accounting principles generally accepted in the United States of America (“non-GAAP”) are defined and reconciled to the most directly comparable GAAP measure. We believe that investors’ understanding of Allstate’s performance is enhanced by our disclosure of the following non-GAAP measure. Our methods for calculating this measure may differ from those used by other companies and therefore comparability may be limited.

Underwriting income, a measure that is not based on GAAP and is reconciled to net income applicable to common shareholders below, is calculated as premiums earned, less claims and claims expense (“losses”), amortization of DAC, operating costs and expenses and restructuring and related charges, as determined using GAAP. We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Net income applicable to common shareholders is the GAAP measure most directly comparable to underwriting income. Underwriting income should not be considered as a substitute for net income applicable to common shareholders and does not reflect the overall profitability of the business.

The following table reconciles Allstate Protection auto underwriting income to net income applicable to common shareholders for the years ended December 31.

(\$ in millions)	<u>2015</u>	<u>2014</u>
Underwriting income:		
Auto	\$ 23	\$ 604
Homeowners	1,431	1,097
Other	<u>160</u>	<u>186</u>
Allstate Protection	1,614	1,887
Discontinued Lines and Coverages	<u>(55)</u>	<u>(115)</u>
Total Property-Liability underwriting income	1,559	1,772
Net investment income	1,237	1,301
Income tax expense on operations	(952)	(1,040)
Realized capital gains and losses, after-tax	(154)	357
Gain on disposition of operations, after-tax	<u>—</u>	<u>37</u>
Property-Liability net income applicable to common shareholders	1,690	2,427
Allstate Financial net income applicable to common shareholders	663	631
Corporate and Other net income applicable to common shareholders	<u>(298)</u>	<u>(312)</u>
Consolidated net income applicable to common shareholders	<u>\$2,055</u>	<u>\$ 2,746</u>