Task Force on Climate-related Financial Disclosures

Introduction

The Group's 2024 disclosure against the Recommendations and Recommended Disclosures of the Task Force on Climate-related Financial Disclosures ("**TCFD**") reflects our ongoing work to further integrate climate risk management across the business, while also outlining the progress we are making against our climate ambitions, including our Science-Based Targets.

We continue to assess and develop our disclosures against the Recommendations and Recommended Disclosures of the TCFD and recognise its importance in evolving our understanding and management of the risks and opportunities associated with climate change.

The Group, as at the time of publication, has complied with the requirements of UK Listing Rule 6.6.6R(8) by including climate-related financial disclosures consistent with 9 of the 11 TCFD Recommendations and Recommended Disclosures for all sectors ('Section C Guidance for All Sectors'), including the supplemental guidance for insurance companies ('Section D Supplemental Guidance for the Financial Sector') within the 2021 TCFD Annex.

The Group has reported against all 11 Recommended Disclosures and believes its disclosure against 9 of the 11 Recommendations meets the objectives of the TCFD framework, with further detail regarding the two remaining Recommendations explained below.

For Metrics and Targets disclosure Recommendations (a) and (b), which includes sector-specific guidance for insurance companies, we continue to work towards developing our disclosure against the relevant components of these two Recommendations, as outlined below.

Metrics and Targets disclosure Recommendation (a):

- to provide additional metrics, including cross-industry metrics, within our disclosure to support measurement and management of climate-related transition risks and opportunities; and
- to describe the extent to which our insurance underwriting activities, where relevant, are aligned with a well below 2°C scenario.

Metrics and Targets disclosure Recommendation (b):

- to disclose, where data and methodologies allow, the weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business.

The Group expects its disclosure against these to evolve over time, with improving alignment to these forming part of the actions embedded within our climate-related risk management roadmap. For Recommendation (b), above, whilst we continue to review emerging best practice, at present, we do not believe available methodologies allow meaningful measurement of these metrics for small commercial property portfolios. See page 70.

Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022

The climate-related financial disclosures made by the Group, within the following pages, comply with the requirements of the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022. The Non-Financial and Sustainability Information Statement, on page 45, outlines where disclosure against each of these requirements can be found.

International Sustainability Standard Board's ("ISSB") IFRS S1 and IFRS S2

The Group notes the ISSB's Sustainability Disclosure Standards, IFRS S1 and S2, issued in 2023, and welcomes the value the Standards will have in evolving the global baseline for climate-related reporting. The Standards are currently subject to UK endorsement.

Governance

Our approach

The Group's approach to the governance of its sustainability strategy is underpinned by a clear commitment from the Board and senior management to align sustainability goals with the Group's strategy, and to encourage accountability across the business.

Our five-pillar sustainability strategy (see page 44), endorsed by the Board, aims to foster the highest standard of Environmental, Social and Governance practice and deliver long-term sustainability for all our stakeholders. The Planet pillar takes the lead on climate-related issues.

Boards and Committees

The potential and actual impact of climate change on the business ("**inbound**"), as well as the Group's impact on the environment ("**outbound**"), are issues requiring robust governance to empower business areas in the management of climate-related risks and opportunities.

It starts with the Group's Board, which seeks to underpin all of the Group's activities with the highest standards of corporate governance. The Board has oversight on two key aspects of the Group's approach:

- Each year, the Board assesses the strategic plan (the "**Plan**") in conjunction with the Group's Own Risk and Solvency Assessment ("**ORSA**"), which considers material risks to the Plan, including climate change-related risks. More information on climate change and our financial planning can be found on page 60.
- The Board oversees the Group's sustainability activity through its Committees, which scrutinise and provide appropriate challenge on the Group's five pillar sustainability strategy, including the establishment and monitoring of Science-Based Targets and the Group's development of a climate-related risk management roadmap (see page 59). The Chair of each Committee reports to the Board after each Committee meeting.

Committees

- The **Audit Committee** meets a minimum of four times a year and is responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.
- The **Board Risk Committee** oversees financial, regulatory compliance, conduct and operational risk, including the risk to the Group from climate change. It meets a minimum of four times a year and receives reports on stress testing of long-term climate change scenarios, discusses strategies for managing the associated risks and receives updates on emerging risks throughout the year, with deep dives as appropriate. During the year, the Committee played a key role in monitoring the Group's climate-related risk management roadmap and identifying areas of opportunity for improvement.
- The **Investment Committee** meets a minimum of three times a year and considers the strategy for incorporating ESG factors into the Group's investment management, which has seen our credit portfolios tilted towards issuers with a low carbon transition category.

- The **Nomination and Governance Committee** meets a minimum of two times a year, monitoring the Board's overall structure, size, composition and balance of skills. This Committee is also responsible for monitoring the Group's observance of corporate governance best practice.
- The **Customer and Sustainability Committee** receives updates on progress made under our Customer, People, Society, Planet and Governance pillars. The Committee meets a minimum of four times a year. During 2024, it has reviewed progress against the Group's Science-Based Targets, approved by the Science Based Targets initiative ("**SBTi**") in 2022; and reviewed performance and approach on key stakeholder matters, along with the Group's participation in various sustainability-related initiatives. The Committee continues to monitor the Group's progress towards its Net Zero aims.
- The **Remuneration Committee** meets a minimum of four times a year and considers how executive remuneration can be used to drive progress on climate-related matters. An emissions metric has been applied to long-term incentive plan ("**LTIP**") awards made since 2022 and makes up a 10% weighting of the total award made under the LTIP. The emissions performance condition includes a targeted reduction in emissions and temperature score and is based on the Science-Based Targets that were approved by the SBTi in 2022.

More information on the structure of the Board and Board Committees can be found within the Corporate Governance report on page 94.

Management's role

There are three primary management roles designed to oversee the delivery of the Group's assessment and management of climate-related matters:

- the Chief Executive Officer ("**CEO**") has oversight of overall climate-related matters;
- the Chief Financial Officer ("**CFO**") oversees the implementation of the Group's investment strategy and is advised by the Investment Committee on the application of ESG weightings, including those related to climate change, to the relevant portfolios. The CFO is a member of the Investment Committee and the Director of Investment and Capital Management is a regular attendee. The CFO also oversees the identification and management of climate-related financial risk; and
- the Chief Risk Officer ("**CRO**") provides subject matter advice, challenge and objective opinions on all risk matters, including climate-related risk, through their oversight of the Risk Function. The CRO is also tasked with establishing appropriate risk management processes and frameworks for climate-related risks.

Further information relating to our climate risk identification process can found on page 67.

In the year, the Group's **Climate Executive Steering Group** ("**CESG**" or the "**Steering Group**") acted as a management forum to assess the potential impacts of climate change on the business, along with the business's impact on the environment. The CESG consisted of members representing various teams across the organisation, which included senior management representation, and supported the Customer and Sustainability Committee's oversight of the Group's progress against its climate ambitions.

The Steering Group's responsibilities also included monitoring the Group's performance against its climate ambitions, including its Science-Based Targets, and overseeing input into the Group's business development and strategic processes to make sure climate is given appropriate consideration in long term strategy and planning. This included the identification and oversight of climate-related opportunities.

In 2024, tracking and management of the financial aspects of climate risk management activities, as identified in the Group's climate-related risk management roadmap, transferred from the CESG to the Risk Management Committee and Board Risk Committee. Regular updates are provided to support their oversight of climate-related risk.

The roadmap sets out a range of actions to further integrate climate risk management across the business and to build additional capabilities in areas such as climate risk modelling and scenario analysis.

A Climate Risk Workshop meets monthly with representation across the business including Risk, Finance and Sustainability. During 2024, it received updates relating to enhancements to the risk management framework and climate scenario testing capabilities.

Further information relating to the processes by which management are informed about climate-related issues can be found on page 67. More information on the key performance indicators used to assess, monitor and manage climate-related risks and opportunities can be found on pages 68 to 71.

Strategy

The effects associated with climate change are far reaching and have the potential to cause significant economic and societal impact. We know that through the actions we take as a business we can contribute to a more sustainable future and as an insurer with over 8.8 million in-force policies[1], we recognise our role in supporting – and accelerating – the transition to a low-carbon economy.

Our strategy focuses on mitigating against, and adapting to, climate change. This involves driving change across our underwriting activities, our operations and our investments, and includes the actions we are taking to progress against our Science-Based Targets and Net Zero ambitions.

The following pages examine this strategy alongside the actual and potential impacts of climate change on the Group, in line with the TCFD Recommendations and Recommended Disclosures, and outline how we continue to develop our approach to climate-related risks and opportunities across the business.

Note:

1. Based on the Group's ongoing operations. See glossary on pages 238 to 241 for definitions.

Climate change risks and opportunities

The potential impacts of climate change on organisations are classified into the following three categories by the TCFD:

- **physical risks** – resulting from the physical effects of climate change;
- **transition risks** – resulting from the transition to a lower-carbon economy; and
- **opportunities** – arising from efforts to mitigate and adapt to climate change.

We also recognise that litigation risk, which includes risks arising when parties who have suffered losses from climate change seek to recover them from those they believe may have been responsible, could also cause adverse impact. This could include direct climate-related litigation against the Group or insurance risk arising from the underwriting of liability products. The Group considers the risks associated with this to be low due to low exposure in high-risk industry sectors. Following the sale of the Brokered commercial business in 2023 we expect our exposure to liability insurance risk to reduce further as the retained back book for this business continues to run off over time.

Materiality

A greater level of estimation and assumption is required when assessing materiality in the context of climate change and this, combined with the longer term and forward-looking nature of climate-related risks and opportunities, makes the assessment inherently uncertain. As a result, we have chosen not to quantify a materiality threshold for the purposes of our climate-related financial disclosures.

Our approach to determine where information is material is supported by quantitative assessment, such as the findings of our scenario analysis activities where we consider the potential financial impact of climate change over the longer term. Our approach means we disclose relevant information that focuses on the areas of our business that could be most affected by climate change, which we identify as our underwriting activities, our operations and our approach to investments. The key physical and transition risks and opportunities that could impact these areas are outlined on page 64.

We will continue to review emerging best practice associated with assessing climate-related materiality and we expect this to evolve over time. More information on our current approach to measuring the impact of climate-related risk, and the integration of climate change into the Group's overall risk management processes, can be found below and on page 67.

Defining the short, medium and long-term time horizons

As in previous years, our approach to defining the time horizons associated with climate-related risks and opportunities is to align closely with the scenarios considered in the Group's quantitative analysis of climate-related risk, which typically considers scenarios that span over a significantly longer time period (see page 61).

When defining the time horizons, the useful life of assets was considered. However, the Group's assets are primarily depreciated or amortised over a period of up to 15 years. As such, from a climate-related risk perspective, this falls into our short-term, and lower end of our medium-term, time horizon and therefore climate-related risk is not a significant input into determining asset useful economic lives.

The time horizons over which specific climate-related issues will manifest themselves vary significantly. However, in general, transition risks are likely to materialise more rapidly than physical risks, which are likely to be gradual and materialise over the longer term. The timing of climate-related litigation risk is less certain due to the nature of the exposure.

The key physical and transition risks and opportunities that could significantly impact the Group, as well as the time horizons over which they could manifest, is available further into our disclosure on pages 64 to 66.

Financial planning, performance and position

Without appropriate management, the risks posed by climate change could adversely impact the Group's financial performance and financial position.

To help quantify the potential impact of climate change we:

- perform scenario analysis, which enhances our understanding of the financial risks associated with the longer-term impacts of climate change and provides an indication of strategic resilience (see pages 61 to 63);
- undertake climate risk modelling to assess the most predominant physical drivers of risk in our property insurance products, enabling us to evaluate the potential impact to the Group's capital position (see pages 67 to 68); and
- integrate climate risk into the Group's overall approach to risk management. This includes measuring the relative significance of climate-related risks to other risks in the Group Risk Taxonomy (see page 67).

Financial planning

We acknowledge that limitations exist in aligning climate change and financial planning. A key issue relates to the modelling of the impact of climate change, which typically extends out to a significantly longer time period than our current financial plan.

Although limitations and uncertainties associated with the longer-term impacts of climate change exist, we continue to embed climate-related considerations into our planning.

This includes within the Group's Plan, which reflects the strategic planning that is ongoing across the business and covers any climate-related initiatives that are embedded within. These include the costs associated with the actions we are taking to reduce the carbon footprint of our accident repair centres, and the use of reinsurance in our property insurance business, acknowledging that the cost to obtain catastrophe reinsurance could be impacted by an increase in the frequency and severity of major weather events.

We also monitor losses from major weather events, which include inland and coastal flooding, storm surge, freeze events and subsidence. We use sophisticated modelling techniques to estimate the expected losses from event weather in our property book to set an annual expectation for event weather-related claims. The impact of major weather relative to this annual expectation for 2024 can be found within Metrics and Targets on page 69.

Financial performance and position

In preparing the financial statements, the Group has assessed the impact of climate change. While the risks associated with climate change remain uncertain looking forwards, the impact of event weather is reflected in the Group's historical performance and position as at 31 December 2024. The potential impact of climate change on insurance risk is also discussed in further detail within note 1 to the consolidated financial statements (see page 176).

Areas of physical and transition risks the Group could be exposed to are outlined in the table on page 64. The financial impact of these risks can, if realised, be grouped broadly into the following:

- Adverse impacts to revenue and market share due to a failure to understand, and adapt to, the scale of change in market demand for products and services due to climate-related policy, technology and consumer preference.
- Increased climate-related operating costs and capital expenditure due to the investments we make to progress against our emission reduction targets, or higher operating costs due to carbon cost increases or regulatory requirements designed to limit carbon emissions.
- Changes in the value of our financial investments due to the influence of physical and transition risk impacting the wider economy.
- An increase in the frequency and severity of natural catastrophes and other weather-related events adversely impacting insurance liabilities.

We also recognise that our access to capital can be materially affected by factors including, but not limited to, financial performance and investment decisions, which have their own associated climate-related risks. In addition, our performance is assessed externally by ESG rating agencies, to which investors and other stakeholders are giving increasing prominence. Adverse impacts to our debt rating could negatively affect cost and access to sources of debt finance and subsequent interest rates.

In our approach to acquisitions and divestments, any climate-related risks and opportunities are expected to form part of our usual due diligence process.

Scenario analysis

The Group uses scenario analysis to better understand the potential impacts climate change could have on our business model and strategy.

Since 2021, we have updated our scenario stress testing annually, evolving our approach to take account of changes in our exposure, updates to our underlying risk models, leverage new software, and to further enhance how we communicate the outputs of our modelling in an effective way. Our analysis focuses on the impact that transition and physical risks could have on investment asset values and on liabilities associated with weather-related perils.

Our stress tests have been designed around Intergovernmental Panel on Climate Change ("**IPCC**") pathways that project both socio-economic changes and greenhouse gas concentrations into the future. This allows us to assess the combined potential impacts of transition and physical risks on our business. The IPCC's scenarios are globally recognised and standardised, facilitating consistent and comparable stress testing aligned with a wide variety of impact assessment studies.

Specifically, we considered SSP2 ("**Middle of the Road**"), in combination with RCP4.5 ("**SSP2-4.5**"), and SSP5 ("**Fossil-fuelled Development**"), in combination with RCP8.5 ("**SSP5-8.5**"), focusing on two future points in time for our stress testing:

- 2030, to support our understanding of the potential impacts on our business strategy; and
- 2050, to support our understanding of the potential impacts on our long-term business model.

The choice of the SSP2-4.5 pathway represents a useful baseline for understanding climate change impacts in terms of physical risk, while incorporating the transition risk associated with some reduction in emissions. The choice of the SSP5-8.5 pathway allows us to understand the effects of a severe but realistic outcome in terms of physical risk. A scenario such as this would see over 2°C of global warming, which is seen as a critical threshold with irreversible and far-reaching consequences for the physical environment. The choice of scenarios and timelines are sufficient to explore a wide range of potential outcomes due to climate change, which can be expanded upon in future by the consideration of additional pathways.

Across both considered scenarios, increased temperatures mean that the mid-Atlantic atmosphere can hold more moisture, leading to more extreme rainfall events and flooding in the UK. Sea levels will rise, although not uniformly, which would increase the severity of coastal flooding events. The scenarios also consider that there will be more frequent and intense droughts. Drought conditions can lead to the drying and shrinking of clay soils, which are prevalent in many parts of the UK, leading to increased subsidence.

Our modelling approach

Different methods are used to quantify the impact of the scenarios on our investment assets and weather-related liabilities.

We use a specialised third-party software tool as the basis for stress tests on our investment portfolio. The tool enables a transition risk adjusted valuation and a physical climate adjusted valuation to understand the financial impact of the scenarios on individual securities and the overall portfolio. It uses a bottom-up approach that considers individual companies and geolocation in assessing the potential impact for a portfolio.

For estimating the impact of climate change on liabilities due to flood and windstorm, we use third-party catastrophe modelling software. This aligns with the approach for quantifying catastrophe risk on our current portfolio. Custom adjustments are applied to these models for each chosen scenario and time horizon, reflecting changes in severe flood frequency and the impact of sea level rise on coastal flooding.

This approach allows us to quantify changes in average annual losses by peril, as well as changes in the size of extreme losses, such as a 1 in 100-year loss, for example. All scenarios are applied to our current exposures to ensure focus of the stress test remains on climate change specific impacts. The windstorm and flood impact assessments are updated quarterly for portfolio exposure changes, and form part of our regular catastrophe risk reporting.

For estimating the impact on subsidence, we extrapolate published analyses from the British Geological Survey to estimate the impact on average annual losses.

Summary of results

2050 time horizon

Under the Middle of the Road pathway, climate policies are implemented at a moderate pace and whilst there is progress towards sustainable development goals, it is uneven and slow. Technological development proceeds without fundamental breakthroughs and there is a gradual shift towards cleaner technologies while fossil fuel dependency decreases slowly. The necessity for policy changes under this scenario leads to transition risks that affect carbon-intensive industries and property portfolios.

The impact observed on our asset portfolio under this scenario was a small decrease in the value of assets under management, estimated at less than a 1% impact. In this scenario, transition risks dominate, particularly for the commercial property asset class which makes up only a small portion of our overall portfolio. The impact is further limited due to the mix of our portfolio, which is heavy in liquid assets such as cash, gilts, and publicly traded debt, and has negligible exposure to carbon-intensive industries.

From a physical risk perspective the scenario aligns to an approximate 1.8°C temperature rise above pre-industrial levels by 2050. For the UK, this is expected to lead to increases in precipitation and flooding, though to a lesser degree when compared to the Fossil-fuelled Development scenario. Sea levels under the Middle of the Road scenario rise by over 20cm, on average.

Under the Fossil-fuelled Development pathway, economic growth is driven by intensive use of fossil fuels with minimal effort to mitigate climate change. As such, there are fewer transition risks due to fewer changes in policy or the economy. The consequence is that greenhouse gas concentrations and global average temperatures would continue to rise, reaching an estimated 2.5°C above pre-industrial levels by 2050. This would lead to far greater physical risks with much more extremes in temperature and precipitation for the UK.

The impact on the valuation of our investment portfolio is much smaller under this scenario compared with SSP2-4.5 because of the lower transition risk. However, we still observe reductions in asset values due to the increased physical risk, particularly in the publicly traded credit asset class where more extreme weather events could potentially lead to operational disruptions and asset devaluation for these companies.

Catastrophe modelling results for both scenarios at the 2050 time horizon showed increases in average annual losses from both inland flooding and the coastal flooding element of windstorm. This includes a significant increase in predicted inland flood losses of 30% under the SSP2-4.5 scenario and over 65% for the SSP5-8.5 scenario, with the increases observed in coastal flooding of 51% and 70%, respectively.

Under both scenarios, the higher weather-related losses are further increased when including subsidence, where average annual losses would grow by over 30% in the SSP2-4.5 scenario. Under the SSP5-8.5 scenario, subsidence risk would be more pronounced.

The following graph shows the impact of the scenarios on the average annual losses for three weather-related perils. The results illustrate the magnitude of impact from the scenarios compared with the base case, and the relative importance of each peril on the overall loss. Within the results, the windstorm peril includes the associated losses from both wind damage and coastal flooding.

The graph highlights that, whilst inland flood and subsidence showed the strongest sensitivity to climate change, windstorm continues to dominate the combined loss.

Although we observed an increase in average annual losses across all perils, when the results are viewed in the context of the combined modelled weather losses, the impact from climate change is less pronounced as most of the combined losses are from windstorm, and in particular the wind damage element of this peril. Under our modelling for the scenarios, windstorms see only a small increase in losses, which is due to the impact of sea level rise on coastal flooding.

Average annual losses by peril

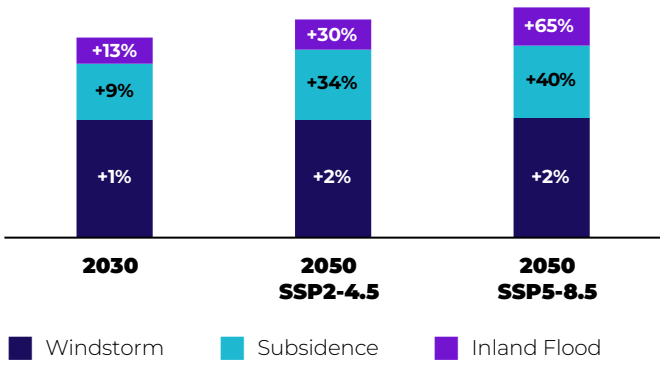


Figure 1: Average annual losses by peril under both scenarios and time horizons. Numbers within the bars represents the change in peril-specific losses compared to the base. The 2030 result reflects the similar impact under both the SSP2-4.5 and SSP5-8.5 scenarios.

There is significant uncertainty associated with how climate change may affect UK windstorms and in previous iterations, we incorporated the results of studies showing that climate change may suppress the occurrence of large storms. However, other studies argue that windstorms may become more extreme and, as such, we have chosen to exclude the former, more optimistic view, from our most recent modelling. Going forward, we seek to enhance our understanding of the science and how we can better incorporate this uncertainty into our stress testing.

2030 time horizon

At the 2030 time horizon, under both scenarios, the effects of climate change are expected to be more benign compared to 2050, both in terms of physical and transition risk.

The focus on the 2030 time horizon continues to be valuable due to its direct relevance with the Group's five-year Strategic Plan. Given that we observed limited impact on the investment asset values at 2050, the associated impact at the 2030 time horizon was not examined in detail.

In terms of physical risk, by 2030 there are no material differences between the two scenarios and both see an approximate increase in temperatures of around 1.4°C against a pre-industrial average. Based on climate models, this could lead to an increase in flood and subsidence risk, which in turn would result in an increase to the amount of capital the Group needed to hold to meet these additional liabilities.

We continue to keep track of scientific literature and maintain in-house expertise to further support our understanding of new scientific developments relating to peak flood risk.

Business impact

The increase in losses from weather-related perils could result in a material increase in budgeted loss for weather, as well as to the cost of reinsurance and capital.

Under both scenarios, the combined increase in weather-related losses would need to be addressed through a combination of measures including pricing and underwriting action, increased reinsurance coverage, and investment in other mitigation measures. This is deemed a manageable change for the business given that weather-related losses are only a small component of the Group's overall expected losses. This is further supported by the ability to reprice policies annually.

Losses under the scenarios at the 2050 time horizon, with our current reinsurance in place, would be higher than our current appetite for catastrophe risk. However, changes to capital requirements at a Group level are mitigated by diversification from parts of the business less sensitive to climate change risk, and the estimated potential impact on capital requirements could be mitigated further by additional reinsurance cover. This assumes that reinsurance markets would still continue to offer the coverage and terms that are offered today, although we acknowledge that heightened global catastrophe activity could increase the cost of obtaining reinsurance. In future stress and scenario work, we intend to address the cost of reinsurance more explicitly in our modelling.

Overall, the short-term nature of the business and the ability to reprice annually help limit the impact on general insurance liabilities, while reinsurance arrangements also provide further risk mitigation. Nevertheless, the scenarios highlight that the increased physical effects of climate change could make some policies and perils either uninsurable or unaffordable.

Reverse stress test – electric vehicle adoption

In 2023, we conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of our current business model. While not commonly covered by transition risk scenarios, changes in consumer behaviour form a significant part of the transition to a net zero emissions economy.

Whilst this exercise has not been updated in 2024, the overall conclusions outlined below remain relevant as in the short term, re-running the reverse stress test is unlikely to produce materially different results.

For the short term time period, that covered to the end of 2025, the findings showed that there are only minor differences between the scenario impacts, with more significant movements unfolding over a longer timeframe. Over the longer term, the results varied considerably across the different scenarios and included possible adverse impacts to the Group's business model or market share. Conversely, at the favourable end of the range, the findings represented a possible growth opportunity. The analysis also identified that the outcomes are sensitive to assumptions which are largely outside of the Group's control, such as the rate of adoption of electric vehicles in the UK, which is supported by changes in technology and policy designed to limit carbon emissions.

The analysis supports our assessment of transition risk and highlighted the importance of enhancing capabilities, particularly around the Group's ability to identify and respond to the emerging electric vehicle and mobility landscape. More information on how we are evolving our strategic response to the adoption of electric vehicles can be found on page 65.

Key assumptions

In formulating scenarios to stress test key sensitivities of our current business model we acknowledge there are limitations in the assumptions used, particularly relating to the longer-term 2050 time horizon.

For example, the scenarios used do not take into account:

- the Group's long-term commitments within its investment strategy, including the ambition of holding a net zero emissions investment portfolio by 2050, which could result in lower transition risk (see pages 66 and 71); and
- the expiry of the Flood Re scheme in 2039. The ceding of peak flood risk is a part of our current business strategy and we have therefore assumed ceding would be available in the 2050 scenarios. This implies that either Flood Re would be extended, or that an alternative private market reinsurance solution would exist.

Additionally, whilst we have used credible scientific data to build our scenarios, we recognise considerable uncertainty and diverse opinions exist in relation to how climate change will affect extreme weather in the UK. This provides incentive for critically assessing the scenario design on a regular basis and for considering alternate scenarios in future modelling, such as more extreme windstorms, for example.

We plan for the scenarios to expand and evolve over time which includes continuing to challenge our assumptions. The scenario design is iterative, as we learn how climate change may affect our specific risk profile, while also allowing us to focus on the aspects of the business most likely to be materially impacted by the effects of climate change.

Management actions

The findings from our analyses continue to highlight the importance of the Group's existing Management Action Framework, which includes a range of actions that could mitigate against the risks identified through our climate-related modelling.

Considering the level of impacts that we have observed as part of our modelling, we have identified a number of management actions that would be effective to mitigate these risks and respond to new opportunities.

Our Management Action Framework consists of three broad categories based on the purpose and nature of the action:

- **Contingent Management Actions** – These follow the Group's existing Contingent Management Actions framework and would be deployed to mitigate the scenario impacts, assuming these arise as instantaneous shocks on the balance sheet; potential action could include restricting capital distributions, for example.
- **Pre-emptive Management Actions** – These have been developed assuming that the business can observe the scenarios unfolding in real time and begin to adapt the business model in response to these emerging impacts; they cover areas such as repricing, de-risking of investments and reinsurance.
- **Strategic Management Actions** – These actions are aligned to the Group's ongoing strategic activity as part of our contribution to the transition to a lower-carbon economy. They include: taking action to progress against our Net Zero ambitions and Science-Based Targets; understanding how we can support in improving the flood resilience of UK properties in flood-prone areas; and evaluating the impact of climate change on our underwriting footprint, which includes through scenario modelling.

Our strategic response

Developing our understanding and management of climate-related risks, while seeking out opportunities that may arise from efforts to mitigate and adapt to climate change, are important aspects for maintaining the longer-term resilience of our strategy.

Our approach continues to focus on driving change across key areas of our business: our underwriting activities; our operations; and our approach to investments. The actions we are taking across these areas are considered in turn on pages 65 and 66.

In the following table, we outline the key physical and transition risks and opportunities that could significantly impact these areas and include the time horizons over which we believe these could become manifest. Additional focus on the operating segments that could be most affected by climate change can be found on page 65. More information on how we define the time horizons used can be found on page 60.

Category	Description	Examples of potential impact on the Group	Time horizon	Key area of impact
Physical risks	**Acute** – event driven risks such as flooding and storm surge. **Chronic** – longer-term shifts in climate patterns, such as a continued rise in average temperatures, changes in, and extreme variability of, precipitation and weather patterns and rising sea levels.	An increase in the frequency and severity of natural catastrophes and other weather-related events could adversely impact insurance liabilities, particularly those from our property insurance products.	S M L	U
		Disruption to our direct operations, which could include damage to our estate, impacting our ability to serve customers.	S M L	O
		Chronic risks could lead to significant changes in our underwriting criteria to maintain risk appetite, and/or higher costs to obtain catastrophe reinsurance to protect us against an accumulation of claims arising from a natural perils event.	M L	U
		Reduced returns from investments in companies whose operations are impacted by physical climate risks, and real asset investments directly impacted by physical climate risks.	S M L	I
Transition risks	Risks arising from the transition to a lower-carbon economy. These are categorised by the TCFD as: – policy and legal risks; – technology risks; – market risks; and – reputational risks.	A failure to understand the scale of change in market demand for products and services due to climate-related policy, technology and consumer preference could impact revenue and market share. This could include risks from the transition to electric-powered vehicles, for example.	S M	U O
		Costs associated with the transition to a lower-carbon economy may increase over time and the adoption of new lower emission technologies may be unsuccessful.	S M	O
		Insufficient progress against our net zero ambitions could cause stakeholder concern and reputational damage.	S M L	U I O
		Reduced returns from investments in high carbon intensity companies that are not taking action to transition to a low carbon economy, and real asset investments that are not compatible with the transition to a low carbon economy.	S M L	I
Opportunities	Efforts to mitigate and adapt to climate change can also produce commercial opportunities. These could allow us to help accelerate the transition and continue contributing to a sustainable economy.	Accelerating the speed of transition to a lower-carbon economy by, for example, supporting the move to greener transport solutions, particularly electric-powered cars, allows us to develop new insights and capabilities to help us build insurance solutions that best meet our customers' evolving needs.	S M	U
		Investment in energy-efficient features and equipment across our office estate and accident repair centres could save on energy consumption and operating costs, reduce our footprint and improve operational and resource efficiencies.	S M L	O
		Potentially enhance risk-adjusted returns from our investments by aligning the investment portfolio with the transition to a low carbon economy whilst also enhancing our reputation as a responsible investor. Ensuring the investment portfolio is resilient against the physical effects of climate change.	S M L	I

S Short-term (1 – 10 years) M Medium-term (10 – 30 years) L Long-term (30 years +)

U Underwriting I Investments O Operations

Underwriting

Property

The physical risks from climate change are most likely to manifest themselves as an insurance risk on our property insurance products, where we protect millions of our customers' properties against weather events, such as flooding and windstorms.

These natural catastrophes, and other weather-related events in the UK, are key drivers in the Group's solvency capital requirements and we recognise that climate change could cause the frequency and severity of these events to increase.

The short-term nature of the business we underwrite, the ability to re-price annually, and the risk mitigation provided by reinsurance arrangements are all important factors in how we manage our exposure. In addition, we further limit our exposure by making use of Flood Re to cede high flood risk residential properties.

In the second half of 2024, we deployed a new pricing and underwriting engine across our Home business. This is expected to provide further agility enabling us to increase the frequency with which we refresh our view of underwriting risk.

Despite this, we acknowledge that, in general, the physical risks from climate change are likely to intensify over the longer-term. To assess the effects of this, we perform scenario analysis to measure the potential impact of climate change on our insurance liabilities over a time horizon spanning over 25 years. This analysis helps us to quantify the financial implications of physical risk under different possible future climate scenarios, with the outputs providing an indication of the Group's resilience.

The analysis provides a framework to understand and assess the potential future risks associated with climate change in greater detail and the findings aid our strategic planning. This has included the development of our Strategic Management Actions (see page 63), which span across business areas and include actions such as engaging with policymakers on the importance of flood defences in the UK to protect properties located in flood-prone areas.

The potential impacts observed on the business under these scenarios, as well as the contingent and pre-emptive management actions which could be deployed to mitigate against the risks identified, can be found on page 63. These actions cover areas such as pricing, de-risking of investments and reinsurance.

Motor

Being a large personal motor insurer, the move to electric-powered vehicles is particularly pertinent to the Group and, supported by changes in technology and policy, the speed of transition to electric continues to increase. Whilst this presents new challenges, we also recognise this as an opportunity to support the move to a lower-carbon economy, through the insurance products we offer.

In recent years, our products have expanded to support our Motor customers who are making the switch to electric, for example our car insurance includes battery, home charging and charging cables cover.

We have also entered into new strategic partnerships which can help grow our data on electric vehicles, such as with Motability Operations from September 2023. We expect the number of electric vehicles we insure to increase over the course of the partnership, driving both scale and insight through our accident repair centres.

We are also building further capabilities in our repair centres, where an increasing number of our technicians are now accredited in repairing electric vehicles, supporting the development of insight into the future of vehicle technology and repair.

During 2023, we performed a reverse stress test to assess how the adoption of electric vehicles could impact the Group's business model, which considered a range of variables across three time periods and scenarios.

Operations

We continue to take action to ensure we are operating in a sustainable way, recognising this not only supports the planet, but is also a part of how we can mitigate against the potential climate risks that could cause disruption to our operations.

To date, this has included investing in our estate to integrate new energy-efficient features and equipment, launching a carbon reduction strategy in our network of accident repair centres and since 2014, purchasing the electricity for all our offices and accident repair centres from renewable sources.

Science-Based Targets

We aim to become a Net Zero business by 2050 and this includes our direct operations. Our Science-Based Targets were approved by the SBTi in 2022 and are aligned to a 1.5°C pathway, meaning we have ambitious carbon reduction plans which support our journey towards Net Zero.

For our direct operations, we are aiming for a 46% reduction in absolute Scope 1 and 2 emissions from our office estate and accident repair centres by 2030, from a 2019 baseline. Reporting against this target can be found within Metrics and Targets on page 70 and on page 52.

Operational emissions

The steps we have taken in recent years mean we understand where the most carbon-intensive areas of our operations are, allowing us to prioritise carbon reduction activity across these areas in support of our targets. Our 23 accident repair centres remain a key area of focus and we continue to embed a range of solutions as part our carbon reduction strategy, with this work being led by colleagues in the Auto Services Sustainability Programme. More information on what we have achieved in 2024 as part of the Programme can be found on page 53.

Emissions reporting

We calculate and report our GHG emissions annually and our most recent carbon emissions reporting can be found on page 73. In recognition of our hybrid operating model (where people work from home at least part of the time), since 2021 our reporting has also included emissions from homeworking. Further disclosure on the progress we have made in reducing our operational footprint to date can be found within Metrics and Targets on page 70.

Carbon offsetting

Our aim is to become less reliant on carbon offsetting and, although our journey to net zero emissions continues to gain momentum, we acknowledge that it will take time to facilitate the transition. For this reason, we offset our remaining Scope 1 and 2 emissions, with this achieved in 2024 through carbon removal credits. More information can be found on page 53.

Supply chain

The Group has an established Supply Chain Sustainability Programme, recognising the importance of engaging with our suppliers to achieve our climate ambition. During the year, work has included increasing the weighting of sustainability factors in our sourcing processes.

Further information on the activities undertaken in the year as part of our Supply Chain Sustainability Programme can be found on page 54 and the Scope 3 GHG emissions from our supply chain are reported on page 73.

Investments

We have been integrating more ESG considerations into our investment strategy over a number of years, recognising this is a long-term process which will require assessment and challenge to inform future decision making.

We know that the impacts of potential physical and transition climate-related risks arising in the wider economy will have an impact on our investment portfolio, through their influence on the value of assets. For example, our portfolio is exposed to physical risks through our investment in companies that are exposed to disruption from adverse weather events across their supply chain. It is also exposed to transition risks, where companies that we are invested in are not adapting their strategy to a low-carbon future. However, the transition to a low-carbon economy also creates significant investment opportunities.

We have the long-term goal of our entire investment portfolio being net zero emissions by 2050 and in support of our aims we continue to implement key climate initiatives into our investment strategy. During 2024, we:

- continued to work towards meeting our approved Science-Based Targets for GHG emissions reduction for in scope asset classes; and
- continued to reduce the carbon intensity of our corporate bond portfolio in line with our aim of a 50% reduction by 2030 from a 2020 base year.

The actions detailed above form part of the ongoing development of the wider ESG framework underpinning investments. In terms of holding investments in other companies, those with higher reported ESG credentials have more sustainable practices which better align to our investment, environmental and social goals. As such, for our investment-grade corporate bond portfolios, we require the MSCI ESG rating of the portfolio to be at least as high as the corresponding ESG weighted reference index or benchmark.

Science-Based Targets

In support of our long-term goal of ensuring our entire investment portfolio is net zero emissions by 2050, in line with the aims of the Race to Zero campaign, we set four science-based GHG emission reduction targets in our investment portfolio.

Approved by the SBTi in 2022, the targets cover corporate bonds, commercial property and real estate loans which, as at the end of 2024, covered 70% of assets under management.

More information on the targets, and our 2024 reporting against them, can be found within Metrics and Targets on page 71 and on page 52.

Looking through the climate lens, we also have in place the following current initiatives:

- Thermal coal screen whereby we restrict investment in firms generating more than 5% of revenues from either thermal coal mining or thermal coal power production unless the company is taking positive climate action[1].
- We actively encourage our investment managers to invest in green bonds. Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other environmental projects. All our relevant corporate bond mandate guidelines now direct the portfolio manager to purchase a green bond where the risk return characteristics are similar to those of a comparable non-green bond.
- Within our investment property portfolio all assets must have an Energy Performance Certificate of 'D' or better, or a plan and funds in place to achieve that level. The property portfolio also has a tailored set of ESG targets covering areas such as carbon, energy, water and waste.

We also use climate scenario modelling to support our assessment of the impact climate change could have on the investment portfolio. This analysis enables us to measure and quantify the potential financial impact of climate-related physical and transition risk on our investments, while also providing a better understanding of the opportunities that may arise from a transition to a lower-carbon economy to inform our strategic planning.

The potential impacts observed on the investment portfolio under these scenarios can be found on pages 61 to 63.

Using our influence

We aim to use our influence to drive wider change. For example, our investment managers are signed up to the UN Principles for Responsible Investment. We also talk regularly to our external asset managers to understand (and where necessary, challenge) how they are using their global presence, size and leverage to engage and encourage corporations to tackle climate change.

Note:

1. Companies taking positive climate action are defined as those that are committed to setting Science-Based Targets or have a 2°C or better carbon performance alignment from the transition pathway initiative.

Risk Management

Our Risk Management Framework

The Risk Management Framework sets out, at a high level, the Group's approach to setting risk strategy, and managing risks to the strategic objectives and day-to-day operations of the business. The Risk Management Framework is designed to manage the Group's risk proactively and to enable dynamic risk-based decision making. This includes clear accountabilities and risk ownership designed to ensure that we identify, manage, mitigate and report on all key risks and controls, and is governed through the three lines of defence model.

Further information can be found in the Risk management section of the Strategic report on pages 38 and 39.

Risk taxonomy

The Group recognises that the effects of climate change are wide-ranging, with uncertain and extended time-horizons, and that a strategic approach to managing the risks from climate change is required. The Group reflects the effects of climate change in the drivers of those risks which are defined in the Group Risk Taxonomy. This embeds the management of climate-related risks in the normal risk management processes for managing risks across the Group's risk profile.

During 2024, the Group enhanced the coverage of climate-related risk within its policies and minimum controls standards for the financial risks considered to be most materially impacted by climate change. Materiality was assessed through SME judgement.

Risk impact

The impacts of all risks, events and action plans are rated using the Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation of risk across the Group by using Financial, Regulatory, Customer, Reputation, Operational disruptions and Economic, Social and Governance factors (including Climate Change) inputs. This includes those risks relating to climate change, including climate-related litigation risks, and allows the Group to determine the relative significance of climate-related risks in relation to other risks.

Climate-related risk identification process

Annual risk identification process

Each year, the business is required to review all current and developing risks which could impact on the achievement of strategic objectives. This process includes assessing the Group risk drivers, such as those due to climate change, and their potential impact and likelihood of risk crystallisation on both an inherent and residual basis, in addition to identifying the position which aligns with risk appetite. The risk drivers are assessed at the sub-level most appropriate for the risk, for example at a product level for insurance risk or business unit level for certain operational risks.

We also use a variety of indicators across our product segments to assess, monitor and manage climate-related risks. A number of these key metrics can be found on pages 68 to 71. Additionally, scenario analysis is used to quantify the potential impact climate change could have on the business across the short and longer term, see pages 61 to 63.

Regulatory monitoring

The Group monitors and reviews relevant outputs from the FCA, the PRA, and His Majesty's Treasury, to consider existing and emerging regulatory requirements.

During 2024, this included reviewing:

- the Bank of England's bulletin on measuring climate-related financial risks using scenario analysis;
- the Climate Financial Risk Forum's guides on three areas of climate risk: nature-related risk; use cases of short-term scenarios; and mobilising adaptation finance to build resilience;
- the FCA's finalised guidance on the anti-greenwashing rule; and
- the FCA's temporary measures for firms on 'naming and marketing' sustainability rules.

We continue to monitor future developments. Reviews are summarised and distributed to relevant stakeholders, and, where necessary, responses are coordinated and overseen by Second Line of Defence subject matter experts.

Emerging risk process

In addition to the annual risk review process, the Group has in place an emerging risks process which facilitates the identification, management and monitoring of new or developing risks which are difficult to quantify or are highly uncertain. The Group records emerging risks within an Emerging Risk Register. Updates on emerging risk and the actions being taken to address them are presented to the Risk Management Committee and the Board Risk Committee regularly, supplemented by deep dives on selected emerging risks.

Climate change, including climate-related physical and transition risk, is one of the Group's most prominent emerging risks. In the year, oversight was provided by the Climate Executive Steering Group and the Climate Risk Workshop, consisting of First Line of Defence subject matter experts from around the business where the impact of climate change is the highest, in addition to Second Line of Defence subject matter experts who provide oversight and challenge of risk management activity relating to this.

Both physical and transition risks could manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational and strategic risks. For more information on emerging risk and climate change see page 43.

Climate risk modelling

The risk to the Group's capital from extreme weather event losses is modelled, monitored, and reported internally on a quarterly basis. The largest loss potential comes from UK windstorms or floods, which are explicitly modelled within the Internal Economic Capital Model, along with less significant perils such as freeze and subsidence.

The Group uses vendor catastrophe models to quantify wind and flood risk for its in-force portfolio. These models are regularly reviewed to ensure they reflect the latest scientific understanding. Part of this review explicitly considers whether climate change has materially altered the underlying risk assessment within these models compared to historical observations. This task is managed by the Capital Management Function.

A warming climate is likely to lead to increased flooding from more frequent extreme rainfall events, and sea level rise will increase the risk of coastal flooding. This informs an evolving underwriting strategy for ceding peak flood risk to Flood Re, which incorporates the modelled view of risk.

Nearly all policies are of twelve months' duration and when renewed are priced using advanced rating engines that incorporate location-specific parameters for weather-related risk. These rating engines include catastrophe risk to ensure that pricing is adequate for potential extreme events not in the historic record. Underlying algorithms are constantly reviewed against claims data to seek to ensure adequate pricing. As climate change affects loss patterns and catastrophic risk evolves, our prices will adjust accordingly.

The Group mitigates its exposure to large catastrophic weather events through catastrophe excess of loss reinsurance.

This reinsurance covers property (Personal Lines and Commercial Direct) and motor physical damage losses. It provides significant capital benefits by transferring volatility from low-frequency, high-severity natural peril events away from the Group. The reinsurance coverage purchased is based on catastrophe modelling, capital analysis, the Group's risk appetite, cost of cover, and the overall impact on the income statement. Typically, cover is purchased with an upper limit equivalent to a 200-year modelled loss.

Metrics and Targets

We use a variety of key performance indicators across the different lines of our business to assess, monitor and manage climate-related risks and opportunities. In the table below, we summarise the key metrics used across the three areas of activity, as identified earlier in our disclosure: our underwriting activities; our operations; and our approach to investments. Further detail on these, and our targets, can be found within the pages that follow. Where the Group believes that the values associated with certain metrics are commercially sensitive these values have not been disclosed.

Area	Metric	Description	Category	Page
Underwriting	Total weather-related loss impact	Track actual performance against our an annual expectations for event weather-related claims and monitor the impact of claims associated with severe weather on the Group's net insurance margin.	Physical risk	69
	Flooding	Monitor our market share for risks to be deemed in the high- or very high-risk segments and track the volume and proportion of policies we are ceding to Flood Re.	Physical risk	69
	Electric vehicles	Monitor the number and proportion of electric vehicle policies we underwrite and track the number of new electric vehicles registered in the UK.	Transition risk and opportunities	70
Operations	Operational emissions	Calculate and report our operational emissions (Scope 1 and 2), to monitor progress towards our science-based operational emissions target.	Physical risk and transition risk	52, 70 and 73
	Measuring progress within our repair centres	Quarterly oversight of: – GHG emissions and gas consumption metrics associated with vehicle repair; – the delivery of carbon reduction plans; and – opportunities for innovating and using new solutions within repair centres, in support of plans and targets.	Physical risk, transition risk and opportunities	70 and 71
Investments	Investment portfolio emissions	Measure and report the temperature score of our corporate bond portfolio, and GHG emissions from commercial property and real estate loans, to track progress against our science-based investment targets to ensure we are delivering against our aims.	Physical risk and transition risk	52, 71 and 73

The Group has also disclosed a number of materially relevant metrics consistent with the cross-industry categories recommended by the TCFD. These include:

- **GHG emissions:** our Scope 1, 2 and 3 emissions and emissions intensity metric reporting can be found on page 73.
- **Remuneration:** our LTIP awards have an emissions performance condition which covers the targeted reductions in emissions and temperature scores that form part of our Science-Based Targets. More information can be found in the Directors' Remuneration Report from pages 115 to 141.
- **Physical risks:** the results of our scenario analysis activities, which assesses the potential impact of climate-related physical risk on the value of insurance liabilities, can be found on pages 61 to 63. Analysis of the actual impact of severe weather claims can be found on the following page.
- **Transition risks:** the results of our scenario analysis activities, which assesses the potential impact of climate-related transition risk on the value of investment assets, can be found on pages 61 to 63. These pages also include the results of a reverse stress test, undertaken in 2023, to assess how the the transition to electric vehicles could impact the Group's business model, including both risks and opportunities.

We continue to assess how we incorporate additional metrics into our disclosures, including those used to enhance the measurement and management of transition risks and opportunities, and expect this to evolve over time. In 2025, actions to explore disclosure of additional metrics, which could also support further development of the Group's transition plan, have been embedded within our climate-related risk management roadmap.

Underwriting

Weather-related loss impact

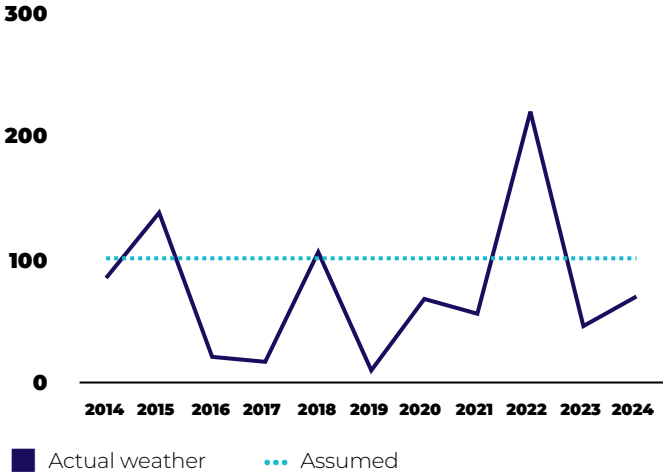
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK floods and windstorms. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison. By contrast, flood has seen more elevated activity.

Catastrophe reinsurance is purchased annually to protect against event losses greater than £100 million (see page 33). Use of the Flood Re scheme also helps mitigate against the highest individual residential flood risks.

The cost of claims relating to event weather can found within the management view statement of profit or loss (see page 247).

Severe weather claims[1] (actual % of expected loss)

The Group uses sophisticated modelling techniques to estimate the expected losses from severe weather events and uses these to set an annual expectation for major weather-related claims.

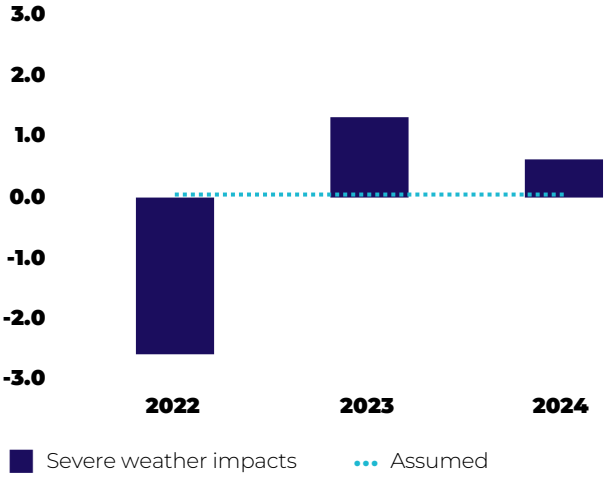


The graph above shows the impact of event weather claims relative to this annual expectation. In 2024, claims associated with severe weather were below our 2024 event weather assumption, which is set at 100% in the graph.

As shown in the graph, the trends are reflective of relatively benign activity, although there is significant variability.

In 2022, claims from weather-related events were more than double our annual assumption following three significant storms in Q1, a rise in subsidence claims from extremely high temperatures in the summer and the December freeze event. The 2018 peak was driven by the 'Beast from the East' freeze event and the 2015 peak was a result of a number of weather events in December, which caused severe flooding across the UK.

Impact of severe weather on net insurance margin[1, 2] (pt)



Both these graphs reflect the number of major weather events in the year that the Group responded to. The frequency and severity of extreme weather events could be affected by climate change, which in turn will affect our view of risk, how we price severe weather risk, and the type and level of reinsurance we purchase to protect our balance sheet.

Home

Key risk indicators are produced by the Underwriting Function and reviewed monthly through relevant business forums.

The key climate change-related activities are flood, subsidence and other weather incidents. For flood and subsidence perils, we monitor the Group's market share for risks deemed to be in the high- or very high-risk segments. We also monitor and review the proportion of policies ceded to Flood Re. Each peril is monitored against set tolerances, with movements in amber or red ratings generating investigation and action as required.

We maintain a view of trends and look to take action where a trend is likely to result in a breach of tolerance.

Flooding

Governments have been working with insurers since 2000 to help make flood risk insurance more affordable and in 2016 Flood Re was introduced. Every insurer that offers home insurance in the UK, the Group included, must pay into the Flood Re scheme and this levy is used to cover the flood risks in home insurance policies.

To ensure the Group and its customers benefit from the levy and guard against the highest of flood risks, we monitor the volume and proportion of policies we are ceding to Flood Re. Properties are eligible to be ceded to Flood Re when they meet certain criteria.

Notes:

1. Data used within this analysis is based on the Group's ongoing operations. See glossary on pages 238 to 241 for definitions.
2. Following adoption of IFRS 17, analysis for periods prior to 2022 is not available. For historic reporting, see previous publications, including page 83 of the 2022 Annual Report and Accounts.

Motor

The Group's motor market is diversified throughout the UK, and although weather-related factors will influence claims frequency it is a relatively small influence compared with other factors, such as used car prices.

In the year, in order to track the transition towards electric vehicles we monitored both the number and proportion of policies we underwrite for these types of vehicles as well as the number of electric vehicles and alternatively fuelled vehicles registered in the UK. This supports us in estimating our market share and helps inform our electric vehicle strategy.

Progress against the supplemental guidance for insurance companies

The Group believes that its disclosure against certain components of the sector-specific guidance, within Metrics and Targets Recommendations (a) and (b), does not meet the objectives of the TCFD.

Below, we outline the activities we have undertaken during the year to improve our disclosure against these areas in future reporting, as well as the activities planned in future years.

The extent to which insurance underwriting activities, where relevant, are aligned with a well below 2.0°C scenario

The Group recognises that measuring underwriting emissions remains a developing area, with the frameworks and methodologies to support insurers in calculating these emissions continuing to evolve. An area of limitation that is particularly pertinent to personal lines and small commercial business insurers is the practicalities of obtaining data with sufficient accuracy and reliability to determine the emissions associated with these portfolios.

The Group has embedded plans to further assess its disclosures relating to underwriting emissions through its climate-related risk management roadmap. Actions that are currently embedded include continuing to review issued guidance related to measuring and reporting underwriting emissions as this guidance evolves, in order to further inform the Group's approach.

The weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business, where data and methodologies allow

Following the sale of our Brokered commercial business in 2023, we expect our underwriting exposure to commercial property lines to significantly reduce as the retained back book for this business continues to run off over time.

We continue to remain active in the direct small business commercial insurance market, which includes providing insurance for small commercial properties, however, we view our exposure to carbon intensive sectors through these underwriting activities to be low, due to the type and size of the businesses we insure.

Whilst we will continue to review emerging best practice, at present, we do not believe available methodologies have sufficient maturity to meaningfully measure the weighted average carbon intensity or GHG emissions associated with small business commercial property lines. For example, current frameworks recommend collecting emissions data from companies' own disclosures or official filings, or use of physical or economic activity data, to determine emissions associated with commercial lines portfolios. Such recommendations are not currently pragmatic for insurers with small commercial business customers, such as the Group.

The Group does not underwrite any specialty lines of business.

Operational

We calculate and report our operational GHG emissions annually. Our most recent reporting can be found on page 73 where we continue to break out our Scope 1 and Scope 2 emissions into separate performance figures across our office sites and accident repair centres. We also disclose our Scope 3 footprint, which includes emissions from our supply chain.

Science-Based Targets

In support of our net zero ambitions, we have set five Science-Based Targets, in line with a 1.5°C pathway, focused on the most carbon intensive areas of our business, one of which covers our operational emissions. These targets were approved by the SBTi in 2022.

Scope	Target	2024 update
Operational	We target reducing absolute Scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year.	As at the end of 2024, absolute Scope 1 and 2 GHG emissions reduced by 46%[1], from a 2019 base year.

Our 2024 reporting shows a 46%[1] reduction in Scope 1 and 2 emissions, when compared to the 2019 baseline, meaning we have achieved our 2030 target early. This reflects the actions we have taken in recent years, which has included reducing our office footprint, investing in our estate to integrate more energy-efficient features and equipment and the carbon reduction initiatives we are implementing across our network of accident repair centres.

More information on our Science-Based Targets, including the actions we have taken against them and our future priorities, can be found on page 52.

Operational emissions performance

Overall, when compared to 2023, our Scope 1 and 2 GHG emissions decreased by 3%. A summary of the movements in the year can be found on page 73.

Auto Services Sustainability Programme

Our Auto Services Sustainability Governance Forum oversees the activity that forms part of the Auto Services Sustainability Programme. The Forum oversees progress against the activities to deliver towards the carbon reduction strategy within our accident repair centres and tracks key Programme milestones.

Note:

1. We are required to use Scope 1 and Scope 2 market-based emissions for SBTi operational target setting and reporting. When including Scope 2 location-based emissions this reduction is equivalent to a 53% reduction.

This includes monitoring the delivery and performance against GHG emissions reduction targets, where metrics, such as gas consumption and emissions associated with vehicle repair, are tracked. Scope 1 and 2 emissions from our accident repair centres are reported on page 73.

The Forum also assesses the risks that could impact the delivery or prioritisation of planned activity, coordinating the actions required to mitigate against these. It also considers metrics relating to opportunities from innovating and using new solutions in support of plans and targets, such as assessing the feasibility and benefits of adopting new lower emission technologies or equipment in repair centre sites.

Supply chain

While we wait for the publication of the Science-Based Net Zero Targets for Financial Institutions from the SBTi, which is now expected in 2025, we have chosen to set an internal emissions reduction target for our supply chain. This target forms part of our Supply Chain Sustainability Programme (see page 54.

Investments

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambitions of the Race to Zero campaign. The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

Science-Based Targets

Our long-term goal is for our entire investment portfolio to be net zero emissions by 2050, in line with the aims of the Race to Zero campaign. To support this, we have set Science-Based Targets for our investment portfolio covering corporate bonds, commercial property and real estate loans, these were approved by the SBTi in 2022. As at the end of 2024 our investment portfolio targets covered 70% of AUM.

Asset Class	Target	2024 update
Corporate bonds	Align the Scope 1 and 2 portfolio temperature score by invested value from 2.44°C in 2019 to 2.08°C by 2027.	As at the end of 2024, the Scope 1 and 2 portfolio temperature score by invested value was 2.01°C.
	Align the Scope 1, 2 and 3 portfolio temperature score by invested value from 2.80°C in 2019 to 2.31°C by 2027.	As at the end of 2024, the Scope 1, 2 and 3 portfolio temperature score by invested value was 2.31°C.
Commercial property	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	As at the end of 2023, GHG emissions reduced by 39% from a 2019 base year[1].
Real estate loans	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	As at the end of 2023, GHG emissions reduced by 26% from a 2019 base year[1].

Further details on the emissions from our investments are reported on page 73.

The temperature score for corporate bonds is the implied level of warming above pre-industrial levels to which our portfolio is aligned based on the CDP's temperature rating data set. For an individual company the temperature rating is the level of warming to which a company's publicly stated emission reduction targets align. The targets are set on a linear pathway for the portfolio to reach 1.5°C by 2040 as is required by the SBTi.

We aim to achieve our corporate bond target by directing investment to companies with lower temperature scores as these are the ones taking most serious action to reduce emissions. We will also expect our external investment managers to engage with portfolio companies to encourage them to act by setting robust emissions reduction targets. We also continue to target an interim 50% reduction in weighted average carbon intensity by 2030 from a 2020 base year for corporate bonds in order to seek to ensure emissions are reducing over time.

Carbon intensity is the GHG emissions intensity per $1 million of sales. Normalising by sales allows the investor to compare carbon efficiency of different-sized firms within the same industry and has become a standard metric used in the investment industry.

For commercial property and real estate loans, targets were set using the SBTi sectoral decarbonisation approach for real estate which uses the IEA ETP 2017 Beyond 2°C scenario. Emissions for real estate relate to the energy use of buildings which is largely emissions from electricity and heating use. Work towards our real estate targets will require improving the energy efficiency of buildings, engaging with tenants to share energy use data and encouraging them to set their own emissions reduction targets.

More information on our Science-Based Targets, including the actions we have taken in the year against them and our future priorities, can be found on page 52.

Note:

1. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, progress against our commercial property and real estate loan targets is reported with a one-year time lag.

Streamlined Energy and Carbon Reporting ("SECR") regulations

The following table highlights where information can be found that supports the requirement to disclose how the Group manages its energy consumption and carbon emissions.

Requirement	Page
Annual global GHG emissions (CO_2e):	
– from activities for which the Company is responsible	73
– from buying electricity, heat, steam or cooling by the Group for its own use	73
Annual global energy consumption in kWh, being the aggregate of:	
– energy consumed from activities for which the Company is responsible	53
– energy consumed resulting from buying electricity, heat, steam or cooling by the Group for its own use	53
The proportion of GHG emissions and energy consumed relating to the UK and offshore area[1,2]	72, 73
Methodology used to calculate emissions and energy consumption	72
At least one intensity metric in relation to emissions	73
Description of energy efficiency actions taken	53

Notes:

1. The offshore area is broadly defined as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41(3) of the Marine and Coastal Access Act 2009.
2. 100% of the Group's GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.

Greenhouse gas emissions

The Group's annual GHG emissions reporting is provided on the following page which includes a summary outlining our performance in the year. More information relating to the progress we are making against our Science-Based Targets can be found on page 52.

Definitions

Scope 1: This covers direct emissions from owned or controlled sources. For example, our office sites throughout the UK using gas boilers, the paint booths in our auto services sites currently relying on gas powered processes, and our fleet vehicles.

Scope 2: These are indirect emissions. They are emissions associated with the production and transmission of energy we eventually use as a company across our office and auto services sites. For example, the production of the electricity we buy to heat and cool our buildings generates emissions.

Scope 3: These are indirect emissions that occur in our investments and the value chain to support our company operations. For example, employee commuting, activities related to the disposal of waste, and the goods and services we purchase to fulfil customer claims as part of our supply chain.

Reporting methodology

We apply the relevant greenhouse gas reporting requirements contained within Schedule 7, Part 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and apply the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) to calculate our emissions, which includes emissions associated with electricity consumption. We use the operational control method to define the boundary for consolidating GHG emissions.

Our carbon emissions are calculated by an external third party and reviewed internally. The calculation method used for our 2024 emissions reporting remains consistent with prior periods and with the reporting standards stated above. For our 2024 reporting, the emission factors that were used in the calculation of purchased goods and services emissions were updated to EORA 26 emission factors to remain in line with best practice. Our 2023 reporting has been represented accordingly.

Emissions data is reported in compliance with the SECR requirements to disclose annual global GHG emissions. 100% of the emissions reported relate to our operations, all of which are based in the UK.

Scope 3 emissions

The GHG Protocol defines Scope 3 emissions as all other indirect emissions that occur in a company's value chain. These include Scope 3, Category 1: Purchased Goods and Services (or 'supply chain') and Scope 3, Category 15: Investments (or 'financed emissions'). Estimates necessarily have to be made regarding Scope 3 emissions as the information is not available across all Scope 3 emissions sources, such as underlying suppliers, for example.

In estimating the emissions from our supply chain, we use the GHG Protocol's spend-based approach. This involves using supplier spend data and multiplying these values by a relevant emissions factor to estimate the amount of emissions associated with purchased goods or services.

We have applied the Partnership for Carbon Accounting Financials ("**PCAF**") methodology to calculate emissions associated with our investment activities, in line with industry best practice. We have included our corporate bonds, commercial property and real estate loans within our financed emissions calculations.

Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, investment emissions from commercial property and real estate loans are reported with a one-year time lag.

Our Net Zero ambition

We aim to become a Net Zero business across all scopes by 2050, with external near-term targets and plans that cover our operational emissions (Scope 1 and 2) and our investments. At present, we have not set an external target for our supply chain emissions while we await the publication of the Financial Institutions Net-Zero Standard from the SBTi, which is now expected in 2025. For more information on our Supply Chain Sustainability Programme, please see page 54.

Group greenhouse gas emissions (tCO_2e)

Scope 1	**2024**		**2023**		**2022**		**2019 (Baseline)**	
Office sites	**858**		671		1,023		1,418	
DLG Auto Services	**3,399**		3,829		5,506		6,506	
Total (tCO_2e)	**4,257**		4,500		6,529		7,924	
Scope 2								
	Location-based	**Market-based[1]**	Location-based	Market-based[1]	Location-based	Market-based[1]	Location-based	Market-based[1]
Office sites[2]	**622**	**23**	659	16	1,089	0	4,516	0
DLG Auto Services	**1,890**	**0**	1,824	0	1,364	0	2,093	0
Total (tCO_2e)	**2,535**		2,499		2,453		6,609	
Total Scope 1 and 2 (tCO_2e)	**6,792**		6,999		8,982		14,533	
Of which: Office sites (tCO_2e)	**1,503**		1,346		2,112		5,934	
Of which: DLG Auto Services (tCO_2e)	**5,289**		5,653		6,870		8,599	
Scope 3								
Purchased goods and services[3]	**333,876**		253,844		244,316		294,080	
Fuel and energy-related activities (not included in Scope 1 & 2)[4]	**1,570**		1,300		1,518		2,459	
Upstream transportation and distribution	**477**		1,641		1,890		4,173	
Waste generated in operations	**1,529**		1,762		2,523		3,358	
Business travel	**746**		1,287		475		1,807	
Employee commuting	**6,073**		7,100		7,227		3,176	
Of which: homeworking emissions	4,327		5,256		5,583		–	
Upstream leased assets	**247**		131		189		514	
Downstream leased assets	**3,080**		2,878		1,552		1,658	
Total Scope 1, 2 and 3 excluding investments (tCO_2e)	**354,390**		276,942		268,672		325,758	
Investments[5]								
Corporate bonds and private placements Scope (1 & 2)	**2.01°C**		2.02°C				2.44°C	
Corporate bonds and private placements Scope (1, 2 & 3)	**2.31°C**		2.31°C				2.80°C	
Commercial property (tCO_2e)[5,6]			**3,679**		4,747		5,197	
Commercial property – intensity (kCO_2e/m^2)[5,6]			**41**		55		67	
Real estate loans (tCO_2e)[5]			**6,093**		10,011		13,769	
Real estate loans – intensity (kCO_2e/m^2)[5]			**60**		72		81	
Intensity metrics								
Scope 1 and 2 emissions (tCO_2e) per £ million of net insurance revenue	**2.2**		2.2		2.9			
Scope 1 and 2 emissions (tCO_2e) per average number of employees for the year	**0.7**		0.7		0.9		1.3	

Overall, when compared to 2023, our Scope 1 and 2 emissions decreased by 3%.

Within our repair centres, we continued to see a reduction in Scope 1 emissions through the use of an alternative fuel for our recovery trucks. These reductions were partly offset by an increase in Scope 2 emissions where we continue to switch to electric from gas to power repair equipment, where possible. See page 53 for more information.

Scope 3 emissions (excluding investments), increased by 29%, primarily driven by higher emissions from purchased goods and services. This was largely attributable to increased expenditure associated with the partnership with Motability Operations, which began in September 2023.

Investment emissions from our commercial property and real estate loans portfolio further reduced in 2023[5], primarily reflecting a continued focus on energy efficiency by tenants and property managers.

Further information relating to our performance against our Science-Based Targets can be found on page 52.

Notes:

1. Figures for Scope 2 use standard location-based methodology. We follow the GHG Protocol to disclose both location and market-based figures; and as we have secured our energy from 100% renewable sources since 2014, our Scope 2 market-based results are nil prior to 2023. From 2023, emissions from electric and plug-in hybrid vehicles in the company car fleet have been reported within the Scope 2 market-based result.
2. The 2023 figures differ from our previously reported result following a reclass of 17 tCO_2e between location-based and market-based.
3. As outlined on page 72, the emission factors used in the calculation of purchased goods and services emissions were updated to EORA 26 emission factors in 2024 to remain in line with best practice. The 2023 result has been represented accordingly.
4. The 2023 figure of 1,300 tCO_2e differs from our previously reported figure of 1,354 tCO_2e following recalculation.
5. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, progress against our commercial property and real estate loan targets is reported with a one-year time lag.
6. The 2022 figures differ from our previously reported figures of 4,630 tCO_2e and 54 kCO_2e/m^2 following recalculation.