8 March 2022

DIRECT LINE INSURANCE GROUP PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021
STRONG RESULTS, INCREASED DIVIDEND, SHARE BUYBACK ANNOUNCED

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"I am delighted by the Group's strong performance and proud of the way we have navigated the complexities of a challenging market. Operating profit has increased to £582 million, own brands policies grew as our Home, Commercial and Rescue businesses performed strongly, whilst in Motor we steered a smart path through another uncertain period as the market sought to predict the impact of Covid-19. We are pleased to declare a final dividend of 15.1 pence per share, up by 2.7% over 2020, and also announce a further share buyback programme.

"2021 has been a year of significant strategic progress - we've successfully completed the main elements of our technology build and data capability, both key enablers of future growth. Our new motor platform is improving our competitiveness, we've announced a new partnership with Motability Operations that is expected to see over 640,000 customers join us in 2023 and we've extended our Home partnership with NatWest Group until 2027.

"I can't thank my colleagues enough. This year's success is due to the sheer dedication of our brilliant people who have continued to deliver despite the challenges of a pandemic. This is a fantastic business, with great brands, a customer obsessive mindset and an exceptional claims service where we are harnessing the best of technology to meet customer needs. The capability we have built is already delivering improved competitiveness and we believe there is plenty more to come in 2022."

Results summary

	FY 2021 £m	FY 2020 £m	Change
In-force policies (thousands)	**14,565**	14,615	(0.3%)
Of which: direct own brands[1] (thousands)	**7,529**	7,454	1.0%
Gross written premium	**3,171.6**	3,180.4	(0.3%)
Of which: direct own brands[1]	**2,207.6**	2,225.6	(0.8%)
Operating profit[2]	**581.8**	522.1	11.4%
Combined operating ratio[2,3]	**90.1%**	91.0%	0.9pts
Profit before tax	**446.0**	451.4	(1.2%)
Return on tangible equity[2]	**23.6%**	19.9%	3.7pts
Dividend per share – interim (pence)[4]	**7.6**	7.4	2.7%
– final (pence)[4]	**15.1**	14.7	2.7%
– special (pence)[5]	**–**	14.4	n/a
Share buyback announced	**100.0**	100.0	— %
	FY 2021	FY 2020	Change
Solvency capital ratio post-dividends and share buyback[6]	**176%**	191%	(15pts)
Adjusted solvency capital ratio[7]	**160%**	172%	(12pts)

Financial highlights

- Direct own brands in-force policies grew 1.0% with growth across Commercial direct (7.5%), Green Flag Rescue (5.8%) and Home (2.3%). Motor direct own brands in-force policies were stable in H2 2021 with a reduction of 1.9% over the year. Direct own brands gross written premium was 0.8% lower and grew 0.7% in H2 2021.
- Operating profit increased to £581.8 million (2020: £522.1 million) driven by an increase in underwriting profit and a strong investment return result. Current-year contribution to operating profit, normalised for weather, was 53% (2020: 65%), in line with the Group's 2021 target of at least 50%.
- Combined operating ratio improved to 90.1% (2020: 91.0%). Normalised for weather, the combined operating ratio was 91.1%, ahead of our medium-term target of 93% to 95% and in line with the expectation of between 90% and 92% for 2021 we stated at half year.
- Profit before tax of £446.0 million was £5.4 million lower than 2020 as the increase in operating profit was offset by a £62.1 million increase in restructuring and one-off costs primarily reflecting restructuring of the property portfolio, including the purchase of the Bromley office in early 2021 as previously announced.
- Proposed final ordinary dividend of 15.1 pence per share, making a total of 22.7 pence per share, an increase of 2.7% over the 2020 total ordinary dividend, and announcing a £100.0 million share buyback programme. Strong capital position with an adjusted solvency capital ratio of 160%.

Strategic highlights

In 2021, we made great progress on our path to building the insurance company of the future – technology and data-led with a customer obsessive mindset. We completed the main elements of our technology build and continued to make progress across all six of our strategic objectives:

- **Best at direct:** Our main direct brands, Direct Line and Green Flag, continued to deliver great customer service with high net promoter scores across a broad product range. For Direct Line customers we continued to offer mileage-based savings, we helped make the transition to electric vehicles easier and we extended our product range. In Green Flag we delivered a new cloud-based policy platform for digital sales and relaunched the way we operate enabling us to offer more services alongside our great value recovery service.
- **Win on Price Comparison Websites:** We have built on the success of Churchill in the PCW channel by rolling out our new Motor platform which allows us greater pricing sophistication, use of third-party data and speed to market. We saw some initial benefits of this in improved Motor competitiveness in the second half of the year. We have already launched further pricing enhancements in 2022 with machine learning techniques due to be deployed in Q2. This is complemented by the success of Darwin in this channel, which grew its in-force policy count by 150% in 2021 to over 135,000 policies.
- **Extend our reach:** We announced a new partnership with Motability Operations, demonstrating our core strengths in delivering great customer service and efficient car repair. The partnership shows how we can leverage our capability into wider customer groups and is anticipated to increase Motor gross written premium by around £500 million each year from H2 2023. We also agreed a long-term extension to our Home partnership with NatWest Group until 2027, where we currently provide Home insurance to its customers.
- **Nimble and cost efficient:** We reduced our operating expense base by £18 million in 2021, despite the inflationary backdrop, and reiterate our target of a 20% expense ratio in 2023. These savings evidenced the benefits from our transformation programme and have arisen across technology, property, operations and head office. We have taken action to reduce our office footprint by over 30%, compared to pre-pandemic levels, and are digitalising customer and back-office processes, with customers now able to register 100% of new motor and home claims online.
- **Technical edge:** We have expanded our claims expertise with the acquisition of our 22nd auto services repair centre and investment in a car technology centre. These actions support our double-digit repair cost advantage in Motor and we continue to invest in our capability to repair more advanced vehicles.
- **Great people:** We have refreshed our leadership with an Executive Committee team with the brilliant mix of digital, customer, data, insurance and agile skills we need to grow our business, levering the technology we have built. We believe we have some of the best people in the industry and we continue to invest in skills vital for the future including digital, data, engineering and pricing. We are also recruiting talent from other consumer industries who are attracted by our inclusive culture and improving agility.

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Notes:

1. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
2. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on pages 48 to 50 for definitions.
4. The Group's dividend policy includes an expectation that generally one-third of the regular annual dividend will be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.
5. 2020 special dividend paid in lieu of the cancelled 2019 final dividend.
6. Estimates based on the Group's Solvency II partial internal model.
7. Adjusted solvency capital ratio excluding Tier 2 debt which can first be called from 27 April 2022. See appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "will" or "would" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies, the industry in which the Group operates and the Group's approach to climate-related matters. Examples of forward-looking statements include financial targets and guidance which are contained in this document specifically with respect to; the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in expense ratio, investment income yield, net realised and unrealised gains, capital expenditure and, risk appetite range; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control and/or they rely on assumptions that may or may not transpire to be correct. Forward-looking statements are not guaranteeing future performance.

The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("**UK**") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group’s customers and their behaviours and expectations;
- the Trade and Cooperation Agreement between the UK and the European Union ("**EU**") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and the rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads;
- the policies and actions and/or new principles, rules and/or changes to, or changes to interpretations of principles, rules and/or regulations, of regulatory authorities and bodies (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rate or rates or made in response to the Covid-19 pandemic and its impact on the economy and customers) and changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

Financial summary

	FY 2021 £m	FY 2020 £m	Change
In-force policies (thousands)	**14,565**	14,615	(0.3%)
Of which: direct own brands (thousands)	**7,529**	7,454	1.0%
Gross written premium	**3,171.6**	3,180.4	(0.3%)
Of which: direct own brands	**2,207.6**	2,225.6	(0.8%)
Net earned premium	**2,957.4**	2,960.5	(0.1%)
Underwriting profit	**291.5**	267.8	8.8%
Instalment and other operating income	**144.0**	159.2	(9.5%)
Investment return	**146.3**	95.1	53.8%
Operating profit	**581.8**	522.1	11.4%
Restructuring and one-off costs	**(101.5)**	(39.4)	(157.6%)
Operating profit after restructuring and one-off costs	**480.3**	482.7	(0.5%)
Finance costs	**(34.3)**	(31.3)	(9.6%)
Profit before tax	**446.0**	451.4	(1.2%)
Tax	**(102.3)**	(84.2)	(21.5%)
Profit after tax	**343.7**	367.2	(6.4%)
Key metrics			
Current-year attritional loss ratio[1,2]	**65.5%**	62.3%	(3.2pts)
Loss ratio[1,2]	**58.1%**	57.9%	(0.2pts)
Commission ratio[1,2]	**8.1%**	8.6%	0.5pts
Expense ratio[1,2]	**23.9%**	24.5%	0.6pts
Combined operating ratio[1,2]	**90.1%**	91.0%	0.9pts
Return on tangible equity[2]	**23.6%**	19.9%	3.7pts
Investment income yield[2]	**1.9%**	2.1%	(0.2pts)
Net investment income yield[2]	**1.7%**	1.8%	(0.1pts)
Investment return yield[2]	**2.4%**	1.6%	0.8pts
Basic earnings per share (pence)	**24.5**	25.8	(5.0%)
Diluted earnings per share (pence)	**24.1**	25.5	(5.5%)
Return on equity	**12.5%**	13.1%	(0.6pts)
Dividend per share – interim (pence)	**7.6**	7.4	2.7%
– final (pence)	**15.1**	14.7	2.7%
– total ordinary (pence)	**22.7**	22.1	2.7%
– special (pence)[3]	**–**	14.4	n/a
Share buyback	**100.0**	100.0	n/a

	FY 2021	FY 2020	Change
Net asset value per share (pence)	**193.6**	199.7	(3.1%)
Tangible net asset value per share (pence)	**131.2**	141.5	(7.3%)
Solvency capital ratio post-dividends and share buyback[4]	**176%**	191%	(15pts)
Adjusted solvency capital ratio[5]	**160%**	172%	(12pts)

Notes:

1. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on pages 48 to 50 for definitions.
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CEO REVIEW

As I reflect on 2021, I am delighted by the Group's strong performance. I feel proud of the way we have navigated the complexities and uncertainties of a challenging market, impacted by the pandemic. Commercial, Home own brands and Rescue have grown, benefiting from the investments we have made in recent years in technology and pricing, whilst in Motor we have prepared for future growth while steering a smart path through a period of falling premium and uncertain claims frequency as the market seeks to predict the shape of the pandemic and its effect on customer driving behaviour.

At the same time we have made brilliant strategic progress. After several years replacing the technology across the business, introducing agile ways of working and building our data foundations, we are nearing the completion of our technology transformation phase.

Through that transformation we have improved the profitability of the business we write, with releases from older reserve years no longer such a significant part of our annual profits. We have delivered performance across the business, including the quality of claims management, pricing and improvements in our cost efficiency. We anticipate further progress in all these areas through 2022 and 2023.

So, as I look ahead, I see 2022 as the year we pivot to focusing on driving the business forward. 2021 has been dominated by delivering the transformation to enable future growth and preparing for one of the biggest changes the market has seen with the introduction of the FCA's new Pricing Practices Review regulations. As we tune and embed the systems we have built and plan for Home to join Motor on them, we also look ahead with excitement as we are able to focus on driving our performance in this new market.

As we look to make this shift, I have focused on making sure we have the right leadership to make us successful. Several members of our executive team have changed and we now have a team brimming with the customer and insurance experience that has driven our past success, but also the technology, digital and data skills we want to become the data- and technology-driven insurance company of the future.

We start from a position of strength, of course, with a track record of strong returns, having delivered a return on tangible equity of over 19% for each of the last five years and having returned over £2.1 billion of capital to shareholders over the same period, including the final dividend and share buyback programme announced today. This is possible due to our scale and expertise across our diversified business model, with market-leading brands across multi-products and multi-channels. These sustained returns, combined with our new tech capability, give us a platform for future success.

Our customer-obsessive mindset is intent on delivering long-term sustainable growth. We are a business that puts data at the heart of what it does and we are working to have it at everyone's fingertips – with the agility to create and tailor innovative solutions and give customers the flexible, modular and on-demand insurance products that give them control. It is why I am so excited by the progress we have made, having now rolled out our largest brands, Direct Line and Churchill, onto our new Motor platform.

This transformation builds on our existing core strengths of great customer service, strong brands and expert claims capability which look to harness the best of technology to make every customer interaction effortless, instant and transparent, however customers come to us. Our diversified business model gives us the platform to be the best at Direct and win through price comparison websites ("**PCWs**"), partners and brokers. The technology transformation enables a step change in our pricing capability and operational efficiency which is designed to further increase our competitiveness.

As we move to embed and leverage what we have built, we believe there is plenty more to come:

- Step changes in our use of pricing and data, which are already beginning to improve our competitiveness in Motor and we will continue to refine and enhance our pricing models and capabilities as we move through the year.
- The next sweep of our Brand advertising, building on the success of the 'superheroes' and Churchill campaigns.
- Improvements in our customer service and costs efficiency through material increases in straight-through processing.
- Over 640,000 Motability Operations customers who are scheduled to join us in 2023 in a deal focused on providing brilliant customer service and claims in a capital-efficient manner with 80% reinsured.
- And we are delighted to have extended our contract with NatWest Group to continue looking after their customers' Home insurance needs, a contract built on our ability to deliver great service for their customers through brilliant use of digital and data capability.

So, as we enter 2022, we are initially focused on understanding the new dynamics in the marketplace, where renewal and new business pricing are linked. It's early days but the market appears to be responding rationally and we are taking time to understand how customers will behave in the new pricing practices world and how to balance product, pricing and distribution to the best effect. The next phase is optimising for growth as we embed and tune the technology we've built.

We believe passionately that delivering sustainable growth in the long run means our customers, society and the planet need to thrive and we have a role to play in helping to ensure that is the case. In essence we need to do the right thing for our customers, our people and the planet. We are making our business an inclusive and rewarding place to work, where brilliant, skilled people can deliver in a high-performance culture. We are investing in the skills that our business will need for its future success and are offering training programmes to enable people who want to reskill to do so.

We have also made further strides to embed sustainability initiatives by prioritising actions which are good for the long-term interests of the business and which bring wider societal benefits. You can see this most strongly in the steps we are taking to protect our business from the impact of climate change and to give back more to the planet than we take out. Our decision this year to join the Race to Zero – committing to set Science-Based Targets to reduce emissions based on a 1.5°C pathway – reflects that ambition. But we also recognise our role in supporting customers to go green and delivering our new Direct Line electric vehicle proposition is another sign of our ability to innovate in an agile way.

This is a business I love, brimming with people who share my view and go the extra mile to support customers and one another. 2021 has been far from an easy year. Change is never comfortable and is rarely predictable. The results and progress are the outcome of the sheer dedication of our amazing people and their determination to succeed despite the challenges and strains of a pandemic. So, the most important thing I can do here is thank each one of them for sharing this journey with me.

Business performance

We are already beginning to see some financial benefits of our transformation, with another strong financial performance in 2021, growing our own brand policy count, delivering a combined operating ratio of 90.1% and increasing operating profit year on year by 11.4% to £581.8 million. This has enabled us to declare a final dividend of 15.1 pence, a 2.7% increase over 2020, and announce a share buyback programme of up to £100 million.

We grew direct own brand in-force policies by 1.0% driven by Commercial direct and Green Flag Rescue, our two divisions furthest through their transformation, and Home where we traded well in a buoyant new business market.

We continued to make progress on our cost agenda, with operating expenses reducing £18 million to £706 million and the expense ratio falling 0.6 percentage points to 23.9%. Whilst we saw levies increase by 11% during 2021, alongside heightened inflation in wage costs, these impacts were more than offset by lower technology costs, savings from our property strategy and a 9% reduction in headcount. We also incurred lower Covid-19 related costs.

The combined operating ratio at 90.1%, normalised for weather at 91.1%, was better than our medium-term target of 93% to 95% and in line with our mid-year stated revised expectation of between 90% and 92%. We achieved an excellent underwriting profit for the year with increased prior-year reserve releases and Motor claims frequency remaining below pre-pandemic levels in H1 2021.

This, together with a strong investment result, meant operating profit increased from £522.1 million in 2020 to £581.8 million in 2021. We have been focusing on improving the amount of our operating profit that comes from the current year and in 2021 met our target of at least 50%.

Motor – underwriting discipline and stable policy count in H2

In 2021 we took a significant step forward in Motor's strategic transformation by successfully launching our new Motor platform across our biggest brands, Direct Line and Churchill and expanding our claims expertise with the acquisition of our 22nd DLG Auto Services accident repair centre. We are already seeing the benefits of our new Motor platform and its improved pricing sophistication through increased competitiveness in H2 and there remain further opportunities ahead.

There were two major trends in the motor market during 2021. Firstly, against the backdrop of deflationary market conditions driven by claims frequency remaining below pre-pandemic levels and the impact of the Whiplash reforms, we remained disciplined and focused on maintaining target loss ratios. Secondly, following the implementation of the Motor platform we saw improved competitiveness, enabling us to hold policy count flat across H2 despite our average premiums reducing only 2.5% in 2021 compared to the market reducing 7%. Overall, gross written premium in 2021 reduced 3.5%.

Maintaining discipline during 2021 was especially important as Motor claims severity inflation remained slightly above the top end of our 3% to 5% medium-term expectations, driven by elevated damage inflation. We were able to mitigate some of this inflation through actions taken in our repair network but with second hand vehicle prices having increased dramatically since May 2021, this impacted both total loss settlements and theft claims. In addition we continued to see higher costs from cleaning and longer hire periods.

Operating profit decreased by £48.7 million to £314.8 million as we saw higher claims frequency after the lockdowns in 2020, partially offset by stronger prior-year reserve releases following favourable development in bodily injury claims. With claims frequency increasing back to expected levels in H2, our focus on disciplined underwriting enabled us to protect our margins as we entered 2022, with our H2 current year attritional loss ratio broadly in line with the underlying 2020 performance, at 79%.

Home – operating profit growth

Direct own brands gross written premium grew by 1.2% compared with 2020 as we capitalised on a buoyant new business market during H1. The market became increasingly competitive across H2 as we approached the implementation of the Pricing Practices Review regulations. Against this deflationary backdrop, particularly in the PCW channel, we maintained our discipline ending the year with growth in in-force policies of 2.3%.

We grew operating profit by £40.4 million to £141.8 million, driven by lower weather costs and higher prior-year reserve releases. Claims severity remained within our 3 to 5% medium term expectations and claims frequency remained in line with normal levels.

We continue to monitor the impact of heightened inflation, especially with construction materials such as concrete and lumber. Although we have a large Home business, construction materials only make up a small amount of our claims costs, with a greater proportion relating to labour costs and decorating materials where we have not seen significant inflation.

Rescue and other personal lines – Green Flag growth

This segment includes our challenger brand Green Flag, as well as other personal lines products – Pet, Travel, Creditor and our mid- to high-net worth business, UK Select.

Rescue and other personal lines premium reduced 9.0% in 2021 to £380.0 million with growth in Green Flag Rescue more than offset by lower gross written premium in Travel, with international travel volumes remaining low. Although the new business market was impacted by lockdown restrictions in H1, Green Flag Rescue grew gross written premium and policy count by 6.3% and 5.8% respectively in 2021, supported by strong retention. With the successful implementation of Rescue's new cloud-based policy platform for online sales in 2021, alongside its new operating model enabling us to offer more services alongside our great value recovery service, we believe we are increasingly well positioned to deliver continued growth.

Operating profit increased by £58.0 million in 2021 compared to 2020, with the non-repeat of the loss in Travel in 2020 alongside the continued profitable growth in Rescue.

Commercial – double-digit growth in both direct and broker business

Within Commercial we have two main businesses, NIG and other broker business and Commercial direct own brands. Commercial direct own brands includes Direct Line for Business and commercial products sold under the Churchill brand primarily on PCWs.

Commercial is the area of our business furthest through its technology transformation and demonstrates what can be achieved when it is combined with our existing strengths in strong brands and fantastic customer service.

During 2021 Commercial grew gross written premium by 15.0% with strong growth across both our direct own brands and NIG and other. Within direct own brands, Direct Line for Business continued to deliver double-digit growth within the micro small to medium enterprise ("**SME**") market, supported by 64% growth in Churchill for business. NIG delivered the highest gross written premium growth in the last 10 years as it leveraged its new pricing capability alongside the high levels of broker and customer service maintained throughout the pandemic.

Commercial's operating profit increased by 19.8% to £60.4 million in 2021, with its strong growth, higher investment return and modest increase in prior-year reserve releases more than offsetting a 2.4 percentage point higher current year attritional loss ratio due predominantly to increased large fire claims.

Impact of Covid-19

Whilst in 2020 we saw a modest indirect economic benefit from the Covid-19 pandemic in our results, during 2021 the impact was less marked. Within Motor we saw similarly low levels of claims frequency across the first half of 2020 and 2021 and with restrictions easing across H2 2021 we saw claims frequency increase back to expected levels. Throughout 2021 motor market premiums reduced, in part reflecting this trend and offsetting the financial impact.

Outside of Motor the impact of Covid-19 was even less significant. Rescue saw lower new business shopping during lockdown restrictions whist claims experience in Home and Commercial was not significantly affected.

In our Travel business, lower customer travel levels continued to reduce gross written premium below pre-pandemic levels and claims volumes reduced in 2021 following the non-repeat of Covid-19 related claims in 2020.

Strategy update

Valuable customer relationships

Following the implementation of the FCA Pricing Practices regulatory changes at the start of 2022, the importance of strong customer relationships has never been higher.

Strong brands and great customer service have always been core strengths of our business and that has been consistently demonstrated by our high Net Promoter Scores and retention rates across both Home and Motor.

Throughout our technology transformation, we have always started with the customer. Our new technology architecture has delivered a step change in our digital capabilities, enabling our customers to deal with us however they wish. We have seen customer use of our digital channels increasing month on month throughout 2021, with 100% of Motor and Home claims now able to be registered online.

Our diversified business model also means that customers can deal with us through a range of recognised brands across a number of products. This enables us to support a real breadth of different customers.

Darwin, a new brand we set up in 2019, is a great example of our diversified approach. It uses machine learning to leverage our existing data resource and counter-fraud expertise to offer customers a low-cost digital product. In just two years it has increased to over 135,000 policies, is ranked in the top 10 on TrustPilot and provides us another powerful brand in the PCW channel.

Finally, our transformation has enabled us to improve our competitiveness through increased accuracy and agility in our pricing, as well as increasing the breadth of propositions that we can offer. During 2021 we rolled out our new electric vehicle proposition, building on our expertise in this growing market and helping our customers make the switch to electric vehicles.

Strategic objectives

Overall, in 2021, we made great progress on our path to building the insurance company of the future – technology and data led and with a customer-obsessive mindset. We not only completed the main elements of our technology build but have also made great progress against our six strategic objectives;

Objective	Progress to date
Best at direct	– Launched a new Direct Line proposition helping to make the transition to electric vehicles easier for customers, by providing free access to a bundle of electric vehicle-related services, including discounted home charging installation. – Green Flag delivered a new cloud-based policy platform for online sales and relaunched the way it operates, enabling it to offer more services alongside roadside recovery. – Launch of Direct Line cyclist product as we extend our products and services in order to meet broader customer needs.
Win on PCWs	– Successfully rolled out our new Motor platform, which delivers greater pricing sophistication using third-party data and speed to market. We saw the benefits of this in improved Motor competitiveness in the second half of the year. – Continued to deliver strong growth in Darwin as we enhanced pricing across the four main PCWs, growing policy count to over 135,000, an increase of over 150% compared to the end of 2020. – Churchill business delivered 64% growth in gross written premiums in 2021.
Extend our reach	– We announced our new partnership with Motability Operations, demonstrating our core strengths in delivering great customer service and efficient car repairs. The partnership is anticipated to increase Motor gross written premium by around £500 million each year from H2 2023. – Agreed a long-term extension to our Home partnership with NatWest Group. – U K Insurance Business Services Limited expanded into subscription insurance with a new partnership with Cazoo. – Green Flag renewed partnerships with Caravan and Motorhome Club, Zurich and Virgin Money.
Nimble and cost efficient	– Progressed our site strategy, purchasing our head office and rationalising our footprint at two regional offices, overall reducing our site footprint by 30% since 2019 and delivering savings in excess of £10 million per year. – Expanded digital customer journeys, including 100% of all Home and Motor claims now able to be registered online and with end-to-end digital journeys for certain claims types, delivering reduced demand into our contact centres. – Technology transformation reducing ongoing run costs through rationalisation of legacy systems, including the decommissioning of two data centres and reducing system support costs.
Technical edge	– We continued to expand our claims capabilities through the acquisition of our 22nd DLG Auto Services accident repair centre. This acquisition supports our competitive advantage in vehicle repairs and we continued to invest in capability to repair more advanced and electric vehicles. – Commercial continued the rollout of its new pricing and underwriting system across Commercial combined and Fleet, alongside the launch of machine learning pricing models, dramatically improving pricing accuracy. – Integration of digital journeys into new our fraud decision engine.
Great people	– We have refreshed our leadership, with an Executive Committee team which has the brilliant mix of digital, customer, data, insurance and agile skills we need to grow our business, leveraging the technology we have built. – DLG ranked 13th in The Inclusive Top 50 UK Employers list for 2021/22. – Published our Black Inclusion report and signed up to 10,000 Black interns programme. – Continued to embed Agile operating models across our trading and technology teams, enabling increased pace and efficiency of change.

Growing the portfolio

Commercial and Green Flag Rescue are the areas of our business that are furthest through their transformation and they demonstrate what can be achieved when we combine our existing strengths in claims management, customer service and strong brands, with a new technology infrastructure and agile ways of working.

Between them they drove strong gross written premium growth of 13.9% in 2021 and gained share in their respective markets. We are adopting similar approaches in Motor and Home and are seeking to grow our share over time.

Longer term, we believe our brand strength enables us to extend into broader products and services to meet customers' needs. Direct Line has recently launched a standalone cyclist product to take advantage of this growing market and to attract new customers to other more established products; our electric vehicle proposition is designed to help customers transition to electric vehicles and is only one part of a wider ecosystem; and Green Flag, by changing its operating model, can now offer more assistance to customers during a vehicle recovery. These are all examples of how we are broadening our propositions and products to deliver for more customers.

Sustainability strategy progress

We have continued to make progress on our sustainability strategy this year, improving our MSCI ESG rating from an 'A' to 'AA', and will publish our second Task Force for Climate-related Financial Disclosures ("**TCFD**") report outlining our strategic response to climate change in our 2021 Annual Report. We have also participated in the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**"), providing a clearer assessment of climate-related implications for the Group. We take our environmental targets seriously and this year joined the Race to Zero – committing to set Science-Based Targets to reduce emissions based on a 1.5˚C pathway. While we finalise our submission to the Science Based Target Initiative ("**SBTi**") for approval, we are clear-sighted that setting ambitious targets requires practical measures to help reduce our emissions.

Colleagues have been innovating and trialling solutions to guide our emission reduction strategy, including launching a Supply Chain Sustainability Programme and piloting measures in our garage network because these are some of our most carbon-intensive operations. Part of our strategic response also means helping to make it easy for our customers to go green so that we can both contribute to and benefit from accelerating the transition. As a major motor insurer we are determined to make it easy for customers to insure electric vehicles, while aiming to fix them in the most energy-efficient repair network in the UK. That's why our new electric vehicle proposition for Direct Line customers is such an exciting development and a sign of how we can take long-term sustainable decisions which are good for the planet and our business.

UK weather

During February 2022, the UK experienced three significant storms: Dudley, Eunice and Franklin. To date, we have already helped over 10,000 customers across Home and Commercial and estimate claims to be between £30 million and £40 million. This is an early estimate and is within our annual weather budget assumption for 2022.

Ukraine conflict

We are deeply saddened and shocked by the conflict in Ukraine and have made an immediate donation from the Group's Community Fund to the UK's DEC Ukraine Humanitarian Appeal. As a UK-based business, there has been no direct impact from the conflict in Ukraine that started in February 2022. The investment portfolio has no direct exposure to Russia or Ukraine.

Dividend and capital management

The Board has recommended a final ordinary dividend of 15.1 pence per share, making a total of 22.7 pence per share, an increase of 2.7% over the 2020 total ordinary dividend.

Following the £100 million share buyback programme in 2021 and reflecting the strength of our capital position, we intend to commence a further share buyback programme of up to £100 million split into two tranches of up to £50 million each, the first in H1 and the second scheduled for H2.

After the proposed final dividend and £100 million share buyback programme, the estimated solvency capital ratio was 176% as at 31 December 2021. We have outstanding Tier 2 debt issued in 2012 with nominal value of £250 million which can first be called from 27 April 2022. Excluding this debt, the adjusted solvency ratio after the proposed final dividend and share buyback would be 160% which is in the middle of our stated risk appetite range of 140% to 180% of solvency capital requirement.

We have a track record of returning capital to shareholders, with £2.1 billion returned over the last five years, whilst also improving our capital structure with issues of Restricted Tier 1 and Tier 2 debt. Furthermore, over the last two Motor reinsurance renewals we have reduced the amount of excess of loss reinsurance purchased as increasing reinsurance prices has made it less effective economically. Looking forward, we have a strong balance sheet with further opportunities to reduce capital intensity and increase flexibility.

Outlook

Our strong strategic progress and disciplined approach to trading throughout 2021 mean we were well placed as we entered 2022 and began the implementation of the FCA Pricing Practices regulatory changes.

These are early days but we have seen positive new business premium inflation across the Home and Motor markets in January and February 2022, with search volumes higher but with switching reduced when compared to the same period in 2021. Our retention levels in Motor and Home have remained strong. These movements are within the range of outcomes we had projected and prepared for.

Our initial focus was on aiming to safely land the changes compliantly, while seeking to understand both market and consumer behaviour in the new environment. Our multi-brand portfolio sets us up well as it enables us to both protect value and be competitive in new business. This will enable us, as we move through the year, to optimise for growth and shareholder value whilst all the time delivering great outcomes for customers.

There are a range of inflationary pressures currently being seen within our market. Our claims expertise, including our repair cost advantage in Motor, puts us in a good position to manage these. Elsewhere, we have delivered absolute reductions in our overall cost base and we plan to reduce costs further during 2022.

Reflecting this, as well as our long-term confidence underpinned by our strategic transformation, we reiterate our combined operating ratio target range of 93% to 95%, normalised for weather, in 2022 and over the medium term. We also reiterate our expense ratio target of 20% for 2023, assuming modest premium growth, and our ongoing target of achieving at least a 15% return on tangible equity each year.

Having completed the main elements of our technology build we have complemented our strengths in strong brands, fantastic customer service and market-leading claims capabilities with a step change in our pricing capability, greater digitalisation and improved efficiency.

Whilst we are already seeing some of the benefits of this new capability coming through, the full benefits are yet to be realised, which leaves us well positioned to build on this strong performance through 2022 and beyond.

PENNY JAMES

CHIEF EXECUTIVE OFFICER

FINANCE REVIEW

Performance

Operating profit[1]

	FY 2021 £m	FY 2020 £m
Underwriting profit	**291.5**	267.8
Instalment and other operating income	**144.0**	159.2
Investment return	**146.3**	95.1
Operating profit[1]	**581.8**	522.1
Of which:		
Current-year operating profit	**323.7**	348.3
Prior-year reserve releases	**258.1**	173.8

Notes:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

In 2021 we delivered a strong financial performance, growing our own brand policy count, delivering a combined operating ratio of 90.1% and increasing operating profit year on year by 11.4%. This enabled us to declare a final dividend of 15.1 pence, a 2.7% increase over 2020, and announce a further share buyback programme of up to £100 million.

We delivered operating profit of £581.8 million, an increase of £59.7 million over 2020, driven by increased underwriting profit and a strong investment return, partially offset by lower instalment and other operating income. Current-year contribution to operating profit, normalised for weather, was 53% (2020: 65%), in line with our target of at least 50%.

Underwriting profit increased by £23.7 million, with increases in prior-year reserve releases and lower operating costs being partially offset by higher claims frequency in Motor. Increases in prior-year reserve releases benefited from favourable development across several perils in Home and large bodily injury reserves development in Motor as uncertainty arising from Covid-19 and Brexit reduced. The combined operating ratio at 90.1%, normalised for weather at 91.1%, was better than our medium-term target of 93% to 95% and in line with our stated mid-year revised expectation for 2021 of between 90% and 92%.

Lower average premiums in Motor and lower claims volumes across the whole year drove a reduction in instalment and other income to £144.0 million (2020: £159.2 million).

Investment return increased by £51.2 million in 2021 following £43.6 million of realised and unrealised gains across our investment property and credit portfolios (2020: £11.7 million of net realised and unrealised losses).

During 2021, the impact of Covid-19 was less significant than in the previous year where it caused a modest overall indirect economic benefit. Whilst Motor claims frequency remained below pre-pandemic levels in H1, it increased back to expected levels during H2 and Motor saw elevated severity inflation in damage claims throughout the year.

In-force policies and gross written premium

In-force policies (thousands)

At	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
Direct own brands	**3,869**	3,858	3,867	3,896	3,943
Partnerships	**102**	104	108	113	118
Motor	**3,971**	3,962	3,975	4,009	4,061
Direct own brands	**1,879**	1,890	1,880	1,861	1,837
Partnerships	**788**	792	797	799	801
Home	**2,667**	2,682	2,677	2,660	2,638
Rescue	**3,417**	3,295	3,346	3,375	3,400
Travel	**3,445**	3,412	3,424	3,445	3,499
Pet	**138**	140	141	142	145
Other personal lines	**56**	57	58	59	61
Rescue and other personal lines	**7,056**	6,904	6,969	7,021	7,105
Of which: Green Flag Direct	**1,179**	1,172	1,134	1,108	1,114
Direct own brands	**602**	593	584	571	560
NIG and other	**269**	269	266	260	251
Commercial	**871**	862	850	831	811
Total in-force policies	**14,565**	14,410	14,471	14,521	14,615
Of which: direct own brands	**7,529**	7,513	7,465	7,436	7,454

Direct own brand policies grew 1.0% to 7.5 million with growth in Commercial, Green Flag Rescue and Home offsetting declines in Motor. Total in-force policies were broadly stable at 14.6 million (31 December 2020: 14.6 million) as the increases in direct own brand and Commercial NIG in-force policies were offset by lower partnership and Travel volumes.

Gross written premium

	H2 2021 £m	H2 2020 £m	FY 2021 £m	FY 2020 £m
Direct own brands	**781.9**	788.7	**1,515.2**	1,567.6
Partnerships	**23.3**	22.9	**45.6**	49.3
Motor	**805.2**	811.6	**1,560.8**	1,616.9
Direct own brands	**218.1**	218.0	**416.7**	411.6
Partnerships	**81.4**	83.8	**161.1**	166.3
Home	**299.5**	301.8	**577.8**	577.9
Rescue	**88.2**	85.7	**170.0**	166.7
Travel	**44.7**	62.7	**92.3**	134.0
Pet	**36.3**	36.4	**71.4**	72.8
Other personal lines	**24.3**	22.9	**46.3**	44.3
Rescue and other personal lines	**193.5**	207.7	**380.0**	417.8
Of which: Green Flag direct	**47.4**	43.9	**88.3**	83.1
Direct own brands	**96.5**	84.7	**187.4**	163.3
NIG and other	**220.4**	193.8	**465.6**	404.5
Commercial	**316.9**	278.5	**653.0**	567.8
Total gross written premium	**1,615.1**	1,599.6	**3,171.6**	3,180.4
Of which: direct own brands	**1,143.9**	1,135.3	**2,207.6**	2,225.6

Direct own brands gross written premium reduced by 0.8% to £2,207.6 million (2020: £2,225.6 million) where strong growth in Commercial and Green Flag Rescue were offset by lower volumes and lower average premiums in Motor. Total gross written premium of £3,171.6 million (2020: £3,180.4 million) reduced by 0.3% with strong growth in Commercial NIG offset by the small reduction in own brands and a reduction in Travel.

Motor

Motor in-force policies reduced by 2.2% to 4.0 million compared to 2020, with own brand in-force policies down by 1.9% at 3.9 million. Gross written premium reduced by 3.5% to £1,560.8 million in the same period, with Motor own brand average premium reducing 2.5% during 2021.

There were two major trends in the motor market during 2021. Firstly, against the backdrop of deflationary market conditions driven by claims frequency remaining below pre-pandemic levels and the impact of the Whiplash reforms, we remained disciplined and focused on maintaining target loss ratios. Secondly, following the implementation of the Motor platform we saw improved competitiveness, enabling us to hold policy count flat across H2 despite our average premiums[1] reducing 2.5% in 2021 compared to the market reducing 7%.

We offered premium refunds to customers where miles driven were expected to be lower than anticipated at policy inception. In particular, we continued our "Mileage MoneyBack" proposition for all Direct Line customers such that customers would be able to receive a refund at the end of the policy period where they had driven less than expected.

Home

In-force policies for Home's own brands increased by 2.3% compared to 2020 to 1.9 million policies. Retention levels remained high, whilst new business sales grew across our direct channels reflecting improved competitiveness in a strong new business market in H1. The market became increasingly competitive across H2 as we approached the implementation of the Pricing Practices Review regulations. Against this deflationary backdrop, we maintained our discipline and reduced our competitiveness in relation to new business particularly in the PCW channel.

Own brands gross written premium increased by 1.2%, whilst overall gross written premium remained stable between 2020 and 2021. Partnership volumes reduced by 1.6%; Prudential and Sainsbury's partnerships are closed to new business and continued to run off in line with expectations.

Own brands average premium[2] reduced by 1.6% compared to 2020**,** reflecting a change in mix towards lower risk policies, alongside risk-adjusted prices reducing by 1.0%. This followed pricing actions earlier in the year to capitalise on a buoyant new business market and to support retention, more than offsetting underlying inflationary price increases.

Rescue

Rescue in-force policies increased by 0.5% to 3.4 million and gross written premium increased by 2.0% to £170.0 million compared to 2020.

Green Flag Rescue continued to grow its higher average premium direct business during 2021, increasing in-force policies by 5.8% to 1.2 million and gross written premium by 6.3% to £88.3 million compared to 2020. Other Rescue lines, which include the linked channel, where cover can be purchased with a Group Motor policy, and Rescue partnerships, saw in-force policies and gross written premium reduce by 2.1% and 2.3% respectively.

In 2022, Green Flag is developing its customer proposition. As a result, the amount new customers pay will be split between premium and a service fee, which could result in up to approximately £10 million being recognised as other income instead of premium.

Other personal lines

Other personal lines (comprising Travel, Pet and other) in-force policies reduced by 1.8% to 3.6 million compared to 2020 primarily due to reductions in travel partnerships volumes. Gross written premium for Other personal lines decreased by 16.4% with reductions across all lines except policies tailored to mid- to high-net worth customers, where premium levels grew by 7.0%. In Travel, gross written premium was down 31.1% reflecting lower upgrade premium, lower partnership volumes and reduced partnership pricing that reflected lower claim expectations in 2021.

Commercial

Commercial in-force policies of 871,000 increased by 7.4% compared with 2020**,** reflecting strong growth in both Commercial direct own brands and NIG and other. Commercial gross written premium grew by 15.0% to £653.0 million (2020**:** £567.8 million).

Commercial direct own brands grew in-force policies by 7.5% and gross written premium increased by 14.8% to £187.4 million, with increases across all Commercial direct product lines. We continued to see the benefits of our technology transformation driving growth in SME trading on both the Direct Line for Business platform and Commercial's Churchill brand.

NIG and other in-force policy numbers were 7.2% higher than in 2020 and gross written premium grew by 15.1% to £465.6 million. This reflected growth across all major categories as the book continued to benefit from improvements arising from the re-platforming of its products, improved pricing sophistication and growth on its award-winning electronic trading platform.

Notes:

1. Average incepted written premium excluding IPT for Motor direct own brands for the year ending 31 December 2021.
2. Average incepted written premium excluding IPT for Home own brands for the year ending 31 December 2021.

Underwriting profit and combined operating ratio[1]

	FY 2021	FY 2020
Underwriting profit (£ million)	**291.5**	267.8
Loss ratio	**58.1%**	57.9%
Commission ratio	**8.1%**	8.6%
Expense ratio	**23.9%**	24.5%
Combined operating ratio	**90.1%**	91.0%

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Overall underwriting profit increased to £291.5 million (2020: £267.8 million) with an improvement in the combined operating ratio to 90.1% (2020: 91.0%).

The loss ratio edged up slightly to 58.1% (2020: 57.9%) driven by increases across Motor and Commercial more than offsetting improvements in Home and Rescue and other personal lines.

The small deterioration in the loss ratio was more than offset by a lower commission ratio. The commission ratio reduced primarily due to reduced profit share payments, particularly on packaged bank accounts and Home partnerships, partially offset by increased commission payments in Commercial.

The expense ratio reduced by 0.6 percentage points to 23.9% as operating expenses reduced following progress on our cost-saving initiatives, partially offset by increased levies and depreciation and amortisation charges relating to the launch of our new technology platforms.

Ratio analysis by division

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
For the year ended 31 December 2021						
Net earned premium	3	**1,473.3**	**553.4**	**369.5**	**561.2**	**2,957.4**
Net insurance claims	3	**947.0**	**280.4**	**185.3**	**306.0**	**1,718.7**
Prior-year reserve releases	20	**127.1**	**45.8**	**23.8**	**61.4**	**258.1**
Major weather events		**n/a**	**(18.3)**	**n/a**	**(19.2)**	**(37.5)**
Attritional net insurance claims		**1,074.1**	**307.9**	**209.1**	**348.2**	**1,939.3**
Loss ratio – current-year attritional		**72.9%**	**55.7%**	**56.5%**	**62.0%**	**65.5%**
Loss ratio – prior-year reserve releases		**(8.6%)**	**(8.3%)**	**(6.4%)**	**(10.9%)**	**(8.7%)**
Loss ratio – major weather events[1]		**n/a**	**3.3%**	**n/a**	**3.4%**	**1.3%**
Loss ratio – reported	3	**64.3%**	**50.7%**	**50.2%**	**54.5%**	**58.1%**
Commission ratio	3	**3.3%**	**6.9%**	**11.4%**	**20.0%**	**8.1%**
Expense ratio	3	**24.8%**	**22.5%**	**25.3%**	**21.7%**	**23.9%**
Combined operating ratio[2]	3	**92.4%**	**80.1%**	**86.9%**	**96.2%**	**90.1%**
Current-year combined operating ratio[2]		**101.0%**	**88.4%**	**93.3%**	**107.1%**	**98.8%**
For the year ended 31 December 2020						
Net earned premium	3	1,484.8	555.8	422.9	497.0	2,960.5
Net insurance claims	3	888.1	309.1	261.1	255.3	1,713.6
Prior-year reserve releases	20	100.6	10.8	5.6	56.8	173.8
Major weather events		n/a	(27.0)	n/a	(16.0)	(43.0)
Attritional net insurance claims		988.7	292.9	266.7	296.1	1,844.4
Loss ratio – current-year attritional		66.6%	52.7%	63.0%	59.6%	62.3%
Loss ratio – prior-year reserve releases		(6.8%)	(1.9%)	(1.3%)	(11.4%)	(5.9%)
Loss ratio – major weather events[1]		n/a	4.8%	n/a	3.2%	1.5%
Loss ratio – reported	3	59.8%	55.6%	61.7%	51.4%	57.9%
Commission ratio	3	3.2%	8.1%	16.4%	18.7%	8.6%
Expense ratio	3	24.7%	23.4%	23.9%	25.4%	24.5%
Combined operating ratio[2]	3	87.7%	87.1%	102.0%	95.5%	91.0%
Current-year combined operating ratio[2]		94.5%	89.0%	103.3%	106.9%	96.9%

Notes:

1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.
2. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

The current-year attritional loss ratio excludes prior-year reserve releases and claims costs from major weather events and is therefore an indicator of underlying accident year performance. Our current-year attritional loss ratio of 65.5% increased by 3.2 percentage points compared to 2020, with increases in loss ratio in Motor, Home and Commercial partially offset by a reduction in Rescue and other personal lines.

Prior-year reserve releases increased in 2021 to £258.1 million (2020: £173.8 million), equivalent to 8.7% of net earned premium (2020: 5.9%) and were concentrated towards more recent accident years. Prior-year reserve releases were higher across all categories, including in Home, which benefited from favourable experience across several perils, in line with expectations, and Motor, which benefited mainly from large bodily injury reserve development as uncertainty arising from Covid-19 and Brexit reduced.

Our current-year combined operating ratio increased by 1.9 percentage points to 98.8% (2020: 96.9%) as a 3.2 percentage point increase in the current-year attritional loss ratio was partially offset by a 0.6 percentage point improvement in the expense ratio, a 0.5 percentage point decrease in the commission ratio and a 0.2 percentage point reduction in claims due to major weather.

Motor

Motor's current-year attritional loss ratio rose 6.3 percentage points to 72.9% (2020: 66.6%) driven predominantly by a reduction in the severity of lockdowns in 2021 compared to 2020. Whilst the Motor current-year loss ratio in H1 2021 was modestly higher than for H1 2020, it increased in H2 as lockdown restrictions were eased and claims frequency increased back to expected levels. In addition, claims severity inflation was slightly above our medium-term 3% to 5% per year inflation expectations during 2021, due to high levels of inflation in second-hand vehicles and additional Covid-19 related cleaning costs. Our vertically integrated business, including the largest insurer-owned network of vehicle repair centres, has continued to provide us with a competitive advantage and mitigate some of this inflationary pressure.

In total, prior-year reserve releases were £26.5 million higher year on year at £127.1 million reflecting, primarily, favourable development of large bodily injury claims reserves as uncertainty arising from Covid-19 and Brexit reduced.

Overall, Motor's reported combined operating ratio increased by 4.7 percentage points to 92.4% (2020: 87.7%). A 1.8 percentage point increase in prior-year reserve releases was offset by a 6.3 percentage point increase in the current-year attritional loss ratio. There were marginal increases in the expense ratio and the commission ratio.

Home

The current-year attritional loss ratio, excluding major weather event claims, was 3.0 percentage points higher than prior year at 55.7%. as we took pricing actions to support retention and to capitalise on a buoyant new business market in H1, alongside some large fire claims and freeze events. The reported loss ratio was 4.9 percentage points better than 2020, with increases in prior-year reserve releases, following favourable experience on escape of water, flood, storm and fire perils, and a reduction in major weather claims more than offsetting the increase in attritional loss ratio. Claims severity inflation remained within our 3% to 5% medium-term expectations and claims frequency remained within normal levels.

The commission ratio of 6.9% was 1.2 percentage points lower than in 2020 due to lower profit share payments to partners.

Home's combined operating ratio improved by 7.0 percentage points to 80.1% (2020: 87.1%). This was driven primarily by a 6.4 percentage point improvement as a result of higher prior-year reserve releases and a 1.5 percentage point improvement resulting from fewer major weather events, as well as improvements in commission and expense ratios, offset in part by an increase in the current-year attritional loss ratio. Normalised for weather, the combined operating ratio was 5.1 percentage points better than for 2020 at 85.2%[1] (2020: 90.3%). For 2022, it is expected that the normalised combined operating ratio will return to levels similar to the 2020 normalised performance.

Rescue and other personal lines

The combined operating ratio for Rescue and other personal lines improved by 15.1 percentage points to 86.9% (2020: 102.0%) due to the non-repeat of the 2020 Covid-19 related claims in Travel and to improvements in Rescue.

The combined operating ratio for **Rescue** of 74.8% was 1.7 percentage points better than 2020's ratio of 76.5%. This reflected an improved expense ratio, due predominantly to reduced marketing expenditure, and a lower commission ratio following lower profit shares with partners.

Other personal lines combined operating ratio improved by 21.7 percentage points compared to 2020 to 96.8%. The improvement is primarily due to the non-repeat of 2020 Covid-19 related claims in Travel.

Commercial

The current-year attritional loss ratio in Commercial increased by 2.4 percentage points to 62.0% in 2021 due, predominantly, to elevated large fire claims partially offset by an improvement in underlying loss ratio in motor and liability.

Total prior-year reserve releases increased by 8.1% to £61.4 million (2020: £56.8 million).

Overall, the combined operating ratio for Commercial increased by 0.7 percentage points to 96.2% (2020: 95.5%), with the 3.1 percentage point increase in reported loss ratio and a 1.3 percentage point increase in commission ratio partially offset by a 3.7 percentage point decrease in expense ratio reflecting good cost control.

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Operating expenses before restructuring and one-off costs

	Note	**FY 2021** **£m**	FY 2020 £m
Staff costs[1]		**261.0**	255.6
IT and other operating expenses[1,2]		**147.7**	196.0
Marketing	9	**112.0**	106.6
Sub-total		**520.7**	558.2
Insurance levies	9	**89.0**	80.4
Depreciation and amortisation[3,4]	9	**96.6**	85.8
Total operating expenses before restructuring and one-off costs		**706.3**	724.4

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. For the year ended 31 December 2021, depreciation and amortisation includes a £2.1 million impairment charge (2020: £6.6 million), which relates to capitalised software development costs for ongoing IT projects primarily relating to the development of new systems. and a £0.5 million impairment charge (2020: £nil), which relates to ROU property assets.
4. Includes depreciation on right-of-use assets of £10.8 million (2020: £14.8 million).

We continued to reduce our operating expenses as we move towards our target of a 20% expense ratio in 2023. Overall operating expenses before restructuring and one-off costs reduced by £18.1 million to £706.3 million (2020: £724.4 million) and resulted in a decrease in the expense ratio of 0.6 percentage points to 23.9% (2020: 24.5%).

Costs before insurance levies, depreciation and amortisation were 6.7% (£37.5 million) lower at £520.7 million reflecting lower costs in relation to the Covid-19 response and reductions arising from the Group's cost-saving initiatives. We have also made good progress on our property strategy, completing the acquisition of our Bromley office and we have disposed of a further property in 2022.

Instalment and other operating income

	Note	**FY 2021 £m**	FY 2020 £m
Instalment income		**97.3**	109.3
Other operating income			
Revenue from vehicle recovery and repair services	6	**19.7**	24.0
Vehicle replacement referral income	6	**13.1**	12.2
Legal services income	6	**7.2**	8.8
Other income[1]	6	**6.7**	4.9
Other operating income		**46.7**	49.9
Total instalment and other operating income		**144.0**	159.2

Note:

1. Other income includes mainly fee income from insurance intermediary services.

Instalment and other operating income, which is primarily driven by premium and claims volumes, decreased by £15.2 million to £144.0 million. Instalment income fell primarily due to lower Motor gross written premium, whereas other operating income reduced due primarily to a reduction in external Motor repair income and lower recovery after accident volumes.

Investment return

	Note	**FY 2021 £m**	FY 2020 £m
Investment income		**116.0**	127.1
Hedging to a sterling floating rate basis		**(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	5	**146.3**	95.1

Investment yields

	FY 2021	FY 2020
Investment income yield[1]	**1.9%**	2.1%
Net investment income yield[1]	**1.7%**	1.8%
Investment return yield[1]	**2.4%**	1.6%

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Total investment return increased by £51.2 million to £146.3 million (2020: £95.1 million) primarily reflecting positive fair value adjustments in investment properties in 2021 versus write downs in 2020, as well as increasing the gains from debt security disposals year on year. Lower investment rates, driven by central banks' policy actions in 2020, led to a lower net investment income yield of 1.7% (2020: 1.8%).

In 2021 net investment income has been modestly ahead of expectations mainly due to good performance on the high yield portfolio and rising risk-free rates. For 2022 we expect net investment income yield to be in the region of 1.7%, increasing to between 1.8% and 1.9% in 2023, based on current yield curves.

Our investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;
- to match periodic payment orders ("**PPO**") and non-PPO liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with our risk appetite.

Investment holdings

At 31 December	FY 2021 £m	FY 2020 £m
Investment-grade credit[1]	**3,721.1**	3,736.6
High yield	**342.1**	349.0
Investment-grade private placements	**91.2**	103.9
Credit	**4,154.4**	4,189.5
Sovereign[1]	**35.7**	25.5
Total debt securities	**4,190.1**	4,215.0
Infrastructure debt	**250.8**	264.5
Commercial real estate loans	**200.8**	206.7
Cash and cash equivalents[2]	**896.5**	1,168.2
Investment property	**317.0**	292.1
Equity investments[3]	**6.2**	3.2
Total investment holdings	**5,861.4**	6,149.7

Notes:

1. Asset allocation at 31 December 2021 includes investment portfolio derivatives, which have a mark-to-market asset value of £14.2 million included in investment grade credit and £0.1 million in sovereign debt (31 December 2020: mark-to-market asset value of £7.7 million and £0.3 million respectively). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
3. Equity investments consist of an equity fund which is valued based on external valuation reports received from a third-party fund manager.

At 31 December 2021, total investment holdings of £5,861.4 million were 4.7% lower than at the start of the year. Total debt securities were £4,190.1 million (31 December 2020: £4,215.0 million), of which 2.1% were rated as 'AAA' and a further 54.7% were rated as 'AA' or 'A'. The average duration at 31 December 2021 of total debt securities was 2.5 years (31 December 2020: 2.8 years).

At 31 December 2021, total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments were £9.0 million (31 December 2020: £83.9 million).

Reconciliation of operating profit

	Notes	FY 2021 £m	FY 2020 £m
Motor	3	**314.8**	363.5
Home	3	**141.8**	101.4
Rescue and other personal lines	3	**64.8**	6.8
Commercial	3	**60.4**	50.4
Operating profit	3	**581.8**	522.1
Restructuring and one-off costs	3	**(101.5)**	(39.4)
Finance costs	10	**(34.3)**	(31.3)
Profit before tax	3	**446.0**	451.4
Tax	12	**(102.3)**	(84.2)
Profit for the year attributable to the owners of the Company		**343.7**	367.2

Operating profit by segment

All divisions contributed significant profit in 2021, demonstrating the diversity of our multi-product, multi-brand and multi-channel portfolio. Motor operating profit decreased as claims frequency increased back to expected levels as Covid-19 lockdown measures have been progressively relaxed across H2 2021, partially offset by an increase in prior-year reserve releases following favourable development of large bodily injury reserves as uncertainty arising from Covid-19 and Brexit reduced. Home operating profit increased primarily due to lower weather-related costs and higher prior-year reserve releases on escape of water, flood and fire perils. Rescue and other personal lines profit increased significantly following the non-repeat of the 2020 impact of the Covid-19 pandemic on Travel. Commercial operating profit increased due to improvements in underlying motor and liability claims costs, offsetting higher property claims costs, and increased gross written premium. Rescue operating profit of £55.0 million (2020: £51.2 million) is included in the Rescue and other personal lines result.

Restructuring and one-off costs

We incurred £101.5 million of restructuring and one-off costs in 2021, with £89 million of these costs relating to our site strategy, including £83.9 million in relation to the purchase of the lease of our Bromley office. The remainder are in respect of redundancy programmes and one-off costs. The Group may incur additional costs in 2022 if further opportunities are found as part of the Group's site strategy.

Finance costs

Finance costs increased to £34.3 million (2020: £31.3 million) primarily due to the full-year effect of interest payments on the £260 million Tier 2 subordinated debt issued in June 2020 included in the 2021 figure, partially offset by reductions of lease interest payable following the purchase of the lease of our Bromley office.

Effective corporation tax rate

The effective tax rate for 2021 was 22.9% (2020: 18.7%), higher than the standard UK corporation tax rate of 19.0% (2020: 19.0%) driven primarily by the non-deductible payment to terminate the lease on the Bromley property, and other disallowable expenses partly offset by tax relief for the Tier 1 coupon payments. The Effective Tax Rate is higher than for 2020 due to the Bromley lease payment and is expected to return to a more normal level in future years, subject to any future one off disallowable items.

Profit for the year and return on tangible equity[1]

Profit before tax of £446.0 million was £5.4 million lower than for 2020 as the increase in operating profit was offset by a £62.1 million increase in restructuring and one-off costs as we continued to make progress in our property site strategy.

Profit for the year ended 31 December 2021 decreased by £23.5 million to £343.7 million (2020: £367.2 million) as an increase in operating profit was partially offset by a £62.1 million increase in restructuring and one-off costs and finance costs.

Return on tangible equity increased to 23.6% (2020: 19.9%) due primarily to the higher operating profit. Profit after tax was adjusted for restructuring and one-off costs and coupon payments in respect of Tier 1 notes.

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Earnings per share

Basic earnings per share decreased by 5.0% to 24.5 pence (2020: 25.8 pence). Diluted earnings per share decreased by 5.5% to 24.1 pence (2020: 25.5 pence) mainly reflecting a reduction in profit after tax.

Net asset value

At 31 December	Note	**FY 2021 £m**	FY 2020 £m
Net assets[1]	13	**2,550.2**	2,699.7
Goodwill and other intangible assets	13	**(822.5)**	(786.8)
Tangible net assets	13	**1,727.7**	1,912.9
Closing number of Ordinary Shares (millions)	13	**1,317.3**	1,351.8
Net asset value per share (pence)	13	**193.6**	199.7
Tangible net asset value per share (pence)	13	**131.2**	141.5

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Net assets at 31 December 2021 decreased by £149.5 million to £2,550.2 million (31 December 2020: £2,699.7 million) and tangible net assets decreased to £1,727.7 million (31 December 2020: £1,912.9 million) following the payment of the 2020 final dividend, 2021 interim dividend and the completion of the share buyback programme, a reduction in available-for-sale reserves and additional expenditure on intangible assets as we continued to invest in the business.

Balance sheet management

Capital management and dividend policy

The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

The Group aims to grow its regular dividend in line with business growth.

Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it intends to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement ("**SCR**") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full-year results.

The Group expects that one third of the annual dividend will generally be paid in the third quarter as an interim dividend, and two thirds will be paid as a final dividend in the second quarter of the following year. The Board may revise the dividend policy from time to time. The Company may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders.

The Board has recommended a final dividend of 15.1 pence per share (2020: 14.7 pence), an increase of 0.4 pence per share (2.7%). This reflects the Board's continued confidence in the Group's capital position and the sustainability of its earnings.

After the dividend and proposed share buyback programme, the estimated solvency capital ratio was 176% as at 31 December 2021. The Group has outstanding Tier 2 debt issued in 2012 with nominal value of £250 million which can first be called from 27 April 2022. Excluding this debt, the Group's adjusted solvency ratio would have been 160% as at 31 December 2021.

The final dividend will be paid on 17 May 2022 to shareholders on the register on 8 April 2022. The ex-dividend date will be 7 April 2022.

The Group uses reinsurance extensively to mitigate the impact of individual large claims and the aggregation of claims. At the 1 January 2022 renewal for its Motor excess of loss reinsurance, the Group chose to retain additional risk and increased the retention for each individual claim to £5 million (2021: £1 million with 75% placement).

Looking forward, we have a strong balance sheet with further opportunities to reduce capital intensity and increase flexibility.

Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 31 December 2021.

Capital position

At 31 December 2021, the Group held a Solvency II capital surplus of £1.03 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 176%, after the proposed final dividend and share buyback programme. Excluding the Group's outstanding Tier 2 debt the Group would have had a Solvency II capital surplus of £0.81 billion, equivalent to a solvency capital ratio of 160%.

The Group's SCR and solvency capital ratio are as follows:

At 31 December	**2021**	2020
Solvency capital requirement (£ billion)	**1.35**	1.34
Capital surplus above solvency capital requirement (£ billion)	**1.03**	1.22
Solvency capital ratio after proposed final dividend and share buyback	**176%**	191%
Adjusted solvency capital ratio[1]	**160%**	172%

Note:

1. Adjusted solvency capital ratio excluding Tier 2 debt which can first be called from 27 April 2022.

Movement in capital surplus

	2021	2020
	£bn	£bn
Capital surplus at 1 January	**1.22**	0.85
Capital generation excluding market movements	**0.40**	0.59
Market movements	**(0.03)**	(0.02)
Capital generation	**0.37**	0.57
Change in solvency capital requirement	**(0.01)**	(0.02)
Surplus generation	**0.36**	0.55
Capital expenditure	**(0.12)**	(0.16)
Tier 2 debt issue	**–**	0.26
Cancellation of 2019 year-end distribution and reinstatement for 2020 half-year[1]	**–**	0.12
Interim dividend	**(0.10)**	(0.10)
Final dividends[2]	**(0.20)**	(0.20)
Share buyback	**(0.10)**	(0.10)
Ineligible Tier 3 capital[3]	**(0.03)**	–
Net surplus movement	**(0.19)**	0.37
Capital surplus at 31 December	**1.03**	1.22

Note:

1. Relates to the cancellation of the 2019 cash dividend (£197 million) and share buyback (£120 million); offset by the special dividend subsequently declared at half-year 2020.
2. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.
3. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR.

In 2021, the Group generated £0.37 billion of Solvency II capital, of which £0.06 billion related to a change in the Group's deferred tax rate, following the change to the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. Restructuring costs in relation to the purchase of the Bromley office lease reduced capital generation by £83.9 million. This was offset by a £0.01 billion change in the SCR, £0.12 billion of capital expenditure, dividends of £0.30 billion and share buybacks of £0.10 billion. At 31 December 2021 there was £0.03 billion of ineligible capital relating to deferred tax assets. Capital expenditure levels are expected to remain around £120 million in 2022.

Change in solvency capital requirement

	2021 £bn
Solvency capital requirement at 1 January	**1.34**
Model and parameter changes	**(0.05)**
Exposure changes	**0.06**
Solvency capital requirement at 31 December	**1.35**

The Group's SCR has increased by £0.01 billion in the year. Exposure changes resulted in a £0.06 billion increase, which was partially offset by a decrease of £0.05 billion relating to model and parameter changes.

Scenario and sensitivity analysis

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 31 December 2021. The impact on the Group's solvency capital ratio arises from movements in both the Group's SCR and own funds.

	Impact on solvency capital ratio[1]	
Scenario	**31 Dec 2021**	31 Dec 2020
Deterioration of small bodily injury motor claims equivalent to that experienced in 2008/09	**(5pts)**	(6pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(9pts)**	(8pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(9pts)**	(8pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[2]	**(9pts)**	(10pts)
100bps increase in credit spreads[3]	**(8pts)**	(9pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**(2pts)**	(2pts)

Notes:

1. 2021 figures exclude from own funds the value of the £250 million Tier 2 subordinated debt which can first be called from 27 April 2022. The comparative period has been represented on this basis, with the only change being the interest rate sensitivity which was reported as (3pts) at 31 December 2020.
2. The PPO inflation assumption used is an actuarial judgement which is reviewed annually based on a range of factors including the economic outlook for wage inflation relative to the PRA discount rate curve.
3. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR.

Own funds

The following table splits the Group's eligible own funds by tier on a Solvency II basis.

At 31 December	2021 £bn	2020 £bn
Tier 1 capital before foreseeable distributions	**1.66**	1.84
Foreseeable dividend and share buyback	**(0.30)**	(0.30)
Tier 1 capital – unrestricted	**1.36**	1.54
Tier 1 capital – restricted	**0.36**	0.38
Less reclassified restricted Tier 1 debt[1]	**(0.02)**	–
Eligible Tier 1 capital	**1.70**	1.92
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.53**	0.53
Tier 3 capital – deferred tax	**0.18**	0.11
Ineligible Tier 3 capital[2]	**(0.03)**	–
Total eligible own funds	**2.38**	2.56

Notes:

1. As at 31 December 2021 £19 million (2020: £nil) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR.

During 2021, the Group's eligible own funds reduced from £2.56 billion to £2.38 billion. Eligible Tier 1 capital after foreseeable distributions represents 71% of own funds and 126% of the estimated SCR. Tier 2 capital relates to the Group's £0.51 billion subordinated debt and £0.02 billion of ineligible Tier 1 capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and of Tier 3 alone is less than 15%. The Group has Tier 2 plus Tier 3 ineligible own funds of £0.03 billion.

Reconciliation of IFRS shareholders' equity to Solvency II eligible own funds

At 31 December	**2021** **£bn**	2020 £bn
Total shareholders' equity	**2.55**	2.70
Goodwill and intangible assets	**(0.82)**	(0.79)
Change in valuation of technical provisions	**(0.01)**	0.04
Other asset and liability adjustments	**(0.06)**	(0.11)
Foreseeable dividend and share buyback	**(0.30)**	(0.30)
Tier 1 capital – unrestricted	**1.36**	1.54
Tier 1 capital – restricted	**0.36**	0.38
Less reclassified restricted Tier 1 debt[1]	**(0.02)**	—
Tier 1 capital	**1.70**	1.92
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.53**	0.53
Tier 3 capital – deferred tax	**0.18**	0.11
Ineligible Tier 3 capital[2]	**(0.03)**	—
Total own funds	**2.38**	2.56

Notes:

1. As at 31 December 2021 £19 million (2020: £nil) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR which resulted in ineligible capital of £31 million.

Leverage

The Group's financial leverage increased by 1.0 percentage point to 25.2% (2020: 24.2%). The increase was primarily due to a decrease in shareholder's equity following the payment of the 2020 final dividend, 2021 interim dividend and the Group's £100 million share buyback programme, partially offset by 2021 profits.

At 31 December	**FY 2021** **£m**	FY 2020 £m
Shareholders' equity	**2,550.2**	2,699.7
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**513.6**	516.6
Total capital employed	**3,410.3**	3,562.8
Financial-leverage ratio[1]	**25.2%**	24.2%

Note:

1. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provides insurance financial-strength ratings for U K Insurance Limited, our principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a stable outlook.

Reserving

We make provision for the full cost of outstanding claims from the general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. We consider the class of business, the length of time to notify a claim, the validity of the claim against a policy, and the claim value. Claims reserves could settle across a range of outcomes, and settlement certainty increases over time. However, for bodily injury claims the uncertainty is greater due to the length of time taken to settle these claims. The possibility of annuity payments for injured parties also increases this uncertainty.

We seek to adopt a conservative approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short- and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, minus 0.75% in Scotland, and minus 1.75% in Northern Ireland.

We reserve our large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance for the 2014 to 2020 underwriting years. We have reduced the level of Motor reinsurance purchased from 2021 which will have an impact on future reserving.

If the claimant prefers, large bodily injury claims can be settled using a PPO. This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed we make assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity.

Higher claims inflation remains a risk, given the continuing rise in consumer prices and wage inflation. Consumer prices inflation is at its highest level for the past decade and is not expected to decline until 2023. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific claims inflation scenarios for goods and services have therefore been considered in the reserving process.

Prior-year reserve releases were £258.1 million (2020: £173.8 million) concentrated towards more recent accident years, with good experience in Home and with Motor large bodily injury claims in later accident years also being a key contributor as uncertainty arising from Covid-19 and Brexit reduced.

Looking forward, we expect to continue setting our initial management best estimate with an appropriate degree of conservatism. Assuming current claims trends continue, the contribution from prior-year reserve releases is expected to remain significant.

Claims reserves net of reinsurance

At 31 December	**2021**	2020
	£m	£m
Motor	**1,607.9**	1,678.9
Home	**297.8**	289.5
Rescue and other personal lines	**95.4**	104.8
Commercial	**547.3**	518.5
Total	**2,548.4**	2,591.7

Sensitivity analysis – the discount rate used in relation to PPOs, changes in the assumed Ogden discount rate and claims inflation

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs, the Ogden discount rate or claims inflation) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts.

	Increase/(decrease) in profit before tax[1,2]	
At 31 December	**2021**	2020
	£m	£m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**43.0**	45.9
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(58.9)**	(62.7)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2020: 0.75% compared to minus 0.25%)	**42.5**	43.7
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2020: minus 1.25% compared to minus 0.25%)	**(59.4)**	(61.1)
Claims inflation		
Impact of a decrease in claims inflation by 100 basis points for two consecutive years	**37.3**	32.4
Impact of an increase in claims inflation by 100 basis points for two consecutive years	**(37.6)**	(32.2)

Notes:

1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2021. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Tax management

The Board recognises that the Group has an important responsibility to manage its tax position effectively. The Board has delegated day-to-day management of taxes to the Chief Financial Officer and oversight is provided by the Audit Committee.

These arrangements are intended to ensure that the Group: complies with applicable laws and regulations; meets its obligations as a contributor and a collector of taxes on behalf of the tax authorities; and manages its tax affairs efficiently, claiming reliefs and other incentives where appropriate.

Tax authorities

The Group has open and co-operative relationships with the tax authorities with whom it deals in the countries where the Group operates, namely the UK, the Republic of Ireland, South Africa and India.

Tax policy and governance

The Group's tax policy has been reviewed and approved by the Audit Committee. The Group Tax function supports the Chief Financial Officer in ensuring the policy is adhered to at an operational level.

For more information please see our published Group Tax policy on the Group's website at;

www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements.html

Total tax contribution

The Group's direct and indirect tax contribution to the UK Exchequer is significantly higher than the UK corporation tax that the Group pays on its profits. The Group collects taxes relating to employees and customers on behalf of the UK Exchequer and other national governments. It also incurs a significant amount of irrecoverable value added tax relating to overheads and claims. Taxes borne and collected in other tax jurisdictions have not been included in this note as the amounts are minimal in the context of the wider UK Group.

During 2021 the sum of taxes either paid or collected across the Group was £885.1 million. The composition of this between the various taxes borne and collected by the Group is shown below.

Total taxes borne

At 31 December	2021 £m
Current-year Corporation Tax charge	**102.6**
Irrecoverable Value Added Tax incurred on overheads	**83.5**
Irrecoverable Value Added Tax embedded within claims spend	**149.1**
Employers' National Insurance contributions	**41.0**
Other taxes	**8.5**
Total	**384.7**

Total taxes collected

At 31 December	2021 £m
Insurance Premium Tax	**391.1**
Value Added Tax	**10.1**
Employees' Pay As You Earn and National Insurance contributions	**99.2**
Total	**500.4**

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts.

Principal risks	Risk commentary
Insurance risk is the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting.	Key drivers of the outlook for insurance risk across our strategic plan include reserve, underwriting, distribution, pricing and reinsurance risks. Issues relating to Covid-19, the Pricing Practices Review and claims inflation risk have been a key area of focus for the Group in 2021 and the main driver of the increasing trend in insurance risk. Claims trends have been significantly impacted by Covid-19, leading to uncertainty in claims reserving and pricing. In addition, in 2022 and beyond there is a risk of higher than expected claims inflation driven by customer behaviour, a rebound in global growth and supply chain disruption from the UK's new trading relationships. Uncertainty following the implementation of the FCA Pricing Practices Regulations will continue to have financial impacts on the market in 2022. We have used scenario testing to understand the potential financial impacts of these risks and continue to monitor these risks closely. Finally, climate change presents a risk of more frequent extreme events and key risk indicators are being continually enhanced to monitor related risks across Home and Motor.
Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.	Key drivers of market risk are the sensitivity of the values of our assets and investments to changes in credit spreads, and our exposure to losses as a result of changes in interest rate term structure or volatility. Global geopolitical, economic and other uncertainty could impact equity and credit markets within the global economy leading to credit spread increases, foreign exchange rate volatility, interest rate changes and devaluation of UK property assets. To address this, we have an investment strategy which is approved by the Board and includes limiting exposure to individual asset classes and the amount of illiquid investments we hold. We also use risk reduction techniques such as hedging foreign currency exposures with forward contracts.
Operational risk is the risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The key risks within this category are Cyber, Technology & Infrastructure, Operational Resilience, Change, People, Information Management, Outsourcing, Partnerships and Fraud.	Operational risks can arise within all areas of the business and can become manifest as a result of inadequate or failed internal processes or systems, human error or because of external events. Our approach is to proactively manage our operational risks to mitigate potential customer harm, regulatory or legal censure, and financial or reputational impacts. The stable trend in operational risk is driven mainly by the progress demonstrated by the business in delivering key strategic technology improvements that strengthen resilience and have enabled the Group's transition to a more flexible operating model, utilising both virtual and office based working solutions. We have in place robust operational processes and systems, including prevention and detection measures, that seek to ensure the Group is well placed to absorb and/or adapt to internal or external events that have the potential to impact our customer operations and the wider business more generally. With large numbers of staff working mainly from home, significant progress has been made to improve the performance and ability of our IT systems, focusing on delivering system stability and optimising capability. Streamlining change implementation and ensuring we drive effective prioritisation in our investment decisions has remained a key area of management focus, to support the Group in achieving its strategic aims, whilst also actively strengthening its controls to further mitigate impacts from potential risk events. Finally, the Cyber threat landscape has continued to remain volatile globally, including the increase in ransomware attacks, and we have introduced new controls, strengthened existing ones, and enhanced our suite of automated monitoring and reporting, to enable us to respond to malicious and unintended threats from both internal and external entities.

Principal risks	Risk commentary
Regulatory and compliance risk describes the risks leading to reputational damage, regulatory or legal censure, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities.	We maintain a constructive and open relationship with our regulators and have a strong culture of delivering on our commitments to our customers. Pricing practices within the general insurance market has remained a key area of focus for the FCA and for the Group. We have devoted a lot of attention and resource with the intention of enabling the Group to meet the FCA's Pricing Practices Review requirements within the challenging deadlines prescribed by the FCA, and to be in a position to deliver the intended customer outcomes. Focus has also been given to the ability of the Group to trade effectively post the implementation of the FCA Pricing Practices Review requirements. For product lines which sit outside of the FCA's pricing remedies, the Group continues to operate to a set of conduct pricing principles which enable the fair pricing of business across our book and the provision of fair outcomes for our customers. We have maintained regular and open dialogue with both the FCA and PRA on our responses to climate change and the Covid-19 pandemic. We have also engaged with HM Treasury and participated in the PRA's Quantitative Impact Study on the UK review of the Solvency II framework. Finally, we have put in place a strong governance and accountability framework as part of the Senior Managers and Certification Regime, and carry out an annual declaration process to ensure the ongoing fitness and propriety of the Group's Senior Managers and Certified Functions.
Credit risk is the risk of loss resulting from default in obligations due from and/or changes in the credit standing of issuers of securities, counterparties or any debtors to which the Group is exposed.	To manage credit risk, we set credit limits for each material counterparty and actively monitor credit exposures. In addition, we only purchase reinsurance from reinsurers with at least A- rating and, for liabilities with a relatively long period of time to settlement, this rating is at least A+. Finally, we also have well defined criteria to determine which customers are offered and granted credit.
Strategic risk is the risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	Strategic risk is influenced by internal and external developments such as the Covid-19 pandemic, the UK's new trading relationships and FCA's Pricing Practice Review. In addition, the adoption of agile ways of working allows the business to more quickly identify and react to risks to the implementation of the Group's strategic goals. To manage our risks, we have taken the following steps: — we agree, monitor and manage performance against the Board-approved plan and targets; — the Board leads an annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities; — as part of the timetable for the Strategic Plan, the Risk Function carries out a risk review of the Plan which is documented in the Group's Own Risk and Solvency Assessment and presented to the Board; and — we identify and manage emerging risks using established governance processes and forums.

Potential effects of Covid-19 and the UK's new international trading relationships on inflation

The UK's new international trading relationships may have had an impact on claims inflation and may still do so, although the Covid-19 pandemic continues to mask the effects of these relationships. Certain risks related to Brexit could still occur or be exacerbated and we continue to be alert to possible developments.

Emerging risks

Emerging risks are defined by the Group as newly developing or changing threats or opportunities, external to the Group, that are subject to a high degree of uncertainty but have the potential to materially impact the Group.

The Group has in place an emerging risks process designed to enable it to:

- have a proactive approach to emerging risk management;
- identify, manage and monitor a broad range of potential emerging risks; and
- mitigate the impact of emerging risks which could impact the delivery of the strategic plan.

The Group records emerging risks within an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives on selected emerging risks.

The most notable emerging risks currently being monitored via the emerging risks process are outlined below.

Climate change

The Group recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Climate change risk can be divided into physical and transition risks. Both of these categories can manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational, strategic and reputational risks.

In 2021, we participated in the Bank of England's CBES exercise, which was designed to test the resilience of the financial system to the physical and transition risks from climate change. The CBES exercise covered both a quantitative scenario analysis, spanning a 30-year time horizon, and a qualitative assessment of management actions and the sustainability of different business models.

We continue to monitor these risks closely and to develop our climate change modelling capability.

Ethical use of data

The insurance industry is gathering and processing greater volumes of data than ever before. The adoption of Artificial Intelligence ("**AI**") and Machine Learning introduces the potential to create unfair outcomes if data is not processed responsibly. The use of technology to automate decisions could magnify the impact of problems caused by inaccurate or biased data.

The Group has developed a Data Ethics Framework which introduces a set of principles to drive the ethical use of data and a new governance model to ensure appropriate visibility and escalation of ethical concerns. Furthermore, the Group has an established Data Ethics Steering Group which gathers internal and external views on data ethics, reviews business propositions on data use and helps to drive the embedding of the data ethics framework across the Group.

Global financial instability

Global financial instability can occur through unexpected or unpredictable external events that affect fundamental macroeconomic variables, such as GDP growth, consumption, inflation or unemployment. As markets worldwide continue to recover from the impact of Covid-19, there is a risk that global financial instability could be triggered and/or worsened by numerous external events, including natural disasters, war, terrorism, natural resource or fuel shortages and global technological failures. Should the Russia-Ukraine situation continue to deteriorate, there is a likelihood that the impact on global financial instability will increase.

The principal impacts of global financial instability would likely be felt on the Group's investment portfolio, through changes in credit spreads and sovereign yields. Depending on the cause, there may also be operational and insurance risk impacts to consider.

The Group's investment portfolio is already positioned relatively defensively, reducing the potential exposure to global financial instability. However, if global financial instability were to materialise, further steps could be taken, such as shifting the portfolio further towards 'defensive' sectors, pausing reinvestment or increasing the allocation to cash and sovereign debt.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Gross earned premium		**3,168.0**	3,189.3
Reinsurance premium		**(210.6)**	(228.8)
Net earned premium	4	**2,957.4**	2,960.5
Investment return	5	**146.3**	95.1
Instalment income		**97.3**	109.3
Other operating income	6	**46.7**	49.9
Total income		**3,247.7**	3,214.8
Insurance claims		**(1,915.3)**	(1,730.4)
Insurance claims recoverable from reinsurers		**196.6**	16.8
Net insurance claims	7	**(1,718.7)**	(1,713.6)
Commission expenses	8	**(240.9)**	(254.7)
Operating expenses (including restructuring and one-off costs)	9	**(807.8)**	(763.8)
Total expenses		**(1,048.7)**	(1,018.5)
Finance costs	10	**(34.3)**	(31.3)
Profit before tax		**446.0**	451.4
Tax charge		**(102.3)**	(84.2)
Profit for the year attributable to the owners of the Company		**343.7**	367.2
Earnings per share:			
Basic (pence)	12	**24.5**	25.8
Diluted (pence)	12	**24.1**	25.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 £m	2020 £m
Profit for the year attributable to the owners of the Company	**343.7**	367.2
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to the income statement:		
Remeasurement gain/(loss) on defined benefit pension scheme	**3.8**	(0.4)
Tax relating to items that will not be reclassified	**(0.8)**	0.3
	3.0	(0.1)
Items that may be reclassified subsequently to the income statement:		
Cash flow hedges	**(0.3)**	(0.1)
Fair value (loss)/gain on AFS investments	**(84.1)**	47.4
Less: net gains on AFS investments transferred to income statement on disposals	**(7.9)**	(1.1)
Tax relating to items that may be reclassified	**17.1**	(9.9)
	(75.2)	36.3
Other comprehensive (loss)/income for the year net of tax	**(72.2)**	36.2
Total comprehensive income for the year attributable to the owners of the Company	**271.5**	403.4

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Goodwill and other intangible assets		**822.5**	786.8
Property, plant and equipment		**113.8**	146.1
Right-of-use assets		**76.1**	137.8
Investment property		**317.0**	292.1
Reinsurance assets	14	**1,211.8**	1,129.2
Current tax assets		**14.4**	–
Deferred acquisition costs		**186.6**	172.2
Insurance and other receivables		**762.8**	848.2
Prepayments, accrued income and other assets		**125.1**	126.0
Derivative financial instruments		**35.9**	73.4
Retirement benefit asset		**12.1**	9.0
Financial investments	15	**4,633.6**	4,681.4
Cash and cash equivalents	16	**955.7**	1,220.1
Assets held for sale		**41.2**	–
Total assets		**9,308.6**	9,622.3
Equity			
Shareholders' equity		**2,550.2**	2,699.7
Tier 1 notes	18	**346.5**	346.5
Total equity		**2,896.7**	3,046.2
Liabilities			
Subordinated liabilities	19	**513.6**	516.6
Insurance liabilities	20	**3,680.5**	3,617.0
Unearned premium reserve	21	**1,500.7**	1,497.1
Borrowings	16	**59.2**	51.9
Derivative financial instruments		**19.5**	57.2
Provisions		**96.4**	114.8
Trade and other payables, including insurance payables		**457.3**	549.9
Lease liabilities		**84.2**	152.4
Deferred tax liabilities		**0.5**	8.7
Current tax liabilities		**–**	10.5
Total liabilities		**6,411.9**	6,576.1
Total equity and liabilities		**9,308.6**	9,622.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital (note 17) £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 18) £m	Total equity £m
Balance at 1 January 2020	150.0	(30.2)	1,450.0	47.5	0.1	1,026.2	2,643.6	346.5	2,990.1
Profit for the year	–	–	–	–	–	367.2	367.2	–	367.2
Other comprehensive income/(loss)	–	–	–	36.4	(0.1)	(0.1)	36.2	–	36.2
Total comprehensive income for the year	–	–	–	36.4	(0.1)	367.1	403.4	–	403.4
Dividends and appropriations paid (note 11)	–	–	–	–	–	(312.5)	(312.5)	–	(312.5)
Shares acquired by employee trusts	–	(23.8)	–	–	–	–	(23.8)	–	(23.8)
Shares cancelled following buyback	(1.1)	–	1.1	–	–	(30.0)	(30.0)	–	(30.0)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	18.5	18.5	–	18.5
Shares distributed by employee trusts	–	13.7	–	–	–	(13.7)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.5	0.5	–	0.5
Total transactions with equity holders	(1.1)	(10.1)	1.1	–	–	(337.2)	(347.3)	–	(347.3)
Balance at 31 December 2020	148.9	(40.3)	1,451.1	83.9	–	1,056.1	2,699.7	346.5	3,046.2
Profit for the year	**–**	**–**	**–**	**–**	**–**	**343.7**	**343.7**	**–**	**343.7**
Other comprehensive (loss)/income	**–**	**–**	**–**	**(74.9)**	**(0.3)**	**3.0**	**(72.2)**	**–**	**(72.2)**
Total comprehensive income for the year	**–**	**–**	**–**	**(74.9)**	**(0.3)**	**346.7**	**271.5**	**–**	**271.5**
Dividends and appropriations paid (note 11)	**–**	**–**	**–**	**–**	**–**	**(317.4)**	**(317.4)**	**–**	**(317.4)**
Shares acquired by employee trusts	**–**	**(20.3)**	**–**	**–**	**–**	**–**	**(20.3)**	**–**	**(20.3)**
Shares cancelled following buyback	**(3.7)**	**–**	**3.7**	**–**	**–**	**(101.0)**	**(101.0)**	**–**	**(101.0)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**17.0**	**17.0**	**–**	**17.0**
Shares distributed by employee trusts	**–**	**19.2**	**–**	**–**	**–**	**(19.2)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**	**–**	**0.7**
Total transactions with equity holders	**(3.7)**	**(1.1)**	**3.7**	**–**	**–**	**(419.9)**	**(421.0)**	**–**	**(421.0)**
Balance at 31 December 2021	**145.2**	**(41.4)**	**1,454.8**	**9.0**	**(0.3)**	**982.9**	**2,550.2**	**346.5**	**2,896.7**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Net cash generated from operating activities before investment of insurance assets		**271.8**	268.8
Cash generated from investment of insurance assets		**167.2**	315.9
Net cash generated from operating activities		**439.0**	584.7
Cash flows used in investing activities			
Purchases of goodwill and other intangible assets		**(109.4)**	(140.7)
Purchases of property, plant and equipment		**(29.3)**	(20.1)
Net cash flows from acquisition of subsidiaries		**–**	(0.2)
Net cash used in investing activities		**(138.7)**	(161.0)
Cash flows used in financing activities			
Dividends paid	11	**(300.8)**	(295.9)
Appropriations paid	11	**(16.6)**	(16.6)
Finance costs (including lease interest)		**(31.4)**	(30.2)
Principal element of lease payments		**(101.9)**	(12.5)
Purchase of employee trust shares		**(20.3)**	(23.8)
Proceeds on issue of subordinated Tier 2 notes		**–**	257.2
Shares purchased in buyback		**(101.0)**	(30.0)
Net cash used in financing activities		**(572.0)**	(151.8)
Net (decrease)/increase in cash and cash equivalents		**(271.7)**	271.9
Cash and cash equivalents at the beginning of the year	16	**1,168.2**	896.3
Cash and cash equivalents at the end of the year	16	**896.5**	1,168.2

1. Accounting policies

Basis of preparation

The financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("**IFRS**") as adopted by the UK. The financial information set out in this preliminary results announcement does not constitute the statutory accounts for the year ended 31 December 2021. The financial information is derived from the statutory accounts, which comply with IFRS, within the Group's Annual Report & Accounts 2021. These accounts were signed on 7 March 2022 and are expected to be published in March 2022 and delivered to the Registrar of Companies following the Annual General Meeting to be held on 10 May 2022. The independent Auditor's report on the Group accounts for the year ended 31 December 2021 was signed on 7 March 2022, is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) or (3) of the Companies Act 2006. This audit opinion excludes disclosures surrounding capital adequacy calculated under the Solvency II regime as these are outside of the audit scope.

Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Finance Review describes the Group's capital management strategy, including the capital actions taken in the last twelve months to ensure the continued strength of the balance sheet. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. Additionally, note 3 to the consolidated financial statements in the Group's Annual Report and Accounts 2021 sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle. The assessment included the impact of the Covid-19 pandemic on the underwriting cycle, including motor claims frequency, travel disruption and supply chain disruption, and the possible impacts of the FCA's Pricing Practices Review ("**PPR**"). The key judgements and assumptions applied were in relation to the likely time period of continued Covid-19 related effects and the impact on the general insurance market, the economic recovery and the impact of the PPR on customer behaviour. The 2021 Strategic Plan ("the **Plan**") indicates that the Group will continue to maintain levels of solvency in line with its risk appetite across the planning cycle (to 31 December 2025).

In addition, the Group's Risk Function has carried out an assessment of the risks to the Plan and the dependencies for the success of the Plan. This included running stress tests on the Plan to consider the 1 in 8 years and 1 in 25 years loss simulations based on the internal economic capital model. In both scenarios, it was concluded that the Group's solvency capital requirement would not be breached following the implementation of management actions.

A reverse stress test was also performed to identify the most probable combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The purpose of this reverse stress test was to assess the coverage and scope of the internal economic capital model and there were no findings that invalidate the internal model.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 7 March 2022 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

Adoption of new and revised standards

In August 2020, the International Accounting Standards Board has issued 'Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) which is effective from 1 January 2021 and was adopted by the UK in January 2021. The key considerations are as follows:

The Phase 2 amendments provide practical relief from certain requirements in IFRS standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate. If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. The Group has no lease contracts where changes to rental amounts are affected by the interest rate benchmark reform.

1. Accounting policies continued

The Phase 2 amendments provide a series of temporary exceptions from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument that permits the hedging relationship to be continued without interruption. The Group applied the following reliefs as and when uncertainty arising from interest rate benchmark reform was no longer present with respect to the timing and amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument:

– the Group amended the designation of a hedging relationship to reflect changes that were required by the reform without discontinuing the hedging relationship; and
– when a hedged item in a cash flow hedge was amended to reflect the changes that were required by the reform, the amount accumulated in the cash flow hedge reserve was deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

The IASB issued 'Covid-19-related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)' in March 2021 which was adopted by the UK in May 2021. The amendment extends, by one year, the original May 2020 amendment that permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The Group has not needed to apply this practical expedient.

Accounting developments

New IFRS standards and amendments that are issued, but not yet effective for the 31 December 2021 reporting period have not been early adopted by the Group. The Group intends to adopt these standards, if applicable, when they become effective, except for Amendments to IFRS 9 'Financial Instruments', as explained below.

These IFRS 9 amendments permitted insurers which satisfied certain criteria to defer the effective date of IFRS 9, to coincide with the expected effective date of IFRS 17. The Group conducted a high-level assessment of the three aspects of IFRS 9 and, based on current information, the impact of applying the expected loss model for the first time is currently immaterial. The Group does not expect any other significant impact on its financial statements.

The amendments required insurance entities to evaluate whether their activities were predominantly connected to insurance as at its annual reporting date immediately preceding 1 April 2016, providing an option to defer adoption of IFRS 9 if liabilities connected to insurance comprised a predominant proportion of its total liabilities as at that date. The Group concluded that it satisfied the criteria and there have been no significant changes in the Group's activities since this assessment to require a reassessment of the criteria.

As a result, the Group decided to defer the application of IFRS 9 and continues to do so.

IFRS 17 was issued by the IASB in May 2017 to replace IFRS 4 'Insurance Contracts' and is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. IFRS 17 is a comprehensive new accounting standard for all insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and to replace the requirements of IFRS 4 that allowed insurers to apply grandfathering of previous local accounting policies.

As the vast majority of the Group's insurance contracts have a coverage period that is 12 months or less, the Group intends to adopt the premium allocation approach ("**PAA**") for all insurance and reinsurance contract groups. Applying the PAA, an entity measures the liability for remaining coverage ("**LRC**") of a group of insurance contracts on initial recognition as premiums received less any insurance acquisition cash flows paid. Subsequently, the liability for remaining coverage of a group of insurance contracts increases with premiums received and decreases to reflect an allocation of the total amount of the expected premiums receipts to profit or loss on a straight line basis as insurance services are provided. The measurement of the Group's liability for incurred claims ("**LIC**") will require the Group to determine a probability-weighted best estimate of future fulfilment cash flows, discounted to reflect the time value of money with a risk adjustment to compensate for non-financial risk.

A dedicated programme of activity throughout the year has ensured the Group remains on track to complete the necessary data and technology changes required to transition to IFRS 17 and IFRS 9 from 1 January 2023, with a period of parallel run planned for 2022.

The Group also continues to refine its accounting policy choices and accounting judgments under IFRS 17 and therefore it is not possible to accurately estimate the likely impact of IFRS 17 to the Group's financial statements at this stage.

The standard is yet to be endorsed by the UK.

2. Critical accounting judgements and key sources of estimation uncertainty

Full details of critical accounting judgements and key sources of estimation uncertainty used in applying the Group's accounting policies are outlined on pages 170 to 171 of the Annual Report & Accounts 2020. There have been no significant changes to the principles or assumptions of these critical accounting judgements and key sources of estimation uncertainty during the year ended 31 December 2021 except, following the successful implementation of the Group's new Motor platform, that 'impairment provisions - intangible assets' is no longer a critical accounting judgement or source of estimation uncertainty. This is because the Group's most significant intangible asset, the Motor IT platform, has begun amortisation over the period of its expected useful economic life.

3. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2021.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total Group £m**
Gross written premium	1,560.8	577.8	380.0	653.0	**3,171.6**
Gross earned premium	1,597.8	579.8	372.5	617.9	**3,168.0**
Reinsurance premium	(124.5)	(26.4)	(3.0)	(56.7)	**(210.6)**
Net earned premium	1,473.3	553.4	369.5	561.2	**2,957.4**
Investment return	99.8	12.5	3.7	30.3	**146.3**
Instalment income	69.4	18.3	3.0	6.6	**97.3**
Other operating income	33.9	1.0	9.7	2.1	**46.7**
Total income	1,676.4	585.2	385.9	600.2	**3,247.7**
Insurance claims	(1,086.8)	(287.7)	(177.2)	(363.6)	**(1,915.3)**
Insurance claims recoverable from/(payable to) reinsurers	139.8	7.3	(8.1)	57.6	**196.6**
Net insurance claims	(947.0)	(280.4)	(185.3)	(306.0)	**(1,718.7)**
Commission expenses	(48.2)	(38.1)	(42.3)	(112.3)	**(240.9)**
Operating expenses before restructuring and one-off costs	(366.4)	(124.9)	(93.5)	(121.5)	**(706.3)**
Total expenses	(414.6)	(163.0)	(135.8)	(233.8)	**(947.2)**
Operating profit	**314.8**	**141.8**	**64.8**	**60.4**	**581.8**
Restructuring and one-off costs					**(101.5)**
Finance costs					**(34.3)**
Profit before tax					**446.0**

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	**111.7**	**110.0**	**48.4**	**21.4**	**291.5**
Loss ratio	64.3 %	50.7 %	50.2 %	54.5 %	**58.1 %**
Commission ratio	3.3 %	6.9 %	11.4 %	20.0 %	**8.1 %**
Expense ratio	24.8 %	22.5 %	25.3 %	21.7 %	**23.9 %**
Combined operating ratio	**92.4 %**	**80.1 %**	**86.9 %**	**96.2 %**	**90.1 %**

The table below analyses the Group's assets and liabilities by reportable segment for the year ended 31 December 2021.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total Group £m**
Goodwill	130.4	45.8	28.7	10.1	**215.0**
Assets held for sale	29.2	3.5	1.1	7.4	**41.2**
Other segment assets	6,467.2	750.1	268.4	1,566.7	**9,052.4**
Segment liabilities	(4,551.2)	(550.3)	(166.5)	(1,143.9)	**(6,411.9)**
Segment net assets	**2,075.6**	**249.1**	**131.7**	**440.3**	**2,896.7**

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

3. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2020.

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Gross written premium	1,616.9	577.9	417.8	567.8	3,180.4
Gross earned premium	1,635.3	581.9	425.6	546.5	3,189.3
Reinsurance premium	(150.5)	(26.1)	(2.7)	(49.5)	(228.8)
Net earned premium	1,484.8	555.8	422.9	497.0	2,960.5
Investment return	62.8	10.3	3.4	18.6	95.1
Instalment income	80.1	19.2	3.0	7.0	109.3
Other operating income	38.4	0.2	8.9	2.4	49.9
Total income	1,666.1	585.5	438.2	525.0	3,214.8
Insurance claims	(889.2)	(316.5)	(279.1)	(245.6)	(1,730.4)
Insurance claims recoverable from/(payable to) reinsurers	1.1	7.4	18.0	(9.7)	16.8
Net insurance claims	(888.1)	(309.1)	(261.1)	(255.3)	(1,713.6)
Commission expenses	(47.4)	(45.0)	(69.4)	(92.9)	(254.7)
Operating expenses before restructuring and one-off costs	(367.1)	(130.0)	(100.9)	(126.4)	(724.4)
Total expenses	(414.5)	(175.0)	(170.3)	(219.3)	(979.1)
Operating profit	363.5	101.4	6.8	50.4	522.1
Restructuring and one-off costs					(39.4)
Finance costs					(31.3)
Profit before tax					451.4

Underwriting profit/(loss)	182.2	71.7	(8.5)	22.4	267.8
Loss ratio	59.8%	55.6%	61.7%	51.4%	57.9%
Commission ratio	3.2%	8.1%	16.4%	18.7%	8.6%
Expense ratio	24.7%	23.4%	23.9%	25.4%	24.5%
Combined operating ratio	87.7%	87.1%	102.0%	95.5%	91.0%

The table below analyses the Group's assets and liabilities by reportable segment for the year ended 31 December 2020.

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Goodwill	129.6	45.8	28.7	10.1	214.2
Other segment assets	6,874.0	765.5	304.2	1,464.4	9,408.1
Segment liabilities	(4,771.6)	(558.7)	(196.2)	(1,049.6)	(6,576.1)
Segment net assets	2,232.0	252.6	136.7	424.9	3,046.2

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

4. Net earned premium

	2021 £m	2020 £m
Gross earned premium:		
Gross written premium	**3,171.6**	3,180.4
Movement in unearned premium reserve	**(3.6)**	8.9
	3,168.0	3,189.3
Reinsurance premium paid and payable:		
Premium payable	**(186.4)**	(231.0)
Movement in reinsurance unearned premium reserve	**(24.2)**	2.2
	(210.6)	(228.8)
Total	**2,957.4**	2,960.5

5. Investment return

	2021 £m	2020 £m
Investment income:		
Interest income from:		
Debt securities	**90.9**	98.6
Cash and cash equivalents	**0.2**	2.5
Infrastructure debt	**4.4**	5.8
Commercial real estate loans	**6.0**	6.5
Interest income	**101.5**	113.4
Rental income from investment property	**14.5**	13.7
	116.0	127.1
Net realised gains/(losses):		
AFS debt securities	**7.9**	1.1
Derivatives	**(5.2)**	69.9
Investment property	**0.2**	—
	2.9	71.0
Net unrealised gains/(losses):		
Impairment of loans and receivables	**(2.1)**	(2.7)
Derivatives	**(8.1)**	(90.2)
Investment property	**37.6**	(10.1)
	27.4	(103.0)
Total	**146.3**	95.1

The table below analyses the realised and unrealised gains and losses on derivative instruments included in investment return.

	Realised 2021 £m	Unrealised 2021 £m	Realised 2020 £m	Unrealised 2020 £m
Derivative (losses)/gains:				
Foreign exchange forward contracts[1]	**39.9**	**(42.5)**	57.4	(50.8)
Associated foreign exchange risk	**(22.8)**	**24.7**	28.1	(45.7)
Net gains/(losses) on foreign exchange forward contracts	**17.1**	**(17.8)**	85.5	(96.5)
Interest rate swaps[1]	**(26.3)**	**48.9**	(26.2)	(23.0)
Associated interest rate risk on hedged items	**4.0**	**(39.2)**	10.6	29.3
Net (losses)/gains on interest rate derivatives	**(22.3)**	**9.7**	(15.6)	6.3
Total	**(5.2)**	**(8.1)**	69.9	(90.2)

Note:

1. All foreign exchange forward contracts and certain interest rate swaps are measured at fair value through the income statement. There are also interest rate swaps designated as hedging instruments.

6. Other operating income

	2021 £m	2020 £m
Revenue from vehicle recovery and repair services	**19.7**	24.0
Vehicle replacement referral income	**13.1**	12.2
Legal services income	**7.2**	8.8
Other income[1]	**6.7**	4.9
Total	**46.7**	49.9

Note:

1. Other income mainly includes fee income from insurance intermediary services.

7. Net insurance claims

	Gross 2021 £m	Reinsurance 2021 £m	Net 2021 £m	Gross 2020 £m	Reinsurance 2020 £m	Net 2020 £m
Current accident year claims paid	**1,058.6**	**(1.1)**	**1,057.5**	1,056.4	(18.1)	1,038.3
Prior accident year claims paid	**793.2**	**(88.7)**	**704.5**	876.6	(123.0)	753.6
Movement in insurance liabilities	**63.5**	**(106.8)**	**(43.3)**	(202.6)	124.3	(78.3)
Total	**1,915.3**	**(196.6)**	**1,718.7**	1,730.4	(16.8)	1,713.6

Claims handling expenses for the year ended 31 December 2021 of £188.4 million (2020: £208.2 million) have been included in the claims figures above.

8. Commission expenses

	2021 £m	2020 £m
Commission expenses	**201.2**	180.9
Expenses incurred under profit participations	**39.7**	73.8
Total	**240.9**	254.7

9. Operating expenses

	2021 £m	2020 £m
Staff costs[1,2]	**268.8**	270.3
IT and other operating expenses[1,2,3]	**157.0**	220.2
Marketing	**112.0**	106.6
Insurance levies	**89.0**	80.4
Depreciation, amortisation and impairment of intangible and ROU assets[1,4]	**97.1**	86.3
Loss on termination of property lease[1,5]	**83.9**	—
Total other operating expenses (including restructuring and one-off costs)	**807.8**	763.8
Of which restructuring and one-off costs[1,5]	**101.5**	39.4
Total excluding restructuring and one-off costs	**706.3**	724.4

Notes:

1. Restructuring and one-off costs of £101.5 million (2020: £39.4 million) are included as follows: staff costs of £7.8 million (2020: £14.7 million), other operating expenses of £9.3 million (2020: £24.2 million), depreciation of £0.5 million (2020: £0.5 million) and loss on termination of property lease of £83.9 million (2020: £nil).
2. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
3. IT and other operating expenses include professional fees and property costs.
4. For the year ended 31 December 2021, depreciation and amortisation includes a £2.1 million impairment charge (2020: £6.6 million), which relates to capitalised software development costs for ongoing IT projects primarily relating to the development of new systems, and a £0.5 million impairment charge (2020: £nil), which relates to ROU property assets.
5. As part of the review of the Group's office site property strategy on 10 February 2021, U K Insurance Limited signed a contract in relation to its Bromley site to surrender the current lease and DL Insurance Services Limited signed a contract to purchase the head lease. The loss on terminating the lease was £83.9 million and the value of the fixed asset capitalised was £19.8 million.

9. Operating expenses continued

The table below analyses the number of people employed by the Group's operations.

	At 31 December		Average for the year	
	2021	2020	**2021**	2020
Insurance operations	**6,976**	8,022	**7,502**	8,010
Repair centre operations	**1,408**	1,441	**1,432**	1,454
Support	**1,402**	1,344	**1,382**	1,388
Total	**9,786**	10,807	**10,316**	10,852

The aggregate remuneration of those employed by the Group's operations comprised:

	2021 **£m**	2020 £m
Wages and salaries	**392.8**	393.5
Social security costs	**42.6**	43.6
Pension costs	**26.1**	26.2
Share-based payments	**18.4**	18.5
Total	**479.9**	481.8

10. Finance costs

	2021 **£m**	2020 £m
Interest expense on subordinated liabilities[1]	**33.6**	29.1
Net interest received on interest rate swap[2]	**(5.3)**	(4.1)
Unrealised losses on interest rate swap[2]	**5.8**	1.9
Unrealised gains on designated hedging instrument[2]	**–**	(1.2)
Unrealised losses on associated interest rate risk on hedged item[2]	**–**	0.9
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**(3.0)**	(1.3)
Interest expense on lease liabilities	**3.2**	6.0
Total	**34.3**	31.3

Notes:

1. On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%. See note 19.
2. As described in note 19, on 27 April 2012 the Group issued subordinated guaranteed dated Tier 2 notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest on the notes for a floating rate. This was treated as a designated hedging instrument. On 8 December 2017, the Group redeemed £250 million nominal value of the notes and the hedging agreement was redesignated accordingly. On 31 July 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 and, under the rules of the standard, the accumulated hedging adjustment has begun to be amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

11. Dividends and appropriations

	2021 **£m**	2020 £m
Amounts recognised as distributions to equity holders in the period:		
2021 interim dividend of 7.6 pence per share paid on 3 September 2021	**101.9**	–
2020 final dividend of 14.7 pence per share paid on 20 May 2021	**198.9**	–
2020 interim dividend of 7.4 pence per share paid on 4 September 2020	**–**	100.4
2020 special interim dividend of 14.4 pence per share paid on 4 September 2020	**–**	195.5
	300.8	295.9
Coupon payments in respect of Tier 1 notes[1]	**16.6**	16.6
	317.4	312.5
Proposed dividends:		
2021 final dividend of 15.1 pence per share	**199.4**	–
2020 final dividend of 14.7 pence per share	**–**	199.3

Note:

1. Coupon payments on the Tier 1 notes issued in December 2017 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid.

11. Dividends and appropriations continued

The proposed final dividends for 2021 have not been included as a liability in these financial statements.

On 7 March 2022, the Board approved a share buyback programme of up to £100 million to be completed during 2022.

On 8 March 2021, the Group announced that the Board had approved a share buyback programme of up to £100 million which was completed on 15 November 2021 in accordance with its terms.

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards, which reduced the total dividends paid for the year ended 31 December 2021 by £1.7 million (2020: £1.6 million).

12. Earnings per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the year.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares.

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares, adjusted for the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares.

	2021 £m	2020 £m
Earnings attributable to owners of the Company	**343.7**	367.2
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit for the calculation of earnings per share	**327.1**	350.6
Weighted average number of Ordinary Shares (millions)	**1,335.8**	1,356.5
Effect of dilutive potential of share options and contingently issuable shares (millions)	**20.8**	18.6
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,356.6**	1,375.1
Basic earnings per share (pence)	**24.5**	25.8
Diluted earnings per share (pence)	**24.1**	25.5

On 8 March 2021, the Group announced that the Board had approved a share buyback programme of up to £100 million, which was completed on 15 November 2021 in accordance with its terms. Across the programme, the Group repurchased and cancelled 33,838,593 ordinary shares for an aggregate consideration of £101,043,742 (including related transaction costs).

13. Net assets per share and return on equity

Net asset value per share is calculated as total shareholders' equity (which excludes Tier 1 notes) divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

Tangible net asset value per share is calculated as total shareholders' equity less goodwill and other intangible assets divided by the number of Ordinary Shares at the end of the period, excluding shares held by employee share trusts.

The table below analyses net asset and tangible net asset value per share.

	2021 £m	2020 £m
Net assets	**2,550.2**	2,699.7
Goodwill and other intangible assets[1]	**(822.5)**	(786.8)
Tangible net assets	**1,727.7**	1,912.9
Number of Ordinary Shares (millions)	**1,330.7**	1,364.6
Shares held by employee trusts (millions)	**(13.4)**	(12.8)
Closing number of Ordinary Shares (millions)	**1,317.3**	1,351.8
Net asset value per share (pence)	**193.6**	199.7
Tangible net asset value per share (pence)	**131.2**	141.5

Note:

1. Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. Intangible assets primarily comprise software development costs.

Return on equity

The table below details the calculation of return on equity.

	2021 £m	2020 £m
Earnings attributable to owners of the Company	**343.7**	367.2
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit for the calculation of return on equity	**327.1**	350.6
Opening shareholders' equity	**2,699.7**	2,643.6
Closing shareholders' equity	**2,550.2**	2,699.7
Average shareholders' equity	**2,625.0**	2,671.7
Return on equity	**12.5%**	13.1%

14. Reinsurance assets

	2021 £m	2020 £m
Reinsurers' share of general insurance liabilities	**1,169.6**	1,071.6
Impairment provision[1]	**(37.5)**	(46.3)
Total excluding reinsurers' unearned premium reserves	**1,132.1**	1025.3
Reinsurers' unearned premium reserve	**79.7**	103.9
Total	**1,211.8**	1,129.2

Note:

1. Impairment provision relates to reinsurance debtors, allowing for the risk that reinsurance assets may not be collected, or where one or more reinsurers' credit rating has been significantly downgraded and it may have difficulty in meeting its obligations.

15. Financial investments

	2021 £m	2020 £m
AFS debt securities		
Corporate	**4,006.9**	4,021.0
Supranational	**14.0**	21.3
Local government	**28.1**	35.6
Sovereign	**35.6**	25.2
Total	**4,084.6**	4,103.1
HTM debt securities		
Corporate	**91.2**	103.9
Total debt securities	**4,175.8**	4,207.0
Total debt securities		
Fixed interest rate[1]	**4,158.3**	4,184.5
Floating interest rate	**17.5**	22.5
Total	**4,175.8**	4,207.0
Loans and receivables		
Infrastructure debt	**250.8**	264.5
Commercial real estate loans	**200.8**	206.7
Total loans and receivables	**451.6**	471.2
Equity investments[2]	**6.2**	3.2
Total	**4,633.6**	4,681.4

Notes:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2021 was £1,005.6 million (2020: £971.1 million).
2. An insurtech-focused equity fund which is valued based on external valuation reports received from a third-party fund manager.

16. Cash and cash equivalents and borrowings

	2021 £m	2020 £m
Cash at bank and in hand	**162.8**	224.9
Short term deposits with credit institutions[1]	**792.9**	995.2
Cash and cash equivalents	**955.7**	1,220.1
Bank overdrafts[2]	**(59.2)**	(51.9)
Cash and bank overdrafts[3]	**896.5**	1,168.2

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts total is included for the purposes of the consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2021 was 0.16% (2020: 0.25%) and average maturity was 10 days (2020: 10 days).

17. Share capital

Issued and fully paid: equity shares	2021			2020		
	Number of shares	Share capital	Transfer to capital redemption reserve	Number of shares	Share capital	Transfer to capital redemption reserve
Ordinary Shares of 10 10/11 pence each[1]	millions	£m	£m	millions	£m	£m
At 1 January	**1,364.6**	**148.9**	**1.1**	1,375.0	150.0	—
Shares cancelled following buyback[2,3]	**(33.9)**	**(3.7)**	**3.7**	(10.4)	(1.1)	1.1
At 31 December	**1,330.7**	**145.2**	**4.8**	1,364.6	148.9	1.1

Notes:

1. The shares have full voting dividend and capital distribution rights (including on wind-up) attached to them; these do not confer any rights of redemption.
2. On 8 March 2021, the Group announced that the Board had approved a share buyback programme of up to £100 million, which was completed on 15 November 2021 in accordance with its terms. Across the programme, the Group repurchased and cancelled 33,838,593 ordinary shares for an aggregate consideration of £101,043,742 (including related transaction costs) as reflected in retained earnings. The shares have subsequently been cancelled giving rise to a capital redemption reserve of an equivalent amount as required by the Companies Act 2006.
3. On 3 March 2020, the Group announced a share buyback of Ordinary Shares for an aggregate purchase price of £150 million. On 19 March 2020 the buyback programme was cancelled, given the uncertainty in the capital markets at the time driven by the rapidly emerging Covid-19 pandemic. At the time of cancellation, the Group had repurchased 10,448,395 Ordinary Shares for an aggregate consideration of £30,014,567 (including transaction costs) as reflected in retained earnings. The shares were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount as required by the Companies Act 2006.

Employee trust shares

The Group satisfies share-based payments under the Group's share plans primarily through shares purchased in the market and held by employee share trusts.

At 31 December 2021, 13,442,422 Ordinary Shares (2020: 12,753,755 Ordinary Shares) were owned by the employee share trusts at a cost of £41.4 million (2020: £40.3 million). These Ordinary Shares are carried at cost and at 31 December 2021 had a market value of £37.5 million (2020: £40.7 million).

18. Tier 1 notes

	2021	2020
	£m	£m
Tier 1 notes	**346.5**	346.5

On 7 December 2017, the Group issued £350 million of fixed rate perpetual Tier 1 notes with a coupon rate of 4.75% per annum.

The Group has an optional redemption date of 7 December 2027. If the notes are not repaid on that date, a fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer ranking pari passu and without any preference amongst themselves.

The Tier 1 notes are treated as a separate category within equity and the coupon payments are recognised outside of the profit after tax result and directly in shareholders' equity.

The Group has the option to cancel the coupon payment. Cancellation becomes mandatory if: the Solvency condition[1] is not met at the time of, or following, coupon payment; there is non-compliance with the SCR or the minimum capital requirement; the Group has insufficient distributable reserves; or the relevant regulator requires the coupon payment to be cancelled.

Note:

1. All payments shall be conditional upon the Group being solvent at the time of payment and immediately after payment. The Issuer will be solvent if (i) it is able to pay its debts owed to senior creditors as they fall due and (ii) its assets exceed its liabilities.

19. Subordinated liabilities

	2021 £m	2020 £m
£250 million 9.25% subordinated Tier 2 notes due 2042	**255.2**	258.5
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.4**	258.1
Subordinated Tier 2 notes	**513.6**	516.6

The 2032 and 2042 notes are unsecured and subordinated obligations of the Group and rank pari passu and without any preference among themselves. In the event of a winding-up or of bankruptcy they are to be repaid only after the claims of all other senior creditors have been met and will rank at least pari passu with the claims of holders of other Tier 2 capital.

£250 million 9.25% subordinated Tier 2 notes due 2042

Subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013. This was treated as a designated hedging instrument.

On 8 December 2017, the Group repurchased £250 million nominal value of the subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million. The designated hedging agreement was adjusted accordingly.

The remaining notes, with a nominal value of £250 million, have a redemption date of 27 April 2042 with the option to repay the notes on 27 April 2022. If the notes are not repaid on that date, the terms of the notes provide that the rate of interest will be reset at a rate of 6-month LIBOR plus 7.91%. If LIBOR has been discontinued by this time, the terms of the notes provide for an ultimate fall-back rate of interest of 9.25% for subsequent interest periods. The terms of the notes do not automatically provide for the transition of LIBOR to SONIA, which would require a separate agreement between the Group and the noteholders.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

During 2020 the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 'Financial Instruments: Recognition and Measurement' and, under the rules of the standard, the accumulated hedging adjustment has begun to be amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

£260 million 4.0% subordinated Tier 2 notes due 2032

On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Group commencing on 5 December 2031 until the maturity date.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

20. Insurance liabilities

	2021 £m	2020 £m
Insurance liabilities	**3,680.5**	3,617.0

Gross insurance liabilities

Accident year	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	2,372.7	2,184.0	2,094.5	2,118.1	2,157.7	2,217.3	2,300.1	2,110.4	1,847.3	1,955.8	
One year later	(163.3)	(117.6)	20.7	(30.0)	(86.7)	(116.2)	(62.3)	(67.2)	(116.8)		
Two years later	(118.9)	(153.0)	(38.4)	(143.5)	(53.3)	(103.1)	(52.0)	(56.1)			
Three years later	(49.3)	(21.0)	(144.9)	(62.4)	(82.8)	(42.4)	(9.5)				
Four years later	(9.9)	(102.1)	(50.2)	(22.9)	(46.1)	(21.0)					
Five years later	(79.2)	(50.8)	(51.6)	(22.0)	(16.7)						
Six years later	(36.2)	(27.4)	(33.6)	(9.0)							
Seven years later	(23.8)	(14.0)	(6.5)								
Eight years later	(1.6)	(0.3)									
Nine years later	(1.3)										
Current estimate of cumulative claims	1,889.2	1,697.8	1,790.0	1,828.3	1,872.1	1,934.6	2,176.3	1,987.1	1,730.5	1,955.8	
Cumulative payments to date	(1,876.7)	(1,686.1)	(1,708.4)	(1,713.7)	(1,745.0)	(1,748.3)	(1,832.2)	(1,582.0)	(1,230.7)	(907.7)	
Gross liability recognised in balance sheet	**12.5**	**11.7**	**81.6**	**114.6**	**127.1**	**186.3**	**344.1**	**405.1**	**499.8**	**1,048.1**	**2,830.9**
2011 and prior											**770.9**
Claims handling provision											**78.7**
Total											**3,680.5**

Net insurance liabilities

Accident year	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
Estimate of ultimate net claims costs:											
At end of accident year	2,271.8	2,093.9	1,971.0	1,926.7	1,922.2	2,016.9	2,125.9	1,941.2	1,674.5	1,791.8	
One year later	(146.7)	(123.6)	(29.7)	(67.0)	(18.9)	(79.7)	(41.4)	(34.5)	(88.1)		
Two years later	(107.8)	(134.4)	(42.0)	(77.8)	(38.2)	(65.3)	(27.1)	(54.5)			
Three years later	(35.6)	(27.8)	(100.7)	(30.4)	(43.7)	(14.0)	(27.6)				
Four years later	(11.6)	(64.3)	(41.3)	(24.1)	(16.9)	(39.7)					
Five years later	(54.2)	(38.9)	(52.5)	(20.7)	(12.4)						
Six years later	(30.3)	(17.7)	(8.3)	(4.6)							
Seven years later	(14.6)	(10.6)	(8.0)								
Eight years later	(1.2)	0.4									
Nine years later	(1.5)										
Current estimate of cumulative claims	1,868.3	1,677.0	1,688.5	1,702.1	1,792.1	1,818.2	2,029.8	1,852.2	1,586.4	1,791.8	
Cumulative payments to date	(1,859.2)	(1,667.2)	(1,666.8)	(1,656.0)	(1,716.6)	(1,699.5)	(1,814.5)	(1,560.5)	(1,208.6)	(906.6)	
Gross liability recognised in balance sheet	**9.1**	**9.8**	**21.7**	**46.1**	**75.5**	**118.7**	**215.3**	**291.7**	**377.8**	**885.2**	**2,050.9**
2011 and prior											**418.8**
Claims handling provision											**78.7**
Total											**2,548.4**

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,916.0	(829.3)	2,086.7
Incurred but not reported	825.4	(320.3)	505.1
Claims handling provision	78.2	—	78.2
At 1 January 2020	3,819.6	(1,149.6)	2,670.0
Cash paid for claims settled in the year	(1,933.0)	141.1	(1,791.9)
Increase/(decrease) in liabilities:			
Arising from current-year claims	2,057.3	(169.9)	1,887.4
Arising from prior-year claims	(326.9)	153.1	(173.8)
At 31 December 2020	3,617.0	(1,025.3)	2,591.7
Claims reported	2,762.0	(842.8)	1,919.2
Incurred but not reported	777.0	(182.5)	594.5
Claims handling provision	78.0	—	78.0
At 31 December 2020	3,617.0	(1,025.3)	2,591.7
Cash paid for claims settled in the year	**(1,851.8)**	**89.8**	**(1,762.0)**
Increase/(decrease) in liabilities:			
Arising from current-year claims	**2,142.9**	**(166.1)**	**1,976.8**
Arising from prior-year claims	**(227.6)**	**(30.5)**	**(258.1)**
At 31 December 2021	**3,680.5**	**(1,132.1)**	**2,548.4**
Claims reported	**2,840.0**	**(885.2)**	**1,954.8**
Incurred but not reported	**761.8**	**(246.9)**	**514.9**
Claims handling provision	**78.7**	**–**	**78.7**
At 31 December 2021	**3,680.5**	**(1,132.1)**	**2,548.4**

Movement in prior-year net claims liabilities by operating segment

	2021 £m	2020 £m
Motor	**(127.1)**	(100.6)
Home	**(45.8)**	(10.8)
Rescue and other personal lines	**(23.8)**	(5.6)
Commercial	**(61.4)**	(56.8)
Total	**(258.1)**	(173.8)

21. Unearned premium reserve

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2020	1,506.0	(101.7)	1,404.3
Written in the period	3,180.4	(231.0)	2,949.4
Earned in the period	(3,189.3)	228.8	(2,960.5)
At 31 December 2020	1,497.1	(103.9)	1,393.2
Written in the period	**3,171.6**	**(186.4)**	**2,985.2**
Earned in the period	**(3,168.0)**	**210.6**	**(2,957.4)**
At 31 December 2021	**1,500.7**	**(79.7)**	**1,421.0**

22. Related parties

Transactions between the Group's subsidiary undertakings, which are related parties, have been eliminated on consolidation and accordingly are not disclosed.

Subject to the preceding sentence, there were no sales or purchases of products and services to or from related parties in the year ended 31 December 2021 (2020: £nil).

Full details of the Group’s related party transactions for the year ended 31 December 2020 are included on page 209 of the Annual Report & Accounts 2020.

23. Post balance sheet events

As part of the Group's ongoing change of the core operational real estate portfolio, on 28 February 2022, the freehold interest in a Birmingham property with a carrying value of £24.4 million and impaired by £5.0 million to reflect the costs of remediation and estimated realisable value, was sold for £19.4 million.

On 4 March 2022, the Group’s principal underwriter, U K Insurance Limited, entered into an agreement to extend its contract with NatWest Group until 2027 to continue to provide home insurance for its customers.

Corporate information

Direct Line Insurance Group plc is a public limited company registered in England and Wales, (company number 02280426). The address of the registered office is Churchill Court, Westmoreland Road, Bromley, BR1 1DP.

Statutory accounts information

The Annual Report & Accounts 2020 were signed on 5 March 2021 and were delivered to the Registrar of Companies following the Annual General Meeting held on 13 May 2021. The Annual Report & Accounts 2020 is available at: https://www.directlinegroup.co.uk/content/dam/dlg/corporate/images-and-documents/investors/oar-2020/pdfs/Direct_Line_Group_2020_full_year_report.downloadasset.pdf

At the time of the publishing of the Preliminary Results for 2021 the Annual Report & Accounts 2021 had not been published. Once published, the Annual Report & Accounts 2021 will be available on the Group’s website at www.directlinegroup.co.uk

GLOSSARY

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.
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.
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.
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.
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 51 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 51 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 51 alternative performance measures.)
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves. (See page 51 alternative performance measures)
Current-year normalised operating profit	This is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See page 51 alternative performance measures.)
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.
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.
Expense ratio	The ratio of operating expenses divided by net earned premium. (See page 51 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.
Gross written premium	The total premiums from insurance contracts that were incepted during the period.

Term	Definition and explanation
Group	Direct Line Insurance Group plc and its subsidiaries.
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 AUM. The average AUM derives from the period's opening and closing balances for the total Group. (See page 51 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 51 alternative performance measures.)
Loss ratio	Net insurance claims divided by net earned premium. (See page 51 alternative performance measures.)
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 51 alternative performance measures.)
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See page 51 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 52 alternative performance measures.)
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.
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 52 alternative performance measures.)

Term	Definition and explanation
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 48.
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 52 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 52 alternative performance measures.)
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.

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 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 48 to 50 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 3 on page 35 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 33 to 47.

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 48 and reconciled on page 54.	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 48 and reconciled in note 3 on page 35.	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 48 and reconciled in note 3 on page 35.	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 48 and is reconciled to the loss ratio (discussed below) on page 15.	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 48 and is reconciled on page 15.	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 48 and reconciled on page 53.	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 48 and reconciled in note 3 on page 35.	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 49 and is reconciled on page 52.	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 49 and is reconciled on page 52.	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 49 and reconciled in note 3 on page 35.	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 49 and is reconciled on page 52.	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 is defined in the glossary on page 48 and reconciled on page 53.	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.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Operating expenses	Total expenses	Operating expenses are defined in the glossary on page 49 and reconciled in note 3 on page 35.	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 49 and reconciled in note 3 on page 35.	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 50 and is reconciled on page 54.	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 50 and is reconciled on page 54.	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 assets per share is defined in the glossary on page 50 and reconciled in note 13 on page 40.	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 50 and is reconciled in note 3 on page 35.	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[1]

	Notes[2]	2021 £m	2020 £m
Investment income	5	**116.0**	127.1
Hedging to a sterling floating rate basis[3]	5	**(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	5	**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		**317.0**	292.1
Closing financial investments	15	**4,633.6**	4,681.4
Closing cash and cash equivalents	16	**955.7**	1,220.1
Closing borrowings	16	**(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 yield[1]		**1.9%**	2.1%
Net investment income yield[1]		**1.7%**	1.8%
Investment return yield[1]		**2.4%**	1.6%

Notes:

1. See glossary on page 49 for definitions.
2. See notes to the condensed consolidated financial statements.
3. Includes net realised and unrealised gains/(losses) on derivatives in relation to AUM.
4. See footnote 1 on page 18. (Investment holdings).
5. Mean average of opening and closing balances.

Normalised combined operating ratio[1]

	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 48 for definition.

Normalised operating profit[1]

	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 49 for definition.

Operating expenses[1]

	Note[2]	**2021 £m**	2020 £m
Operating expenses (including restructuring and one-off costs)	9	**807.8**	763.8
Less restructuring and one-off costs	9	**(101.5)**	(39.4)
Operating expenses	9	**706.3**	724.4

Notes:

1. See glossary on page 49 for definition.
2. See notes to the condensed consolidated financial statements.

Return on tangible equity[1]

	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 50 for definition.
2. Mean average of opening and closing balances.

Adjusted solvency capital ratio[1]

	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 48 for definition.

ADDITIONAL INFORMATION

We confirm that to the best of our knowledge:

1. the financial statements within the Annual Report & Accounts, from which the financial information within these Preliminary Results have been extracted, are prepared in accordance with the International Financial Reporting Standards, issued by the IASB as adopted by the UK and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
2. the management report within these Preliminary Results includes a fair review of the development and performance of the business and the position of the Group, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

PENNY JAMES
CHIEF EXECUTIVE OFFICER

7 March 2022

NEIL MANSER
CHIEF FINANCIAL OFFICER

7 March 2022

LEI: 213800FF2R23ALJQOP04