Glossary and Appendices

Term	Definition and explanation
Actuarial best estimate ("ABE")	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Adjusted solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement, which excludes the Tier 2 subordinated debt which can first be called on 27 April 2022 from the Group's own funds.
Annual Incentive Plan ("AIP")	This incentivises the performance of Executive Directors and employees over a one-year operating cycle. It focuses on the short- to medium-term elements of the Group's strategic aims.
Assets under management ("AUM")	This represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties.
Association of British Insurers ("ABI")	The trade body that represents the insurance and long-term savings industry in the UK.
Available-for-sale ("AFS") investments	Available-for-sale investments are non-derivative financial assets that are designated as such, or are not classified as loans and receivables, held-to-maturity, or financial assets at fair value through profit or loss.
Average written premium	The total written premium at inception divided by the number of policies.
Bootstrapping	A statistical sampling technique used to estimate reserve variability around the Actuarial Best Estimate ("**ABE**"). Results produced from bootstrapping historical data are used to set and inform the level of margin incorporated in the Management Best Estimate ("**MBE**").
Buy-As-You-Earn Plan	The HM Revenue & Customs approved Buy-As-You-Earn Share Incentive Plan gives all employees the opportunity to become shareholders in the Company.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, the subordinated liabilities in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Carbon emissions	**Scope 1** – covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles. **Scope 2** – covers indirect emissions from the generation of purchased electricity, steam, heating and cooling for office buildings and accident repair centres. **Scope 3 under our direct control** – includes indirect emissions that occur in the Group's value chain, under its direct control, such as waste disposal and business travel. **Total Scope 3** – includes all other indirect emissions that occur in the Group's value chain and purchased goods and services, excluding investments.
Claims frequency	The number of claims divided by the number of policies per year.
Claims handling provision (provision for losses and loss-adjustment expense)	Funds set aside by the Group to meet the estimated cost of settling claims and related expenses that the Group considers it will ultimately need to pay.
Clawback	The Group's ability to claim repayment of paid amounts both cash and equity-settled share-based payments.
Combined operating ratio	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. **Normalised combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate. (See page 253 alternative performance measures.)
Commission expenses	Payments to brokers, partners and price comparison websites for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium. (See page 251 alternative performance measures.)
Company	Direct Line Insurance Group plc.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events. (See page 251 alternative performance measures.)
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves. (See page 251 alternative performance measures.)
Current-year normalised operating profit	This is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See page 251 alternative performance measures.)
Deferred Annual Incentive Plan ("DAIP")	For Executive Directors and certain members of senior management, at least 40% of the AIP award is deferred into shares typically vesting three years after grant. The remainder of the award is paid in cash following year end.
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.

Term	Definition and explanation
Earnings per share	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company.
Employee Representative Body ("ERB")	The forum that represents all employees, including when there is a legal requirement to consult employees.
Expense ratio	The ratio of operating expenses divided by net earned premium. (See page 251 alternative performance measures.)
Finance costs	The cost of servicing the Group's external borrowings and including the interest on ROU assets.
Financial Conduct Authority ("FCA")	The independent body responsible for regulating the UK's financial services industry.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Financial Reporting Council	The UK's regulator for the accounting, audit and actuarial professions, promoting transparency and integrity in business.
Gross written premium	The total premiums from insurance contracts that were incepted during the period.
Group	Direct Line Insurance Group plc and its subsidiaries.
Incremental borrowing rate ("IBR")	The rate of interest that a lessee would have to pay to borrow, over a similar term and security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported.
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.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
International Accounting Standards Board ("IASB")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops International Financial Reporting Standards ("**IFRSs**") that aim to make worldwide markets transparent, accountable and efficient.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average assets under management ("**AUM**"). The average AUM derives from the period's opening and closing balances for the total Group. (See page 251 alternative performance measures.)
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See page 251 alternative performance measures.)
Long-Term Incentive Plan ("LTIP")	Awards made as nil-cost options or conditional share awards, which vest to the extent that performance conditions are satisfied after a period of at least three years.
Loss ratio	Net insurance claims divided by net earned premium. (See page 251 alternative performance measures.)
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Management's best estimate ("MBE")	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
Minimum capital requirement ("MCR")	The minimum amount of capital that an insurer needs to hold to cover its risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless the insurer is able to meet the MCR within a short period of time.
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging. (See page 251 alternative performance measures.)
Net promoter score ("NPS")	This is an index that measures the willingness of customers to recommend products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.

Glossary and Appendices *continued*

Term	Definition and explanation
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See page 252 alternative performance measures.)
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restructuring and one-off costs. **Normalised operating profit** is operating profit adjusted for weather and changes to the Ogden discount rate. (See page 254 alternative performance measures.)
Own Risk and Solvency Assessment ("ORSA")	A forward-looking assessment of the Group's risks and associated capital requirements, over the business planning period.
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle certain large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
Restructuring costs	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities.
Return on equity	This is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Return on tangible equity ("RoTE")	This is adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19%. (See page 252 alternative performance measures.)
Right-of-use ("ROU") asset	A lessee's right to use an asset over the life of a lease, calculated at initial recognition as the present value of the lease payments, plus any initial direct costs less any incentives received. The ROU asset is depreciated over the lease term and is subject to impairment testing.
Science-Based Targets ("SBT")	Science-Based Targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as "science-based" if it is developed in line with the scale of reductions required to curb global temperature rise to well below 2˚C above pre-industrial levels.
Scope 1, Scope 2, Scope 3 under our direct control and Total Scope 3	Please refer to the glossary definition for carbon emissions on page 248.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises 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.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Solvency capital requirement ("SCR")	The SCR is the amount of capital the regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. The Group uses a partial internal model to determine SCR.
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See page 252 alternative performance measures.)
Tangible net assets per share	This shows the amount of tangible equity allocated to each ordinary share (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See page 252 alternative performance measures.)
Task Force on Climate-related Financial Disclosure ("TCFD")	Established by the Financial Stability Board, the TCFD developed a set of disclosure recommendations on the risks and opportunities presented by climate change. The TCFD aims to improve and increase climate-related disclosure by organisations and promotes the provision of clear, comprehensive and high-quality information.
Total Shareholder Return ("TSR")	Compares share price movement with reinvested dividends as a percentage of the share price.
Underwriting result profit/(loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restructuring and one-off costs.