

Task Force on Climate-related Financial Disclosures

Introduction

The Group's 2023 disclosure against the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") reflects continued action to further develop our understanding and management of climate-related risks and opportunities. Our report also provides an update on the progress we are making towards our Science-Based Targets and includes the steps we have taken in the year to further assess and develop our disclosures against the TCFD's recommendations.



The Group, as at the time of publication, has complied with the requirements of Listing Rule 9.8.6R 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 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.

In the year, we have assessed the actions required to improve the level of disclosure across these areas in future reporting. On page 83, we set out the details of this assessment and the activities undertaken, with further plans in place across 2024.

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 49, outlines where disclosure against each of these requirements can be found.

Governance

Our approach

The Group's approach to the governance of its sustainability strategy is underpinned by our Vision and Purpose (see page 22) and 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, 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.
- 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 71). 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 all aspects of financial, regulatory 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 to issuers with higher sustainability weightings. In 2023, additional items relating to climate and sustainability oversight were introduced into the Committee's Terms of Reference.

- 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** scrutinises progress against the sustainability strategy to ensure that we continue to make progress under our Customer, People, Society, Planet and Governance pillars. The Committee meets a minimum of four times a year. During 2023, 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, including the PRA's expectations regarding climate risk. It 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 111.

Management's role

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

- the Chief Executive Officer ("**CEO**") has overall responsibility for climate change and environmental matters;
- the Chief Financial Officer ("**CFO**") is responsible for overseeing 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; and
- in the year, the Chief Risk Officer ("**CRO**") was responsible for overseeing the identification, assessment and management of climate change-related risk. The CRO role also has responsibility for assessing and monitoring climate-related financial risk. In that capacity, the role oversees the work of the Risk Function which analyses the potential future impact of climate change on the business. The results of these analyses are submitted to the Risk Management Committee, the Board Risk Committee and the Board, including as part of the ORSA. In addition, a CRO report is submitted to every meeting of the Board Risk Committee and to the Board meetings held throughout the year.

Further information relating to our climate risk identification process can be found on page 80.

To support the Customer and Sustainability Committee's oversight, and in recognition of the Group's increased focus on climate-related activity, the Group has an established **Climate Executive Steering Group ("CESG"** or the "**Steering Group**") which reports into the Customer and Sustainability Committee, and meets a minimum of six times a year.

Note:

1. Ongoing operations – see glossary on page 263.

The CESG consists of members representing various teams from across the organisation and includes members of the Executive Committee. It assesses the potential impacts of climate change on the business, along with the business' impact on the environment, with the aim of ensuring risks are identified in a timely manner and managed effectively.

The CESG also oversees input to the Group's business development and strategic processes to make sure climate is given appropriate consideration in long term strategy and planning. This includes the ongoing identification and oversight of climate-related opportunities. For example, progress against our electric vehicle strategy, and the opportunities considered as part of our Auto Services Sustainability Programme, are regular agenda items. More information on the key performance indicators used to assess, monitor and manage climate-related risks and opportunities can be found on pages 81 to 85.

The CESG monitors progress against the Group's **climate-related risk management roadmap**. The roadmap, also overseen by the Customer and Sustainability Committee and Board Risk Committee, sets out a range of actions, planned across a number of years, to further integrate climate risk management across the business and to build additional capabilities in areas such as climate risk modelling and scenario analysis.

The Steering Group's responsibilities further include:

- monitoring, and driving performance against, the Group's Science-Based Targets, in support of our Net Zero aims;
- considering the risk management challenges presented to the business by climate change, including financial risk related to underwriting and investments; and
- overseeing the Group's disclosure of climate within the context of broader ESG and financial disclosures.

The CESG will provide oversight on the Group's implementation of the International Sustainability Standards Board's ("**ISSB**") Sustainability Disclosure Standards, IFRS S1 and S2. Issued in June 2023, the Standards are currently subject to UK endorsement, which is expected later in 2024.

Further information relating to the processes by which management are informed about climate-related issues can be found on page 80.

Group Audit

Group Audit provides an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. In the year, Group Audit were represented at the CESG.

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 9.4 million in-force policies¹, 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 outline how we continue to develop our approach to climate-related risks and opportunities across the business.

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 we expect our exposure to liability insurance risk to reduce further as this business runs off over time.

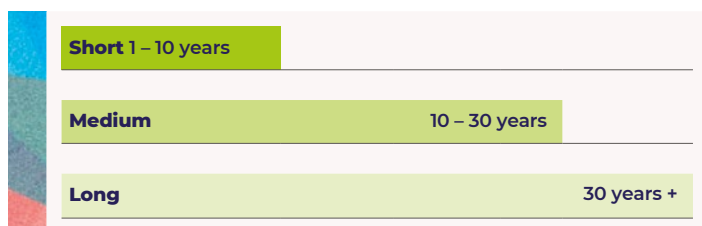
Materiality

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 77.

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 80.

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 thirty years or longer (see page 73).

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 10 years. As such, from a climate-related risk perspective, this falls into our short-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 77 to 80.

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 73 to 76);
- 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 page 81); 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 80).

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 thirty or more years, a significantly longer 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 actions we are taking to progress against our Science-Based Targets and Net Zero ambitions, such as the initiatives we are implementing to reduce the carbon footprint of our accident repair centres and the associated costs. More information on these initiatives can be found on pages 78 and 79;
- 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; and
- the development of propositions and channel expertise to support the transition to a low carbon economy, such as our electric vehicle offer.

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 major weather events in our property book to set an annual expectation for major weather-related claims. The impact of major weather relative to this annual expectation for 2023 can be found within Metrics and Targets on page 82.

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 major weather events is reflected in the Group's historical performance and position as at 31 December 2023. The potential impact of climate change on insurance risk is also discussed in further detail within note 3 to the consolidated financial statements (see page 196).

Areas of physical and transition risks the Group could be exposed to are outlined in the table on page 77. 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

Our most comprehensive climate scenario analysis activity took place during 2021, followed by a smaller round of analysis in early 2022.

During 2023, we updated the physical risk section of the underwriting liabilities element of the original analysis to account for portfolio and modelling changes. The findings from the updated analysis can be found on pages 75 and 76.

The analyses were designed to enhance our management of climate-related financial risk and the scenarios used expanded on the Network for Greening the Financial System's ("NGFS") Net Zero 2050, Delayed Transition and Current Policies scenarios by including additional risk transmission channels and adding additional variables.

The exercise considered the financial impacts from these three distinct climate scenarios at a ten- and thirty-year time horizon, capturing a range of different combinations of transition and physical risks. Two of the scenarios represent routes to net zero greenhouse gas emissions and primarily explore transition risk from climate change:

- **Early Action** The transition to a net zero emissions economy started in 2021, so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions are reduced to net zero by around 2050. Global warming is limited to 1.8°C by the end of the scenario (relative to pre-industrial levels). Some sectors are more adversely affected by the transition than others, but the overall impact on GDP growth is muted, particularly in the latter half of the scenario, once a significant portion of the required transition has occurred and the productivity benefits of green technology begin to be realised.
- **Late Action** The implementation of policy to drive transition is delayed until 2031 and is then more sudden and substantial. Global warming is limited to 1.8°C by the end of the scenario (relative to pre-industrial levels). The more compressed nature of the transition results in material short-term macroeconomic disruption, which is particularly concentrated in carbon-intensive sectors. Output contracts sharply in the UK and international economies. The rapid sectoral adjustment associated with the sharp fall in GDP reduces employment and leads to some assets being stranded, with knock-on consequences for demand and spending. Risk premiums rise across multiple assets. An important indicator of the level of transition risks in these scenarios is the carbon price, reflecting that policymakers can induce the transition by increasing the implicit cost of emissions.

The third scenario primarily explores physical risks from climate change in the event that there are no new climate policies introduced beyond those already implemented:

- **No Additional Action** The absence of transition policies leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C relative to pre-industrial levels by the end of the scenario. This leads to chronic changes in precipitation, ecosystems and sea level. UK and global GDP growth is permanently lower and macroeconomic uncertainty increases.

The scenario specification builds upon a subset of the NGFS climate scenarios. NGFS climate scenarios aim to provide central banks and supervisors with a common starting point for analysing climate risks under different future pathways. They are produced in partnership with leading climate scientists, leveraging climate-economy models that have been widely used to inform policymakers, and have been used in key reports.

For each of the three scenarios, variable paths were provided for the underlying physical and transition risks and for mapping these risks onto macroeconomic and financial variables:

- Physical and transition risks: pathways for climate variables to represent the impact of climate risks and opportunities at the global and regional level.
- Macroeconomic and financial market conditions: impact of climate-related risks and opportunities at a global level, and at the level of key countries, regions, and sectors – reflecting the impacts of physical and transition variables in each scenario. Financial market conditions reflect the direct financial market consequences of the paths of the macroeconomic variables.

Our 2021 analysis focused on changes in invested assets and insurance liabilities, and the variables provided formed the basis for the modelling. The stress assumed an instantaneous shock, effectively bringing forward the future climatic environment to today's balance sheet, with no allowance for changes in future premiums, asset allocation, expenses, reinsurance programmes and other future changes in business models.

The original analysis was applied to the Group's Solvency II balance sheet as at 31 December 2020 and assumed fixed balance sheets, premiums, exposures and reinsurance arrangements.

As the scenario impacts for investments have not been updated from the original analysis, any impact comparisons between investments and liabilities outlined in the following section are based on the analysis undertaken in 2021.

Summary of results – 2021 analysis

The main results of the comprehensive climate scenario analysis from 2021 are included below for illustrative purposes. Whilst the Group's business and risk profile have changed since this exercise has been undertaken, the overall high-level conclusions outlined below remain relevant. In terms of the investment portfolio, updated modelling of climate impacts commenced in Q4 2023 with this work expected to continue throughout 2024 (see page 80). For the underwriting liabilities, the results of an updated exercise undertaken in 2023 are outlined on pages 75 and 76.

The results from our 2021 analysis show the most material impact on the Group's Solvency II own funds arises in the No Additional Action Year 30 scenario, in which transition risk on the investment portfolio dominates the overall impact. These large impacts reflect the cumulative downward trend in asset values, with no stabilisation effects observed (unlike the other two scenarios) as extreme weather events increase in frequency and intensity, and continue to affect economic growth beyond the thirty-year horizon considered by the analysis.

The No Additional Action Year 30 scenario also shows the largest increases in insurance liabilities, in absolute terms, which is consistent with estimated increases in Gross Average Annual Losses ("AAL") of around 150% for inland flooding and around 390% for coastal flooding. This could result in a material increase in weather load, reinsurance costs and capital load.

While the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements are likely to limit the impact on general insurance liabilities, the modelling has illustrated that the increased physical effects of climate change could potentially result in some risks and perils becoming either uninsurable or unaffordable.

Relative Impact – No Additional Action to Early Action

The following graph illustrates the potential adverse impact to the Group's Solvency II balance sheet value of investment assets and insurance liabilities at Year 30 under the Early Action, Late Action and No Additional Action scenarios, based on the original analysis.

The most adverse financial impact was from the No Additional Action scenario, which is set at 100% in the graph. When compared to the total impact under the No Additional Action scenario, the impact of the Late Action scenario was around 54% of the value and the impact under the Early Action scenario was around 39% of the value.

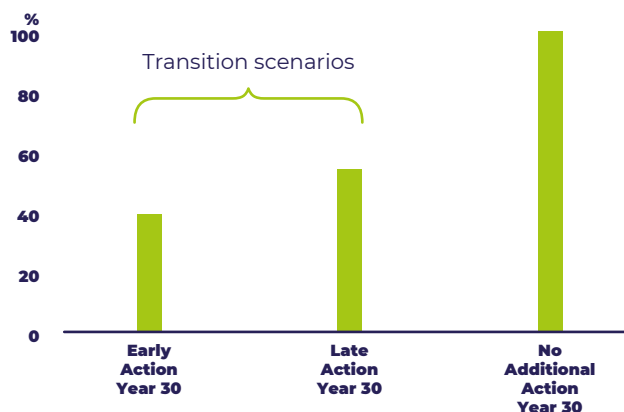


Figure 1: Year 30 impacts of scenarios relative to the largest No Additional Action scenario

In the Late Action scenario, the delay in policy implementation to transition to a low-carbon economy means there are no transition impacts over the initial ten-year time horizon. However, accelerated transition from 2031 results in greater impacts versus the Early Action scenario over the thirty-year time horizon. Whilst both of these transition scenarios saw material impacts on the investment portfolio, the most significant impacts on both investments and insurance liabilities arose from the physical risk effects of no transition in the No Additional Action scenario (where no additional actions are taken beyond those already announced).

At the thirty-year time horizon, financial impacts in the No Additional Action scenario are nearly double those in the Late Action scenario, and physical risks also drove the largest impact on investment results in absolute terms. However, these impacts do not take into account the Group's long-term commitments within its investment strategy, which includes the ambition of holding a net zero emissions investment portfolio by 2050 (see pages 79 to 80 and 84 to 85).

All three scenarios would lead to a breach in risk appetite, and the No Additional Action Year 30 scenario would also lead to a breach in SCR based on the Solvency II balance sheet as at year-end 2020. However, a set of clearly defined management actions could be deployed in each scenario to address the risks and allow the business to recover to above risk appetite (see page 75).

Comparison of impact – insurance liabilities and investments

The following graph shows the potential adverse impact on the Solvency II balance sheet value of investment assets and insurance liabilities under the Early Action, Late Action and No Additional Action scenarios at Year 10 and Year 30, based on the original analysis.

The graph outlines how the impact for each scenario (set at 100%) is split between the impact on investments and insurance liabilities to illustrate their relative materiality. For example, in the No Additional Action Year 10 scenario, impacts are split broadly evenly, while in the corresponding Year 30 scenario, the impact on investments dominates.

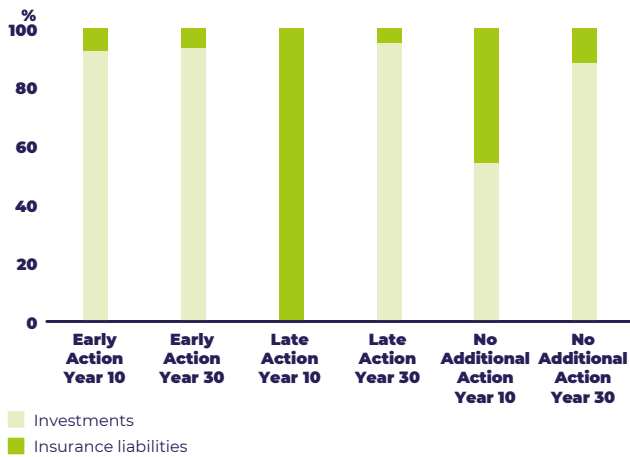


Figure 2: Share of impact – insurance liabilities and investments

Except in the Late Action Year 10 scenario, where there is no transition risk due to the assumed delay, in all scenarios the impact on investments is more material than on insurance liabilities.

Additionally, insurance liabilities were considered gross of reinsurance and, in practice, factors such as the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements is likely to limit the impact on general insurance liabilities further.

Management actions

Undertaking this analysis provided us with a framework to identify and assess the climate-related transition and physical risks that the business could be exposed to.

Taking into account the level of impacts that we have observed as part of this climate-related modelling, we 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. Progress against these actions is overseen by the Climate Executive Steering Group.

CBES second round

In early 2022, we participated in the second round of the Bank of England's CBES exercise. The initial CBES exercise, that took place in 2021, was designed to test the resilience of the UK financial system to physical and transition risk from climate change to assist banks and insurers in enhancing their management of climate-related financial risk.

For general insurers the second round focused on management responses to the CBES scenarios and resulting challenges to the business models. More specifically, it probed how responses would change if losses were higher; encouraged additional thinking about dependencies and actions required by the Government and other associated stakeholders; and further explored opportunities in the climate scenarios.

In response, the Group concluded that the climate-related management actions identified in the initial analysis would remain appropriate. However, the pre-emptive management actions of repricing and reinsurance would be accelerated after considering a scenario under which physical losses from climate change were materially higher.

The second round of analysis was based on the modelling outputs from the initial exercise, as in the short term re-running the CBES scenarios is unlikely to produce materially different results.

2023 physical risk modelling

In 2023, we updated the physical risk section of the underwriting liabilities element of the original analysis to account for portfolio and modelling changes. In the updated analysis, the original temperature scenarios were applied to the Group's Solvency II balance sheet exposure, as at the end of Q2 2023.

As part of the updated exercise, we took steps to improve our model to enhance our view of risk. This included applying an adjustment for storm surge to account for more accurate flood defence data and the data used in the analysis was enriched to incorporate the floor level of each insured property.

The updated analysis also took into account the sale of the brokered commercial business, to reflect a view of exposure that was representative of the ongoing Group.

The following graph presents a view of the potential adverse impact to insurance liabilities at Year 30 under the Early Action, Late Action and No Additional Action scenarios, based on the updated 2023 analysis. The graph illustrates the contribution of each peril to the change in total impact (set at 100%), for example in the No Additional Action scenario around 70% of the change in total impact is driven by inland flooding.

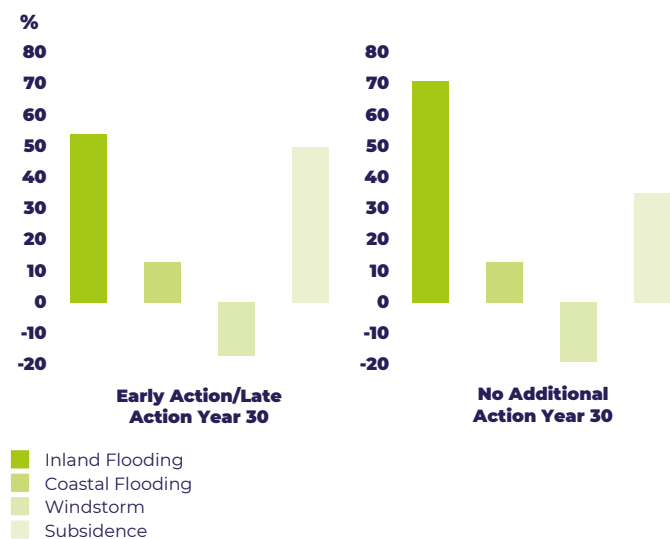


Figure 3: Split of physical risk impacts on insurance liabilities by peril

Figure 3 shows that, on a gross basis, the physical risk to insurance liabilities across all three scenarios was largely driven by inland flooding and subsidence. Windstorm was assessed to have a small positive benefit over all scenarios as a result of changing atmospheric conditions driven by complex interactions of a number of variables, ultimately caused by rising temperatures.

Applying the original climate scenarios to the Q2 2023 portfolio showed that the risk related to inland flooding and coastal flooding has significantly decreased compared to the Q4 2020 portfolio across all scenarios, which may indicate greater climate resilience. For example, under the Year 30 No Additional Action scenario, the reduction in AAL for inland flooding and coastal flooding was approximately 20% and 60%, respectively, when compared to the original analysis. This favourable change can be attributed to modelling improvements, as discussed above, as well as portfolio changes including increased ceding to Flood Re, and other underwriting actions. The results continue to show that AAL for flooding perils accelerate after the Flood Re scheme ends in 2039.

Risk for subsidence and windstorm is broadly unchanged from the original analysis, although due to the significant reduction in AAL from coastal flooding, the proportion of impact from subsidence was greater across the scenarios, when compared to the original analysis.

The findings continue to highlight the importance of the Group’s existing Management Action Framework (page 75), which includes a range of actions that could mitigate against the risks identified through our climate-related modelling. The updated analysis supports future developments in our physical risk modelling of insurance liabilities, as we evolve our understanding of the physical risks associated with the longer-term impacts of climate change.

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.

Changes in the motor market linked to the rate of electric vehicle adoption could include: change in ownership models,

such as the use of subscription services and shifting trends from car ownership to car usership; disruptors entering the market; and reductions in accident frequencies which could reduce the size of the personal lines motor market premium pool. Supported by changes in technology and policy, such as Government plans to end the sale of new petrol and diesel cars in the UK by 2035, the speed of this transition to electric continues to increase.

The reverse stress test considered a range of variables across three potential outcome ranges (Base, Best and Worst case) and three time periods (2025, 2030 and 2040) to reflect the high degree of uncertainty associated with these risks. In general, as transition risks are likely to materialise more rapidly than physical risks, the time periods examined in this exercise form part of our short- and medium-term time horizons, as defined on page 72.

The Best case assumed a slow pace of EV adoption and less movement from ownership to usership, meaning the size of the personal lines market share remains stable. This case also assumed the Group’s market share, from both electric and internal combustion engine vehicles, increases and there is a small impact from disruptors entering the market. The Worst case scenario considered all of those elements moving in the opposite direction.

The analysis considered the following variables across the time periods and scenarios:

- the Group’s share of the electric vehicle market;
- the impact of disruptors on market share;
- the impact to the size of the personal lines market that a move from vehicle ownership to usership could have; and
- the rate of electric adoption.

The findings showed that in the short term, to 2025, 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 78.

Future developments

Going forward, we will continue to work towards developing scenarios specific to our own risk profile that focus on the most material aspects of our business and explore the sensitivity of potential impacts to key uncertainties. These actions form part of our climate-related risk management roadmap and will enable the Group to make use of scenario-testing output more effectively to further inform our strategic approach to mitigating climate-related impacts.

During the year, we acquired climate scenario modelling capability to support the future assessment of climate change impact on the investment portfolio and this capability will continue to be embedded throughout 2024. See page 80.

Our strategic response

Developing our understanding and management of climate-related risks, whilst 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 focuses 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 78 to 80.

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 78. More information on how we define the time horizons can be found on page 72.

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)

Key

- (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 devastating 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 extensive use of Flood Re to cede high flood risk residential properties.

However, 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 thirty-year period. 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 75), which span across business areas and include action on:

- engaging with policymakers on the importance of flood defences in the UK to protect properties located in flood-prone areas;
- exploring how we can help shape the thinking around resilient repairs of properties affected by flooding; and
- further evaluating the impact of climate change on our underwriting footprint and risk appetite.

The analysis further supported us in developing our contingent and pre-emptive management actions, which could be deployed to mitigate against the risks identified. These cover areas such as pricing, de-risking of investments and reinsurance (see page 75).

Findings from our scenario analysis activities can be found on pages 73 to 76.

Motor

As one of the largest personal motor insurers in the UK, the move to electric-powered vehicles is particularly pertinent 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 response, we have already expanded our propositions to support our Motor customers who are making the switch to electric, and we have established a dedicated Electric Vehicle Distribution and Strategy team, focused on evolving the Group's strategic response to the electric shift.

Actions we have taken include:

- developing an electric vehicle package, offered to all new and renewing Direct Line Motor customers, which provides access to electric vehicle essentials, discounted access to public and community charging, discounted home charger installation and insurance that covers batteries and charging cables;
- entering into new strategic partnerships which can help grow our data, such as with Motability Operations from September 2023, where we expect the number of electric vehicles we insure to increase over the course of the partnership; and
- building further capabilities in our accident 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 the year, we also 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. More information can be found on page 76.

Operations

Operating in a sustainable way 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.

We have a history of taking action to reduce the environmental impact of our business. 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

Our aim is to become a Net Zero business by 2050 and this covers our direct operations. To make progress against this, we set Science-Based Targets which were approved by the SBTi in 2022. These targets, aligned to a 1.5°C pathway, mean we have ambitious carbon reduction plans which support our journey towards Net Zero.

One of these targets covers the emissions generated from our direct operations, where 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 83.

More information on the plans to progress against our targets and ambitions can be found within the Sustainability section on pages 61 and 62.

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. In the year, we have:

- expanded the use of hydrogenated vegetable oil in our accident repair centres as an alternative fuel for our recovery trucks. This initiative has now been implemented at 95% of our repair centres, resulting in an estimated 2,025 tCO₂e saved in 2023;
- delivered the removal of gas from all of the paint spray booths at one of our sites, providing an estimated saving of 277 tCO₂e in the year. We continue to use this experience to explore expanding the move from gas powered paint booths to electric in more of our repair centres; and
- completed the installation of LED lighting at all 23 accident repair centres.

Elsewhere, in 2023, we reduced our office footprint when moving our head office from Bromley to a newer and smaller Central London property, Riverbank House, where we obtained an SKA Silver Rating for the fitting out of the office space. An SKA Rating is a recognised means of assessing the refurbishment of existing buildings to ensure the retrofit is carried out in an environmentally considerate way.

Emissions reporting

We calculate and report our GHG emissions annually and our most recent carbon emissions reporting can be found on page 64. Further disclosure on the progress we have made in reducing our operational footprint to date can be found within Metrics and Targets on pages 83 and 84.

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. Further information on the offsetting projects we pledge support to can be found on page 65.

Supply chain

Through our Supply Chain Sustainability Programme, we are engaging with suppliers to encourage them to sign up to SBTi targets or an equivalent, so we can make the transition to a pathway consistent with a 1.5°C scenario. During the year, this work also included reviewing 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 63 and the GHG emissions from our supply chain are reported on page 64.

Investments

In recent years, we have begun integrating more ESG considerations into our investment strategy, 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 2023, we:

- began work towards meeting our approved Science-Based Targets for GHG emissions reduction for in scope asset classes;
- remained a signatory to the CDP's science-based targets campaign; a collective engagement campaign supported by over 350 financial institutions and multinationals which encourages high emitters to set science-based emissions reduction targets; 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, a requirement of all investment-grade corporate bond portfolios is that each portfolio must maintain an MSCI ESG rating 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 2023, covered 65% of AUM.

More information on the targets, and our 2023 reporting against them, can be found within Metrics and Targets on pages 84 and 85 and on pages 61 and 62.

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 action¹.
- 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.

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.

- 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.

Scenario analysis

During the year, we acquired climate scenario modelling capability to support our assessment of the impact climate change could have on the investment portfolio.

This will enable us to measure and quantify the potential financial impact of climate-related physical and transition risk on our investments, whilst also providing a better understanding of the opportunities that may arise from the transition to a lower-carbon economy. The modelling uses different possible future climate scenarios, including those issued by the Network for Greening the Financial System and the Intergovernmental Panel on Climate Change.

This capability will continue to be embedded throughout 2024.

Using our influence

We are committed to using our influence to drive wider change. For example, all of 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. This year we have also signed up to the CDP's science-based targets collective engagement campaign which encourages high emitters to set science-based emissions reduction targets.

Risk Management

Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework ("ERMF") 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, including climate change. The ERMF is supported by the Internal Control Framework ("ICF") which sets out the key elements, roles and responsibilities of the Group's system of internal control. Further information can be found in the Risk management section of the Strategic report on pages 86 and 87.

Risk taxonomy

The effects of climate change are wide-ranging, affecting many risks across the risk universe. To allow for better recognition of internal and external drivers of climate-related risk and to provide a focal point for the reporting of risks relating to climate change, the Strategic Risk category includes Climate Risk within Environmental, Social and Governance Risk.

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 risk drivers, at a Group level, 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.

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 81 to 85.

Regulatory monitoring

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

During 2023, this included reviewing:

- HMT's update to the Green Finance Strategy for the UK to become the world's first Net Zero Aligned Financial Centre;
- the Bank of England's report on climate-related risks and the regulatory capital frameworks; and
- the FCA's discussion paper on Finance for positive sustainable change.

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. In 2023, a deep dive was conducted on the transition to electric vehicles (see page 76). Each emerging risk is owned by an Executive sponsor to help ensure alignment of how it is managed to the strategic objectives and priorities; as well as a senior business leader who is responsible for day-to-day management of the risk.

Climate change, including climate-related physical and transition risk, is one of the Group's most prominent emerging risks, with regular oversight provided by the Climate Executive Steering Group, 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 92.

Climate risk modelling

The predominant direct physical drivers of risk to the Group's capital position are major UK floods and windstorms and these are modelled together with less material perils such as freeze and subsidence within the Group's Internal Economic Capital Model and reviewed at least biennially.

The influence of climate change is difficult to isolate from the complex oceanic and atmospheric processes driving UK weather. The Group uses catastrophe models to capture these factors, and in turn these models are regularly reviewed against specific criteria including how they have considered latest scientific thinking, to ensure they appropriately capture the Group's risk profile. Responsibility for this work sits within the Capital Management function.

The majority of our policies renew annually and are priced according to risk. Pricing algorithms use sophisticated rating engines to account for recent trends and are supplemented with views of catastrophic risk to seek to ensure sufficient pricing. These prices will evolve as climate change influences manifest themselves through changing loss patterns, and views of catastrophic risk develop because of rising sea levels, changes in precipitation rates and urban resilience.

Risk pricing models are built using historical data covering a multi-decadal time period for perils most likely to be influenced by climate change. This allows us to understand and incorporate long-term signals and past trends into our modelling. These models benefit from considerable amounts of internal and externally purchased data. External data is reviewed and updated regularly, and we maintain a relationship with data suppliers to understand the methodologies and assumptions in their work. Nevertheless, the underlying trends can be difficult to measure as they emerge through infrequent one-off catastrophe events and may have additional contributory factors (for example, deforestation increasing the pace of rainwater run-off upstream of a flood). Furthermore, future trends are likely to differ from past projections. As such, we recognise a range of uncertainty as to current and future impacts.

Increases in frequency and severity of large catastrophe weather events are mitigated by the Group's use of catastrophe excess of loss reinsurance. This reinsurance covers property (Personal Lines and Commercial Direct) and Motor physical damage losses; in addition to significant capital benefits, it transfers the volatility of low-frequency, high-severity natural peril events away from the Group. The reinsurance purchase decision is a combination of catastrophe modelling, capital analysis, the Group's risk appetite, cost of cover and the overall income statement impact. Cover is typically purchased with an upper limit equivalent to a 200-year modelled loss and the retention will be based upon the amount that the Group is willing to sustain from such a loss. In addition, we make extensive use of Flood Re to cede high flood risk residential properties.

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.

Area	Metric	Description	Category	Page
Underwriting	Total weather-related loss impact	Track actual performance against our annual expectations for major weather-related claims and monitor the impact of claims associated with severe weather on the Group's net insurance margin.	Physical risk	82
	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	83
	Subsidence	Monitor our subsidence market share by geo risk classification.	Physical risk	83
	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	83
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	62, 64, 83, 84
	Measuring progress within our repair centres	Quarterly oversight of: <ul style="list-style-type: none"> – 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. 	Transition risks and opportunities	84
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	62, 64, 84, 85

The Group has disclosed a number of 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 64.
- **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 on page 143.
- **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 73 to 76. Analysis of the actual impact of severe weather claims can be found in the underwriting section, below.
- **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 73 to 76.

Our aim is to explore further how we incorporate additional cross-industry metrics, including those to enhance the measurement and management of transition risks and opportunities, in future reporting.

Underwriting

Weather-related loss impact

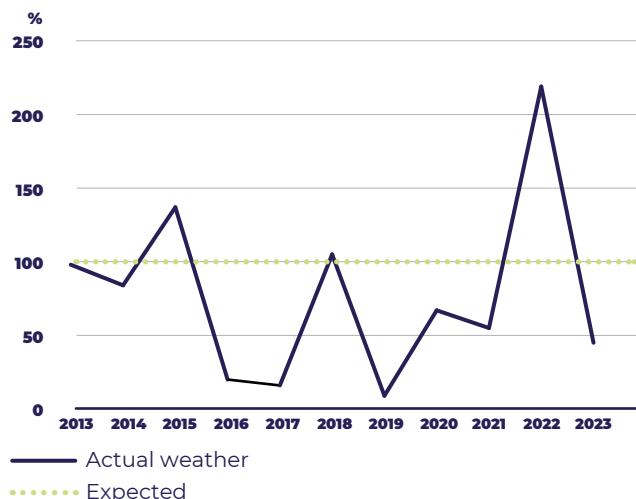
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK floods and windstorms. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison. By contrast, flood has seen more elevated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

Catastrophe reinsurance is purchased annually to protect against event losses greater than £100 million (see page 39). Use of the Flood Re scheme mitigates against the highest individual residential flood risks.

The cost of claims relating to major weather can found within the management view statement of profit or loss (see page 270).

Severe weather claims¹ (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.

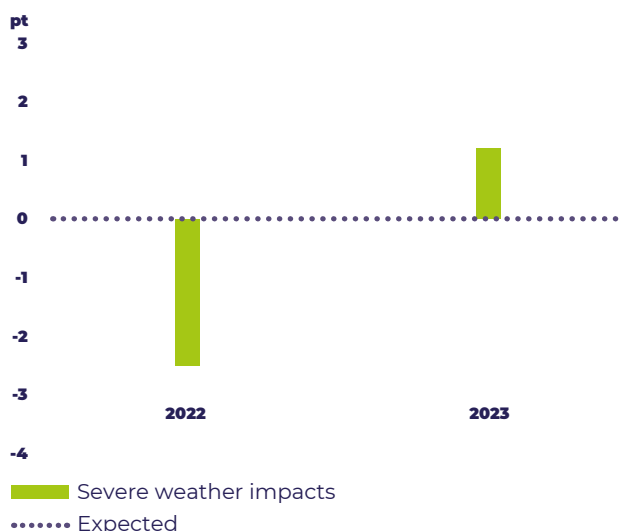


The previous graph shows the impact of severe weather claims relative to this annual expectation. In 2023, claims associated with severe weather were below our 2023 severe weather assumption, which is set at 100% in the graph.

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 quarterly 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.

Notes:

1. Data used within this analysis is for ongoing operations (see glossary on page 263).
2. Following adoption of IFRS 17, the Group restated its 2022 results and the 2022 analysis within this graph has been represented accordingly. The Group has moved to net insurance margin as a key performance indicator, replacing the previously used combined operating ratio, which is reflected in this analysis of severe weather impact. 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.

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. Since early 2019, the cost to cede policies to Flood Re has dropped, driving an increase in ceded volumes.

Subsidence

We monitor exposure to this physical risk via our subsidence market share by geo risk classification. This risk classification aims to give a market view of geographic risk, within the UK, of having a subsidence claim. This enables us to understand the proportion of subsidence risk that we write compared to our estimate of the total in the market.

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. As such we do not currently consider there to be any valuable climate-related physical risk indicators that can be tracked for this portfolio.

In order to track the transition towards electric vehicles we monitor 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 for 2024.

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.

During the year, the Group has embedded plans to further assess its disclosures relating to underwriting emissions, through the development of a climate-related risk management roadmap (see page 71). In 2024, the actions that are currently

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 52% reduction.

planned include reviewing issued guidance related to measuring and reporting underwriting emissions, 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 earlier in the year, we expect our underwriting exposure to commercial property lines to significantly reduce as this business runs 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 commercial small 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 64 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	2023 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 2023, absolute Scope 1 and 2 GHG emissions reduced by 43% ¹ , from a 2019 base year.

Our 2023 reporting shows a 43%¹ reduction in Scope 1 and 2 emissions, when compared to the 2019 baseline. This reflects the actions we have taken in recent years, which has included reducing our office footprint, investing in our estate to integrate new 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 in the year against them and our future priorities, can be found on pages 61 and 62.

Operational emissions performance

With hybrid working well embedded across the business, large numbers of our people continue to work from home regularly. In recognition of this we have again calculated and reported homeworking emissions under the Scope 3 'Employee Commuting' category (see page 64).

Overall, when compared to 2022, our Scope 1 and 2 GHG emissions decreased to 6,999 tCO₂e. In the year, our office footprint reduced following the move of our head office from Bromley to a newer and smaller Central London property, contributing to lower Scope 1 and 2 emissions from our office estate.

Within our repair centres, we continued to see a reduction in Scope 1 emissions through the use of hydrogenated vegetable oil as an alternative fuel for our recovery trucks, with this initiative now implemented at 95% of our Auto Services sites (see page 79). These reductions were partly offset by an increase in Scope 2 emissions from our repair centres as we continue to switch to electric from gas to power spray paint booths, where possible.

Auto Services Sustainability Programme

Our Auto Services Sustainability Governance Forum, held quarterly, is responsible for the oversight, accountability and coordination of all 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.

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. 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 expected in 2024, we have chosen to set an internal emissions reduction target for our supply chain. This target forms part of our Supply Chain Sustainability Programme, where we continue to encourage our largest emitting direct suppliers to sign up to SBTi targets or an equivalent (see page 63).

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 2023 our investment portfolio targets covered 65% of AUM.

Asset Class	Target	2023 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 2023, the Scope 1 and 2 portfolio temperature score by invested value was 2.02°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 2023, 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.	Agreed first reporting in 2024 ¹ .
Real Estate Loans	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	Agreed first reporting in 2024 ¹ .

Further details on the emissions from our investments are reported on page 64.

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. This approach was agreed with the SBTi when these targets were approved in 2022.

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 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 pages 61 and 62.

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	Pages
Annual global GHG emissions (CO ₂ e):	
– from activities for which the Company is responsible	64
– from buying electricity, heat, steam or cooling by the Group for its own use	64
Annual global energy consumption in kWh, being the aggregate of:	
– energy consumed from activities for which the Company is responsible	65
– energy consumed resulting from buying electricity, heat, steam or cooling by the Group for its own use	65
The proportion of GHG emissions and energy consumed relating to the UK and offshore area ¹²	63, 65
Methodology used to calculate emissions and energy consumption	65
At least one intensity metric in relation to emissions	64
Description of energy efficiency actions taken	63
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.	