

Appendix A – 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,
- 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, 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.

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 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 net income applicable to common shareholders and operating income for the years ended December 31. Taxes on adjustments to reconcile net income applicable to common shareholders and operating income generally use a 35% effective tax rate and are reported net with the reconciling adjustment. If the effective tax rate is other than 35%, this is specified in the disclosure.

(\$ in millions, except per share data)						Per diluted common share				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Net income applicable to common shareholders	\$1,761	\$2,055	\$2,746	\$2,263	\$2,306	\$4.67	\$5.05	\$6.27	\$4.81	\$4.68
Realized capital gains and losses, after-tax	56	(19)	(451)	(385)	(216)	0.15	(0.05)	(1.03)	(0.82)	(0.44)
Valuation changes on embedded derivatives that are not hedged, after-tax	2	1	15	16	(82)	—	—	0.03	0.03	(0.17)
DAC and DSI amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	4	3	3	5	42	0.01	—	0.01	0.01	0.09
DAC and DSI unlocking relating to realized capital gains and losses, after-tax	—	—	—	(7)	(4)	—	—	—	(0.01)	(0.01)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(3)	(2)	(7)	7	33	(0.01)	—	(0.02)	0.01	0.07
Amortization of purchased intangible assets, after-tax	21	32	45	55	81	0.06	0.08	0.10	0.12	0.16
(Gain) loss on disposition of operations, after-tax	(3)	(2)	16	515	(12)	(0.01)	—	0.04	1.10	(0.02)
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 (all tax)	—	45	—	—	—	—	0.11	—	—	—
Operating income	\$1,838	\$2,113	\$2,367	\$2,670	\$2,148	\$4.87	\$5.19	\$5.40	\$5.68	\$4.36

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. 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 combined ratio to the Property-Liability underlying combined ratio for the years ended December 31.

	2016	2015	2014	2013	2012
Combined ratio	96.1	94.9	93.9	92.0	95.5
Effect of catastrophe losses	(8.2)	(5.7)	(6.9)	(4.5)	(8.8)
Effect of prior year non-catastrophe reserve reestimates	0.1	(0.3)	0.4	0.1	1.0
Effect of amortization of purchased intangible assets	(0.1)	(0.2)	(0.2)	(0.3)	(0.5)
Underlying combined ratio	87.9	88.7	87.2	87.3	87.2
Effect of prior year catastrophe reserve reestimates	—	—	0.1	(0.3)	(1.5)

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.

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)	2016	2015	2014	2013	2012
Return on common shareholders' equity					
Numerator:					
Net income applicable to common shareholders	\$1,761	\$2,055	\$2,746	\$2,263	\$2,306
Denominator:					
Beginning common shareholders' equity ⁽¹⁾	\$18,279	\$20,558	\$20,700	\$20,580	\$18,298
Ending common shareholders' equity ⁽¹⁾	18,827	18,279	20,558	20,700	20,580
Average common shareholders' equity	\$18,553	\$19,419	\$20,629	\$20,640	\$19,439
Return on common shareholders' equity	9.5%	10.6%	13.3%	11.0%	11.9%
Operating income return on common shareholders' equity					
Numerator:					
Operating income	\$1,838	\$2,113	\$2,367	\$2,670	\$2,148
Denominator:					
Beginning 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 beginning common shareholders' equity	17,659	18,632	19,054	17,746	16,898
Ending common shareholders' equity	18,827	18,279	20,558	20,700	20,580
Unrealized net capital gains and losses	1,053	620	1,926	1,646	2,834
Adjusted ending common shareholders' equity	17,774	17,659	18,632	19,054	17,746
Average adjusted common shareholders' equity	\$17,717	\$18,146	\$18,843	\$18,400	\$17,322
Operating income return on common shareholders' equity	10.4%	11.6%	12.6%	14.5%	12.4%

⁽¹⁾ Excludes equity related to preferred stock of \$1,746 million, \$1,746 million, \$1,746 million and \$780 million as of December 31, 2016, 2015, 2014 and 2013, respectively.