

Glossary

Term	Definition
Actuarial best estimate	The probability-weighted average of all future claims and cost scenarios calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally be designed to include no margin for optimism or conversely, caution.
AIP	Annual Incentive Plan
Available-for-sale ("AFS") investment	Financial assets that are classified as available for sale. Please refer to the accounting policy note 1.12 on page 117.
BAYE	Buy-As-You-Earn
BitC	Business in the Community
Capital	The funds invested in the Group, which includes funds invested by shareholders and retained profits.
Claims frequency	The number of claims divided by the number of policies per year.
Claims reserve (provision for losses and loss adjustment expense)	Funds set aside by the Group to meet the estimated cost of claims payments and related expenses that the Group considers will ultimately be required to be paid.
Clawback	The ability of the Company to claim repayment of paid amounts as a debt.
Combined operating ratio ("COR")	The sum of the loss, expense and commission ratios. The ratio is a measure of the amount of claims costs and expenses compared to net earned premium generated. A ratio of less than 100% indicates a profitable business.
Commission	Amounts paid to brokers, partners and price comparison websites for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium.
Current-year attritional loss ratio	The loss ratio for the current accident year excluding the impact of movement of claims reserves relating to previous accident years and claims relating to weather events in the Home division.
DAIP	Deferred Annual Incentive Plan
DL4B	Direct Line for Business, an extension of the Direct Line brand, is our direct commercial insurance brand for micro and small-sized businesses in the UK that have straightforward commercial insurance requirements.
Earnings per share	The amount of the Group's profit allocated to each Ordinary Share of the Company.
ERB	Employee Representative Body
Expense ratio	The ratio of operating expenses divided by net earned premium.
Finance costs	The cost of servicing the Group's external borrowings.
Financial Conduct Authority ("FCA")	The independent body that regulates firms and financial advisers to help put the interests of their customers and the integrity of the market at the core of what they do.
FOS	Financial Ombudsman Service
FRC	Financial Reporting Council
Gross written premium	The total premiums from contracts that began during the period.
IASB	International Accounting Standards Board
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have taken place, but have not yet been reported to us.
Incurred loss	Claims that have been paid plus claims advised by a policyholder but not yet paid. Does not include IBNR (see above).
ICA	Individual capital assessment
ICAS	Individual capital adequacy standards
ICAS+	Introduced by the PRA in 2013, ICAS+ is an extension of the ICAS regime to allow firms to use their developing Solvency II frameworks, in particular the internal model.
In-force policies	The number of policies on a given date that are active and against which the Group will pay following a valid insurance claim.
Initial Public Offering ("IPO")	The first sale of shares by a previously unlisted company to investors on a securities exchange.
IFRS	International Financial Reporting Standard
Insurance reserves	This consists of insurance liabilities and liability adequacy reserve. Together these amount to the reserves an insurance company maintains to meet current and future claims.
Investment income yield	The annualised investment return earned through the income statement during the period, divided by the average assets under management ("AUM") for each asset class during the same period. The investment return excludes realised gains, impairments and fair value adjustments, while the average AUM for the period is derived by taking the opening and closing balances for the period.

Glossary continued

Term	Definition
Investment return	The income earned from the investment portfolio.
Investment return yield	The total annualised investment return earned through the income statement during the period, including items such as realised gains, fair value adjustments and impairments, divided by the average AUM for each asset class during the same period.
KPI	Key performance indicator
Loss ratio	Net insurance claims divided by net earned premium.
LTIP	Long-Term Incentive Plan
Malus	An arrangement that permits the forfeiture of unvested remuneration awards, in circumstances considered appropriate by the Company.
Net asset value	The net asset value of the Group is calculated by subtracting total liabilities from total assets.
Net claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes both claims payments and movements in claims reserves.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period that insurance cover has already been provided.
Ogden discount rate	The discount rate set by the relevant government bodies, the Lord Chancellor and Scottish Ministers, and used to calculate lump sum awards in bodily injury cases.
Ongoing operations	Includes the Group's ongoing segments: Motor, Home, Rescue and other personal lines, Commercial and International. It excludes the Run-off segment and restructuring and other one-off costs.
Operating profit	The pre-tax profit generated by the activities of the Group, including insurance and investment activity, but excluding finance costs.
ORSA	Own Risk and Solvency Assessment
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle large personal injury claims and generally provide claimants who require long-term care with a lump sum award together with inflation-linked annual payments.
Prudential Regulation Authority ("PRA")	The Prudential Regulation Authority is a part of the Bank of England and responsible for the prudential regulation and supervision of insurers and financial institutions in the UK.
RBS Group	The Royal Bank of Scotland Group plc and its subsidiary companies.
Reinsurance	Contractual arrangements whereby the Group transfers part or all of the insurance risk accepted to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
Return on equity	Return on equity is calculated by dividing the profit attributable to the owners of the Company by average ordinary shareholders' equity for the period.
Return on tangible equity ("RoTE")	Return on tangible equity is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude the Run-off segment and restructuring and other one-off costs and is stated after charging tax (using the UK standard tax rate). Pro forma RoTE is based on RoTE, but assumes that the capital actions taken by the Group during 2012 (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012.
Risk mix	This reflects the expected level of claims from the portfolio.
Run-off	Where the Group no longer underwrites new business but continues to meet its claims liabilities under existing contracts.
SME	Small and medium-sized enterprises
Solvency II	The proposed capital adequacy regime for the European insurance industry, which establishes a revised set of EU-wide capital requirements and risk management standards. It is comprised of three pillars: Pillar I, which sets out capital requirements for an insurer, Pillar II which focuses on systems of governance and Pillar III which deals with disclosure requirements.
Three lines of defence	The 1st line of defence is provided by line managers who are responsible for ownership and management of the risks to the achievement of business objectives on a day-to-day basis. The 2nd line of defence is provided by specialist control functions, including Risk and Compliance, which are responsible for the provision of proportionate oversight of the business and related or emerging risks. Group Audit delivers the 3rd line of defence through the provision of an independent view for the Board on the effectiveness of risk management.
Total shareholder return ("TSR")	Compares the movements in the share price and dividends paid over a period of time, as a percentage of the share price at the beginning of the period.
UK Corporate Governance Code (the "Code")	The UK Corporate Governance Code, dated September 2012 and issued by the FRC.
Underwriting profit / loss	The profit or loss from operational activities, excluding investment performance. It is calculated as: $\text{Net earned premium} \quad \text{less} \quad \text{Net insurance claims} \quad \text{less} \quad \text{Total expenses}$