

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 248 to 250 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 206 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 181 to 238.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Adjusted solvency capital ratio	This measure is based on the Group's Solvency II balance sheet and therefore there is no IFRS equivalent	Adjusted solvency capital ratio is defined in the glossary on page 248 and reconciled on page 255.	This is a measure that shows the Group's solvency ratio excluding the Tier 2 subordinated debt which can first be called on 27 April 2022.
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 248 and reconciled in note 4 on page 206.	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 248 and is reconciled in note 4 on page 206.	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 248 and is reconciled to the loss ratio (discussed below) on page 35.	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 248 and is reconciled on page 35.	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 248 and reconciled on page 254.	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 249 and is reconciled in note 4 on page 206.	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 249 and is reconciled on page 253.	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 249 and is reconciled on page 253.	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 249 and is reconciled in note 4 on page 206.	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 249 and is reconciled on page 253.	Expresses a relationship between the net investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.

Glossary and Appendices *continued*

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Normalised combined operating ratio	Profit before tax	Combined operating ratio and normalised combined operating ratio are defined in the glossary on page 248 and reconciled on page 253.	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 250 and reconciled in note 4 on page 206.	This shows the expenses relating to business activities excluding restructuring and one-off costs.
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 250 and reconciled in note 4 on page 206.	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 250 and is reconciled on page 255.	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 250 and is reconciled in note 16 on page 214.	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 250 and reconciled in note 16 on page 214.	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 250 and is reconciled in note 4 on page 206.	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 yields¹

	Notes ²	2021 £m	2020 £m
Investment income	6	116.0	127.1
Hedging to a sterling floating rate basis ³	6	(13.3)	(20.3)
Net investment income		102.7	106.8
Net realised and unrealised gains/(losses) excluding hedging		43.6	(11.7)
Total investment return	6	146.3	95.1
Opening investment property		292.1	291.7
Opening financial investments		4,681.4	4,673.4
Opening cash and cash equivalents		1,220.1	948.6
Opening borrowings		(51.9)	(52.3)
Opening derivatives asset ⁴		8.0	81.8
Opening investment holdings		6,149.7	5,943.2
Closing investment property	20	317.0	292.1
Closing financial investments	28	4,633.6	4,681.4
Closing cash and cash equivalents	29	955.7	1,220.1
Closing borrowings	29	(59.2)	(51.9)
Closing derivatives asset ⁴		14.3	8.0
Closing investment holdings		5,861.4	6,149.7
Average investment holdings ⁵		6,005.6	6,046.5
Investment income yield¹		1.9%	2.1%
Net investment income yield¹		1.7%	1.8%
Investment return yield¹		2.4%	1.6%

Notes:

1. See glossary on page 249 for definitions.
2. See notes to the consolidated financial statements.
3. Includes net realised and unrealised gains/(losses) on derivatives in relation to AUM.
4. See footnote 1 on page 44 (Investment holdings).
5. Mean average of opening and closing balances.

Normalised combined operating ratio¹

	Home 2021	Home 2020	Commercial 2021	Commercial 2020	Total 2021	Total 2020
Loss ratio	50.7%	55.6%	54.5%	51.4%	58.1%	57.9%
Commission ratio	6.9%	8.1%	20.0%	18.7%	8.1%	8.6%
Expense ratio	22.5%	23.4%	21.7%	25.4%	23.9%	24.5%
Combined operating ratio	80.1%	87.1%	96.2%	95.5%	90.1%	91.0%
Effect of weather						
Loss ratio	5.5%	3.4%	0.1%	0.4%	1.1%	0.7%
Commission ratio	(0.4%)	(0.2%)	–	–	(0.1%)	–
Combined operating ratio normalised for weather	85.2%	90.3%	96.3%	95.9%	91.1%	91.7%

Note:

1. See glossary on page 248 for definition.

Glossary and Appendices *continued*Normalised operating profit¹

	Total 2021 £m	Total 2020 £m
Operating profit	581.8	522.1
Effect of:		
Normalised weather - claims	(31.1)	(20.8)
Normalised weather - profit share	2.0	1.3
Normalised operating profit	552.7	502.6
Prior-year adjustments		
Prior-year reserve movement	258.1	173.8
Prior-year normalised operating profit	258.1	173.8
Current-year normalised operating profit	294.6	328.8
Current-year normalised operating profit ratio	53%	65%

Note:

1. See glossary on page 250 for definition.

Operating expenses¹

	Note ²	2021 £m	2020 £m
Operating expenses (including restructuring and one-off costs)	10	807.8	763.8
Less restructuring and one-off costs	10	(101.5)	(39.4)
Operating expenses	10	706.3	724.4

Notes:

1. See glossary on page 250 for definition.
2. See notes to the consolidated financial statements.

Return on tangible equity¹

	2021 £m	2020 £m
Profit before tax	446.0	451.4
Add back restructuring and other one-off costs	101.5	39.4
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Adjusted profit before tax	530.9	474.2
Tax charge (2021 and 2020 UK standard tax rate of 19%)	(100.9)	(90.1)
Adjusted profit after tax	430.0	384.1
Opening shareholders' equity	2,699.7	2,643.6
Opening goodwill and other intangible assets	(786.8)	(702.5)
Opening shareholders' tangible equity	1,912.9	1,941.1
Closing shareholders' equity	2,550.2	2,699.7
Closing goodwill and other intangible assets	(822.5)	(786.8)
Closing shareholders' tangible equity	1,727.7	1,912.9
Average shareholders' tangible equity ²	1,820.3	1,927.0
Return on tangible equity	23.6 %	19.9 %

Notes:

1. See glossary on page 250 for definition.
2. Mean average of opening and closing balances.

Adjusted solvency capital ratio¹

	2021 £bn
Total eligible own funds	2.38
Less: Tier 2 subordinated debt which can first be called towards the end of April 2022	(0.25)
Add back: ineligible Tier 3 capital	0.03
	2.16
Solvency capital requirement	1.35
Adjusted solvency capital ratio	160 %

Note:

1. See glossary on page 248 for definition.