

Appendix A – Alternative performance measures

The Group has identified alternative performance measures (“APMs”) in accordance with the European Securities and Markets Authority’s published Guidelines. The Group uses APMs to improve comparability of information between reporting periods and reporting segments, by adjusting for either uncontrollable or one-off costs which impact on IFRS measures, to aid the user of the Annual Report in understanding the activity taking place across the Group. These APMs are contained within the main narrative sections of this document, outside of the financial statements and notes, and may not necessarily have standardised meanings for ease of comparability across peer organisations.

Further information is presented below, defined in the glossary on pages 191 to 192 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 158 of the consolidated financial statements presents a reconciliation of the Group’s business activities on a segmental basis to the consolidated income statement. All note references in the table below are to the notes to the consolidated financial statements on pages 136 to 181.

In 2018, the Group ceased presenting APMs for the following measures:

- adjusted diluted earnings per share;
- operating profit from Ongoing operations; and
- adjusted profit before tax and after tax from Ongoing operations.

These APMs no longer provide relevant information, as 2018 results are based on total Group operations including the Run-off segment and restructuring costs which are included in the Motor segment.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 191 and is reconciled to loss ratio (discussed below) on page 158.	Expresses claims performance in the current accident year in relation to net earned premium.
Combined operating ratio	Operating profit	Combined operating ratio is defined in the glossary on page 191.	This is a measure of underwriting profitability whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss and excludes non-insurance income.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 191 and is reconciled on page 194.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined in the glossary on page 192 and is reconciled on page 194.	Expresses a relationship between the investment return and the associated opening and closing assets net of any associated liabilities.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 192 and is reconciled in note 4.	Expresses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary on page 192 and is reconciled on page 194.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Return on tangible equity	Return on Equity	Return on tangible equity is defined in the glossary on page 192 and is reconciled on page 194.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined as equity (excluding Tier 1 notes) less intangible assets within the balance sheet and is reconciled on page 165.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets.
Tangible net assets per share	Net assets per share	Tangible net assets per share is defined as tangible equity (as above) expressed as a value per share and is reconciled in note 16 on page 165.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies who have not acquired businesses or capitalised intangible assets.

Appendix A – Alternative performance measures continued

Additionally, the current-year attritional loss ratio within the analysis by division section has also been identified as an alternative performance measure, similarly reconciled to the financial statements and notes on page 29 and defined in the glossary on page 191.

Return on tangible equity¹

	2018 ² £m	2017 ² £m
Operating profit	601.7	642.8
Finance costs	(19.1)	(103.8)
Profit before tax	582.6	539.0
Finance costs adjustment for one-off subordinated debt buy back	–	66.1
Coupon payments in respect of Tier 1 notes	(16.6)	–
Adjusted profit before tax	566.0	605.1
Tax charge	(108.9)	–
Tax charge (using the 2017 UK standard tax rate of 19.25%)	–	(116.5)
Adjusted profit after tax	457.1	488.6
Opening shareholders' equity	2,715.1	2,521.5
Opening goodwill and other intangible assets	(471.1)	(508.9)
Opening shareholders' tangible equity	2,244.0	2,012.6
Closing shareholders' equity	2,573.1	2,715.1
Closing goodwill and other intangible assets	(566.8)	(471.1)
Closing shareholders' tangible equity	2,006.3	2,244.0
Average shareholders' tangible equity ³	2,125.2	2,128.3
Return on tangible equity	21.5%	23.0%

Investment income and return yields¹

	Notes ⁴	2018 £m	2017 £m
Investment income	6	159.2	167.1
Hedging to a sterling floating rate basis ⁵	6	(30.8)	(27.0)
Net investment income		128.4	140.1
Net realised and unrealised gains excluding hedging	6	26.2	35.3
Investment return		154.6	175.4
Opening investment property		309.3	329.0
Opening financial investments		5,040.4	5,147.0
Opening cash and cash equivalents		1,358.6	1,166.1
Opening borrowings		(54.1)	(55.3)
Opening derivatives asset / (liability) ⁶		55.1	(5.8)
Opening investment holdings		6,709.3	6,581.0
Closing investment property	19	322.1	309.3
Closing financial investments	26	4,737.8	5,040.4
Closing cash and cash equivalents	27	1,154.4	1,358.6
Closing borrowings	27	(62.0)	(54.1)
Closing derivatives asset ⁶		11.8	55.1
Closing investment holdings		6,164.1	6,709.3
Average investment holdings		6,436.7	6,645.2
Investment income yield		2.5%	2.5%
Net investment income yield		2.0%	2.1%
Investment return yield		2.4%	2.6%

Notes:

1. See glossary on pages 191 and 192 for definitions.
2. Results for year ended 31 December 2018 are based on total Group operations including the restructuring costs and Run-off segment. Comparative data has been re-presented accordingly to include the restructuring costs and Run-off profits in the 2017 operating profit. The adjusted profit after tax reported in 2017 was £462.9 million and the return on tangible equity was 21.7%.
3. Mean average of opening and closing balances.
4. See notes to the consolidated financial statements.
5. Includes net realised and unrealised gains / (losses) of derivatives in relation to AUM.
6. See note 1 on page 36.