

Measuring our performance

We have defined eight key performance indicators that allow us to monitor our performance against our strategic priorities. In turn, these are supported by further performance indicators monitored by management.

Combined operating ratio¹ (%)

3.1ppts improvement

96.1%



Total cost base² (£m)

£1,031.9m



Investment income yield (%)

2.1%



Adjusted earnings per share - diluted³ (pence)

25.0p



Definition

A measure of financial year underwriting profitability calculated by the sum of claims, commissions and expenses divided by net earned premium for ongoing operations. This excludes instalment and other operating income and investment return. A COR of less than 100% indicates profitable underwriting.

Aim

We aim to make an underwriting profit, and in 2013 set and achieved a target of a 98% COR. For 2014, we are providing guidance of a COR in the range of 95% to 97% for the Group. This assumes a normal level of claims from weather events.

Definition

The cost of doing business, including paying our people, marketing, infrastructure and IT. This includes the costs we incur in handling claims, but excludes any commissions we pay to brokers or partners and restructuring and other one-off costs.

Aim

We aim to operate an efficient and effective organisation and are targeting our total cost base² for 2014 to be approximately £1,000 million.

Definition

The return generated by investing the assets we hold. These investments are held to pay out future claims and to support our capital base. It is calculated by dividing investment income (excluding net realised gains) by average investment assets under management ("AUM").

Aim

We aim to maximise investment income subject to the risk appetite set by the Board. The investment portfolio assets are currently invested in credit and sovereign debt securities, cash and property.

Definition

We adjust earnings to exclude restructuring and other one-off costs, the result of our Run-off segment and other one-off items. These adjusted earnings, which reflect the ongoing operations, are divided by the average number of shares in issue adjusted for dilutive potential Ordinary Shares.

Aim

We have not set a target for adjusted earnings per share given the cyclical nature of the insurance industry. Growing earnings per share is considered one indicator of a healthy business.

Notes:

1. See note 1 on page 2
2. See note 2 on page 2
3. See note 6 on page 3

Return on tangible equity¹ (%)

16.0%



● 13.4% pro forma in 2012²

Definition

The return generated on the capital shareholders have in the business. This is calculated by dividing adjusted earnings by average tangible equity.

Aim

We have set a target to achieve a 15% RoTE.

Dividend per share³ (pence)

20.6p



● 12.0 pence pro forma full year dividend for 2012

Definition

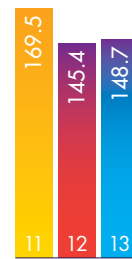
The amount of cash paid to shareholders out of the profit of the Group. The comparative amount shown excludes dividends paid prior to the IPO.

Aim

We have adopted a progressive dividend policy and aim to grow the dividend in real terms each year. In addition, we look to return excess capital to shareholders when appropriate.

Risk-based capital coverage⁴ (%)

148.7%



Definition

A measure to show the level of capital held compared to the level that is required, taking into account the risks faced by the business.

Aim

We target risk-based capital coverage of 125% to 150% which is consistent with our aim to maintain a rating in the 'A' range from our credit rating agencies.

Complaints (%)

0.32%



Definition

The number of complaints received during the year as a proportion of the average number of in-force policies.

Aim

This measure indicates the level of customer service provided and over time we aim to improve this.

Notes:

1. See note 3 on page 2
2. See note 4 on page 2
3. See note 5 on page 3
4. Adjusted for final and second special interim dividends