

## 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 the IFRS measures, to aid the user of the annual report and accounts in understanding the activity taking place across the Group. These APMs are contained within the main narrative sections of this document, outside 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 224 to 226 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 185 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 162 to 214.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 224 and reconciled in note 4 on page 185.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Commission ratio	Commission expense	Commission ratio is defined in the glossary on page 224 and is reconciled in note 4 on page 185.	Expresses commission expense, in relation to net earned premium.
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 224 and is reconciled to the loss ratio (discussed below) on page 24.	Expresses claims performance in the current accident year in relation to net earned premium.
Current-year combined operating ratio	Profit before tax	Current-year combined operating ratio is defined in the glossary on page 224 and is reconciled on page 24.	This is a measure of underwriting profitability, excluding the effect of prior-year reserve movements.
Current-year normalised operating profit ratio	Profit before tax	Current-year normalised operating profit ratio is defined in the glossary on page 224 and reconciled on page 229.	Expresses a relationship between current-year normalised operating profit and normalised operating profit.
Expense ratio	Total expenses	Expense ratio is defined in the glossary on page 225 and is reconciled in note 4 on page 185.	Expresses underwriting and policy expenses in relation to net earned premium.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 225 and is reconciled on page 228.	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 225 and is reconciled on page 228.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 225 and is reconciled in note 4 on page 185.	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 225 and is reconciled on page 228.	Expresses a relationship between the net investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Normalised combined operating ratio	Profit before tax	Combined operating ratio and normalised combined operating ratio are defined in the glossary on page 224 and reconciled on page 229.	This is a measure of underwriting profitability excluding the effects of weather, Ogden discount rate changes and restructuring and one-off costs. It also excludes non-insurance income. A ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Operating expenses	Total expenses	Operating expenses are defined in the glossary on page 226 and reconciled in note 4 on page 185.	This shows the expenses relating to business activities excluding restructuring and one-off costs.

## Appendix A – Alternative performance measures continued

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 226 and reconciled in note 4 on page 185.	This shows the underlying performance (before tax and excluding finance costs and restructuring and one-off costs) of the business activities.
Return on tangible equity	Return on equity	Return on tangible equity is defined in the glossary on page 226 and is reconciled on page 230.	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 in the glossary on page 226 and is reconciled in note 16 on page 193.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies which have not acquired businesses or capitalised intangible assets.
Tangible net asset value per share	Net asset value per share	Tangible net asset value per share is defined in the glossary on page 226 and reconciled in note 16 on page 193.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies which have not acquired businesses or capitalised intangible assets.
Underwriting profit	Profit before tax	Underwriting profit is defined in the glossary on page 226 and is reconciled in note 4 on page 185.	This shows underwriting performance calculated as net earned premium less net claims and operating expenses, excluding restructuring and one-off costs.

## Investment income and return yields<sup>1</sup>

	Notes <sup>2</sup>	2020 £m	2019 £m
Investment income	6	127.1	146.4
Hedging to a sterling floating rate basis <sup>3</sup>	6	(20.3)	(22.1)
Net investment income		106.8	124.3
Net realised and unrealised (losses) / gains excluding hedging		(11.7)	10.3
Investment return	6	95.1	134.6
Opening investment property		291.7	322.1
Opening financial investments		4,673.4	4,737.8
Opening cash and cash equivalents		948.6	1,154.4
Opening borrowings		(52.3)	(62.0)
Opening derivatives asset <sup>4</sup>		81.8	11.8
Opening investment holdings		5,943.2	6,164.1
Closing investment property	20	292.1	291.7
Closing financial investments	28	4,681.4	4,673.4
Closing cash and cash equivalents	29	1,220.1	948.6
Closing borrowings	29	(51.9)	(52.3)
Closing derivatives asset <sup>4</sup>		8.0	81.8
Closing investment holdings		6,149.7	5,943.2
Average investment holdings <sup>5</sup>		6,046.5	6,053.7
<b>Investment income yield<sup>1</sup></b>		<b>2.1%</b>	2.4%
<b>Net investment income yield<sup>1</sup></b>		<b>1.8%</b>	2.1%
<b>Investment return yield<sup>1</sup></b>		<b>1.6%</b>	2.2%

Notes:

- See glossary on page 225 for definitions.
- See notes to the consolidated financial statements.
- Includes net realised and unrealised gains / (losses) on derivatives in relation to AUM.
- See footnote 1 on page 34 (Investment holdings).
- Mean average of opening and closing balances.

## Normalised combined operating ratio<sup>1</sup>

	Home 2020	Home 2019	Commercial 2020	Commercial 2019	Total 2020	Total 2019
Loss ratio	55.6%	46.8%	51.4%	52.7%	57.9%	61.9%
Commission ratio	8.1%	9.7%	18.7%	18.5%	8.6%	7.1%
Expense ratio	23.4%	23.8%	25.4%	24.5%	24.5%	23.2%
Combined operating ratio	87.1%	80.3%	95.5%	95.7%	91.0%	92.2%
Effect of weather						
Loss ratio	3.4%	7.2%	0.4%	3.7%	0.7%	2.0%
Commission ratio	(0.2%)	(0.6%)	–	–	–	(0.1%)
<b>Combined operating ratio normalised for weather</b>	<b>90.3%</b>	<b>86.9%</b>	<b>95.9%</b>	<b>99.4%</b>	<b>91.7%</b>	<b>94.1%</b>
Effect of Ogden discount rate						
Loss ratio	–	–	–	(0.2%)	–	(0.6%)
<b>Combined operating ratio normalised for weather and Ogden discount rate</b>	<b>90.3%</b>	<b>86.9%</b>	<b>95.9%</b>	<b>99.2%</b>	<b>91.7%</b>	<b>93.5%</b>

Note:

1. See glossary on page 224 for definition.

## Normalised operating profit<sup>1</sup>

	Total 2020 £m	Total 2019 £m
Operating profit	522.1	546.9
Effect of:		
Ogden discount rate	–	16.9
Normalised weather – claims	(20.8)	(59.0)
Normalised weather – profit share	1.3	3.7
<b>Normalised operating profit</b>	<b>502.6</b>	<b>508.5</b>
Prior-year adjustments		
Prior-year reserve movement	173.8	294.5
Ogden discount rate	–	16.9
<b>Prior-year normalised operating profit</b>	<b>173.8</b>	<b>311.4</b>
<b>Current-year normalised operating profit</b>	<b>328.8</b>	<b>197.1</b>
<b>Current-year normalised operating profit ratio</b>	<b>65%</b>	<b>39%</b>

Note:

1. See glossary on page 226 for definition.

## Operating expenses<sup>1</sup>

	Note <sup>2</sup>	2020 £m	2019 £m
Operating expenses (including restructuring and one-off costs)	10	763.8	704.9
Less restructuring and one-off costs	10	(39.4)	(11.2)
<b>Operating expenses</b>	<b>10</b>	<b>724.4</b>	<b>693.7</b>

Notes:

1. See glossary on page 226 for definition.
2. See notes to the consolidated financial statements.

## Return on tangible equity<sup>1</sup>

	2020	2019
	£m	£m
Profit before tax	451.4	509.7
Add back: restructuring and one-off costs	39.4	11.2
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Adjusted profit before tax	474.2	504.3
Tax charge (2019 and 2020 UK standard tax rate of 19%)	(90.1)	(95.8)
Adjusted profit after tax	384.1	408.5
Opening shareholders' equity	2,643.6	2,558.2
Opening goodwill and other intangible assets	(702.5)	(566.8)
Opening shareholders' tangible equity	1,941.1	1,991.4
Closing shareholders' equity	2,699.7	2,643.6
Closing goodwill and other intangible assets	(786.8)	(702.5)
Closing shareholders' tangible equity	1,912.9	1,941.1
Average shareholders' tangible equity <sup>2</sup>	1,927.0	1,966.3
<b>Return on tangible equity</b>	<b>19.9 %</b>	<b>20.8 %</b>

Notes:

1. See glossary on page 226 for definition.
2. Mean average of opening and closing balances.