Contents

Group Financial Statements

Independent Auditor's Report **148**
Accounting policies **156**

Consolidated Financial Statements

Consolidated Statement of Profit or Loss **168**
Consolidated Statement of Comprehensive Income **169**
Consolidated Statement of Financial Position **170**
Consolidated Statement of Changes in Equity **171**
Consolidated Cash Flow Statement **172**

Notes to the Consolidated Financial Statements

1. Risk management **173**
2. Segmental analysis **189**
3. Insurance service result **192**
4. Insurance finance result **193**
5. Other operating expenses **194**
6. Employee information **194**
7. Auditors remuneration **196**
8. Other finance costs **196**
9. Disposal of business **196**
10. Tax charge **197**
11. Dividends and appropriations **198**
12. Earnings per share **198**
13. Net asset value per share **199**
14. Net tangible asset value per share **199**
15. Goodwill and other intangible assets **200**
16. Property, plant and equipment **201**
17. Lease assets and liabilities **202**
18. Investment property **203**
19. Insurance contract assets and liabilities – gross and reinsurance **204**
20. Tax assets and liabilities **218**
21. Prepayments, accrued income and other assets **218**
22. Fair value **218**
23. Financial investments **221**
24. Retirement benefit obligations **223**
25. Cash and cash equivalents and borrowings **225**
26. Assets held for sale **226**
27. Share capital **226**
28. Other reserves **226**
29. Tier 1 notes **227**
30. Subordinated liabilities **227**
31. Provisions **227**
32. Trade and other payables **227**
33. Commitments and contingent liabilities **228**
34. Notes to the consolidated cash flow statement **228**
35. Related undertakings **229**
36. Post balance sheet events **229**

Parent Company Financial Statements

Accounting policies **230**
Parent Company Statement of Financial Position **231**
Parent Company Statement of Changes in Equity **232**

Notes to the Parent Company Financial Statements

1. Risk management **233**
2. Investment in subsidiary undertakings **233**
3. Other receivables **234**
4. Tax assets and Liabilities **234**
5. Financial Instruments **234**
6. Cash and cash equivalents and borrowings **235**
7. Share capital, capital reserves and distributable reserves **235**
8. Tier 1 notes **235**
9. Subordinated liabilities **235**
10. Dividends **235**
11. Share-based payments **235**
12. Employees, Directors and key management remuneration **235**

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc

1. Our opinion is unmodified

We have audited the financial statements of Direct Line Insurance Group plc (the "**Company**") for the year ended 31 December 2024 which comprise the Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Parent Company Statement of Financial Position, Parent Company Statement of Comprehensive Income, Parent Company Statement of Changes in Equity and the related notes, including the accounting policies on pages 156 to 167, except the information being disclosed as unaudited in Note 1.4.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2024 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("**ISAs (UK)**") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders for the financial year ended 31 December 2024. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Material uncertainty related to going concern

	The risk:	Our response:
Going concern We draw attention to note (A) to the financial statements which indicates that because of the potential change in control, the directors have concluded it is beyond their control to conclude as to whether Aviva would undertake any restructuring of the Group's legal entities should a deal complete. These events and conditions constitute a material uncertainty that may cast significant doubt on the parent company's ability to continue as a going concern. Our opinion is not modified in this respect. Refer to page 103 (Audit Committee Report), page 145 (Director's report) and page 156 (Going concern basis of preparation)	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. There is limited audit judgement required in evaluating the directors' conclusion that the circumstances related to the Aviva deal described in note (A) to the financial statements represent a material uncertainty over the company, and, therefore the group to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	**Our procedures included:** **Assessing transparency** We considered whether the going concern disclosure on page 156 to the financial statement gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies. **Enquiry of directors** We inquired with the directors as to their discussions to date with Aviva plc in relation to their intention following the purchase transaction. **Considering the existence of any barriers to restructuring** We evaluated the assessment by management of whether they believed there were any economic, financial or legal barriers that existed which could influence Aviva plc not to restructure the existing group. Our assessment of management's going concern assessment also included the procedures set out in section 6 of our report. **Our results** We found the going concern disclosure in note (A) with a material uncertainty to be acceptable.

3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk:	Our response:
Valuation of the Liability for Incurred Claims (£4,109.7m) **Refer to page 101 (Audit Committee Report), page 160 (accounting policy) and page 204 (financial disclosures)**	The liability for incurred claims represents the largest liability for the Group and the estimation of the incurred but not reported claims ("**IBNR**") is the most subjective component of the liability for incurred claims. There is significant complexity and subjectivity in the valuation of the fulfilment cash flows related to IBNR claims due to the level of estimation uncertainty inherent in the assumptions. It involves significant judgement and the use of actuarial and statistical projections, as some claims can take some time to emerge or develop. A number of assumptions are required to be made with high estimation uncertainty such as: frequency, severity, inflationary assumptions and discount rates. There may also be additional amounts held in the form of Events Not In Data reserves (**"ENIDs**") which are judgemental and can be significant in value. Certain perils have greater inherent uncertainty. The losses arising from bodily injury and subsidence claims are significant and can be both large in value and difficult to predict. Some bodily injury claims may also be expected to settle partly as lump sum amounts and partly as periodic payment orders ("**PPOs**"). Claims may also be impacted by changes in the market or regulations: for example: through the impact of whiplash reform, higher inflationary environment, Judicial College Guidelines reviews and changes to Ogden rates. The determination and application of the methodology and performance of the calculations are also complex. The effect of these matters is that we determined that valuation of the liability for incurred claims has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount.	We performed the tests below over the valuation rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. We have used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: **Control design and implementation** We obtained an understanding of the design and implementation of the relevant controls over the appropriateness of the methodology and assumptions for setting actuarial assumptions and the calculation of the liability for incurred claims. **Independent re-projections** Using our own models we performed independent re-projections across 93% of all perils for certain classes of business. The determination of which classes to re-project was based on qualitative and quantitative risk assessment procedures. **Assessment of assumptions and methodology** We assessed and challenged whether methodologies applied are appropriate with reference to Direct Line's business and industry practice including consideration of the effect of uncertain economic conditions. We also evaluated the appropriateness of models and assumptions used to develop the best estimate of liabilities by comparing with industry practice and understanding any key differences. **Sector Experience and Benchmarking** We applied our industry experience and market benchmarks to support our consideration and challenge of the Group's reserving methodology, key judgements and assumptions. We assessed the impact of regulatory changes on the valuation of best estimate liabilities by using appropriate benchmarks and/or performing sensitivity testing on key assumptions. **Assessing ENIDs** We assessed the documentation over the selection and completeness of ENIDs and evaluated the rationale for their inclusion. **Discounting** We evaluated the actuarial assumptions applied in the discounting of cash flows. This included assumptions related to payment patterns and the determination of the discount rates used. We also tested the accuracy of the discounting of reserves by independently reperforming the discounting recalculations. **Reconciliations over actuarial data** We performed completeness and accuracy testing over actuarial data used in projections, by reconciling the key data elements from the data used in projections to policy and claims administration systems and data recorded in the ledger. For a sample of transactions, we traced these through to appropriate documentation. **Assessing Transparency** We considered the adequacy of the Group's disclosures over the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions and assessed whether the disclosures comply with relevant accounting standards. **Our results** We found the valuation of the liability for incurred claims to be acceptable.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

	The risk:	Our response:
Parent company – Recoverability of the Parent Company's investment in subsidiaries (£3,460.9m) **Refer to page 101 (Audit Committee Report), page 232 (accounting policy) and page 233 (financial disclosures)**	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries represents 94.2% (2023: 95.6%) of the parent Company's total assets. Their recoverability is not at a high risk of material misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	We performed the tests below rather than seeking to rely on any of the parent Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: **Tests of detail** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Comparing valuations** For investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected fair value less costs of disposal. **Our results** Based on our procedures performed, we found the Parent Company's conclusion that there is no impairment of its investment in subsidiaries to be acceptable.

4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £24.0m, determined with reference to a benchmark of Net Assets, of which it represents 0.97%.

Materiality for the Parent Company financial statements as a whole was set at £19.2m, determined with reference to a benchmark of Company Net Assets, of which it represents 0.61%.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% of materiality for the financial statements as a whole, which equates to £15.6m for the Group and £12.4m for the Parent Company. We applied this percentage in our determination of performance materiality based on the Group's history of uncorrected misstatements, control deficiencies and a significant turnover of senior management in the period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.1m for the Group and £0.8m for Parent Company, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Overview of the scope of our audit

We applied the revised group auditing standard in our audit of the consolidated financial statements. The revised standard changes how an auditor approaches the identification of components, and how the audit procedures are planned and executed across components.

In particular, the definition of a component has changed, shifting the focus from how the entity prepares financial information to how we, as the group auditor, plan to perform audit procedures to address group risks of material misstatement ("**RMMs**"). Similarly, the group auditor has an increased role in designing the audit procedures as well as making decisions on where these procedures are performed (centrally and/or at component level) and how these procedures are executed and supervised. As a result, we assess scoping and coverage in a different way and comparisons to prior period coverage figures are not meaningful. In this report we provide an indication of scope coverage on the new basis.

We performed risk assessment procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements and which procedures to perform at these components to address those risks.

In total, we identified three components, having considered our evaluation of the Group's legal structure, the existence of common information systems the presence of key audit matters business activities and our ability to perform audit procedures centrally.

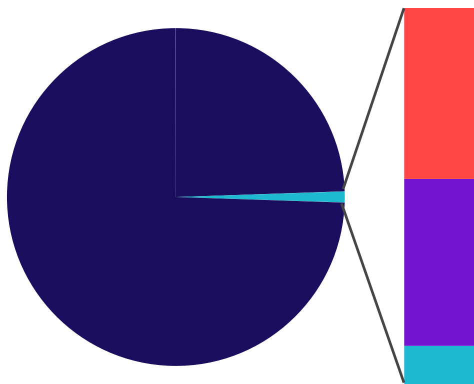
All components were identified as quantitatively significant components which contained the largest percentages of either total revenue or total assets of the Group, for which we performed audit procedures.

We note that audit procedures for all components are also performed by the Group audit team.

We set the component materialities, ranging from £14.4m to £21.6m, having regard to the mix of size and risk profile of the Group across the components.

Group Net Assets

£2,404m



Group materiality

£24.0m

£24m

Whole financials statements materiality

£15.6m

Whole financials statements performance materiality

£21.6m

Range of materiality at 3 components (£14.4m to £21.6m)

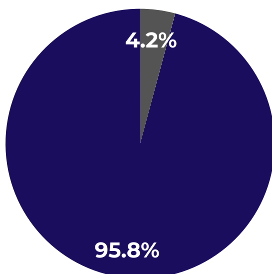
£1.1m

Misstatements reported to the audit committee

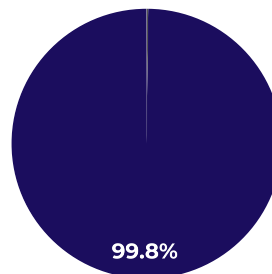
Our audit procedures covered the following percentage of Group Net Assets:

We performed audit procedures in relation to components that accounted for the following percentages of Group total revenue and Group total assets:

Group total assets



Group insurance revenue



Group auditor oversight

As part of establishing the overall Group audit strategy and plan, we conducted the risk assessment and planning discussion meeting to discuss Group audit risks relevant to the components, including the key audit matters in respect of the valuation of the liability for incurred claims, and recoverability of the parent company's investment in subsidiaries.

We considered the work performed at the components for the purpose of the Group audit and evaluated the appropriateness of conclusions drawn from the audit evidence obtained and consistencies between communicated findings and work performed.

Impact of controls on our group audit

We identified a number of IT systems to be relevant to our audit, including those supporting the policy and claims administration, actuarial data processing, expense payment and financial reporting processes. Our IT auditors assisted us in assessing the design and, for certain IT systems, operating effectiveness of relevant general IT controls.

For some IT systems related to policy and claims administration and journals, following our testing of controls, including compensating controls or additional follow up testing where relevant, we were able to rely on general IT controls, and automated controls and related manual controls and took this into account in determining our audit work.

For the remaining identified relevant IT systems, we were not able to rely on general IT controls due to deficiencies identified. As a result, we increased the extent of our substantive testing, and tested additional manual compensating controls addressing the completeness and reliability of data from the affected IT systems. As a result, our audit was predominantly substantive.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

5. The impact of climate change on our audit

In planning our audit, we performed a risk assessment, including enquiries of management, to consider the potential impact that commitments made by the Group in respect of the transition to net zero carbon emissions, as well as the physical risks of climate change could impact on the financial statements and our audit. We held discussions with our own climate change professionals to challenge our risk assessment. Through the procedures we performed, we did not identify any material impact of climate change on the Group's material accounting estimates and there was no significant impact of this assessment on our key audit matters.

The Group primarily underwrites short-term personal line insurance. Climate change may result in an increase in the frequency and severity of natural catastrophes and other weather-related events leading to an increase in volume and higher insurance pay-outs, adversely impacting the insurance liabilities, in particular for property insurance products. However, the risk is factored into insurance premium rates for new policies and periodic repayments and is also mitigated by the short-term nature of policies and the reinsurance arrangements in place.

Climate risk may also impact the valuation of investments, in particular investment properties, held by the Group. Considering the nature of the Group's investment portfolio and valuation techniques used, we concluded that while climate change may pose a risk to the determination of asset values, the risk is not significant.

We have also read the disclosures of climate related information in the Annual Report and Accounts as set out on pages 58 to 73 and considered their consistency with the financial statements and our audit knowledge.

6. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements (the "**going concern period**"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern. We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were adverse claims inflation, failure to achieve Motor pricing initiative benefits, delays to delivering expense reductions and falls in asset values.

We also considered less predictable but realistic second order impacts that could affect demand in the Group's markets, such as the impact of climate change on the Group's results and operations, and credit ratings of key reinsurers.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included evaluation of the consistency, arithmetical accuracy and reasonableness of the data and assumptions used in management's Going Concern assessment paper.

An explanation of how we evaluated management's assessment of going concern is further set out in section 2 of our report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have nothing material to add or draw attention to in relation to the directors' statement in the Accounting Policies on page 156 to the financial statements on the use of the going concern basis of accounting and their identification therein of a material uncertainty over the Group and Company's ability to continue to use that basis for the going concern period, and we found the going concern disclosure in the Accounting Policies on page 156 to be acceptable; and
- the related statement under the Listing Rules set out in the Viability statement and Accounting Policies on page 156 is materially consistent with the financial statements and our audit knowledge.

7. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("**fraud risks**") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and the risk committee and inspection of policy documentation as to the Group high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee and Risk Committee minutes;
- Considering remuneration incentive schemes and performance targets for management;
- Using analytical procedures to identify any unusual or unexpected relationships;
- Consultation with our own forensic professionals regarding the identified fraud risks and the design of the audit procedures planned in response to these. This involved the forensic professionals attending the Risk Assessment and Planning Discussion and discussion between the engagement partner, and the forensic professional;
- inspecting correspondence with regulators to identify instances or suspected instances of fraud; and
- reading broker reports and other public information to identify third-party expectations and concerns.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, changes to senior management, and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as the liability for incurred claims. On this audit we do not believe there is a fraud risk related to revenue recognition due to the routine nature of revenue transactions.

We also identified a fraud risk related to the valuation of insurance contract liabilities in response to possible pressures to meet profit targets. Further detail in respect of our response to these areas is set out in the key audit matter disclosures in section 3 of this report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test at the Group level and for all components based on risk criteria and comparing the identified entries to supporting documentation. These include, but are not limited to, journals that represent unexpected pairing to revenue, or cash, journal entries made to seldom-used accounts and journals posted by senior management or unauthorised users.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and others management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. This includes engaging internal KPMG regulatory specialists to provide additional expertise and guidance on regulatory risk and conduct matters that impact the Group.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and regulatory capital, solvency and liquidity regulations, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: data protection laws, money laundering, anti-bribery, regulatory consumer conduct, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the matter discussed in note 33 we assessed disclosures against our understanding from legal correspondence and inquiries with management and management's experts.

We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

8. We have nothing to report on the other information in the Annual Report and Accounts

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the Viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement page 74 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability statement, set out on page 74 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

9. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 146, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared under Disclosure Guidance and Transparency Rule 4.1.17R and 4.1.18R. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Anderson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

3 March 2025

Accounting policies

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

The principal activity of the Group is the provision of general insurance.

(A) Basis of preparation

As required by the Companies Act 2006, the Group's consolidated financial statements are prepared in accordance with UK adopted International Accounting Standards ("**IASs**") and International Financial Reporting Standards ("**IFRSs**") as endorsed by the International Accounting Standards Board ("**IASB**"). The Group has elected to prepare its parent company financial statements in accordance with FRS 101 'Reduced Disclosure Framework'.

The consolidated financial statements are prepared on the historical cost basis except for (i) insurance and reinsurance contract assets and liabilities which are measured at their fulfilment value in accordance with IFRS 17 'Insurance Contracts'; (ii) debt and equity investments held at either fair value through profit or loss ("**FVTPL**") or fair value through other comprehensive income ("**FVOCI**"); (iii) defined benefit scheme liabilities measured on an actuarial basis and scheme assets measured at their fair value; and (iv) financial assets; investment property and derivative financial instruments, which are measured at fair value (fair value is defined in note 22).

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

The policies set out below have been applied consistently throughout the years ended 31 December 2024 and 31 December 2023 to items considered material to the financial statements. The accounting policies are consistent with those set out in the Group's 2023 annual financial statements, with the exception of new accounting standards which became effective for periods beginning on or after 1 January 2024. The nature and effect of these changes are disclosed in note (A).

The Company's financial statements and the Group's consolidated financial statements are presented in sterling, which is the functional currency of the Company.

Going concern

As a standalone business, the Directors believe that the Group and Company have sufficient financial resources to meet their financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group and Company are well positioned to manage its business risks successfully in the current economic climate. The Chief Financial Officer Review describes the Group's capital management strategy, including the capital actions taken to ensure the continued strength of the balance sheet. The Group's financial position is also covered in that section, including a commentary on cash and investment holdings, claims reserves and management of insurance liabilities, and the Group's financial leverage. This covers insurance, market, credit, liquidity and operational risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

Having made due enquiries, the Directors believe they can reasonably expect that the Group and Company has adequate resources to continue in operational existence on a standalone basis for at least 12 months from 3 March 2025 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

Material uncertainty in relation to going concern

On 23 December 2024, the Boards of the Company and Aviva plc ("**Aviva**") reached an agreement pursuant to which Aviva agreed to purchase the entire share capital of the Company, subject to regulatory and shareholder approval. Although the Directors cannot be certain about the actions of Aviva should a deal complete, they consider that the ability of the Group to continue as a going concern should not be adversely affected by the transaction should it proceed. In making this assessment, they have considered many factors, including the strategic fit of Aviva for the Group as well as Aviva's record of executing transactions, including integrating a number of acquisitions, and of delivering profitable growth. While the Directors would expect Aviva to continue to deliver long term value from the Group's ongoing operations they note however, that it is beyond their control as to whether Aviva would undertake any restructuring of the Group's legal entities. Therefore, given the potential change in control, the Directors consider these conditions to constitute a material uncertainty (as defined under IAS 1) which may cast significant doubt over the Company's and therefore, the Group's ability to continue as a going concern. The Directors would not expect this to impact the continued operation of the Group's core insurance activities.

Notwithstanding this uncertainty, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements.

New standards, interpretations and amendments to published standards that have been issued and endorsed by the UK and adopted by the Group or the Company

The Group has adopted the following new amendments to IFRSs and IASs that became mandatorily effective for the Group for the first time from 1 January 2024. None of these amendments have a material impact upon the Group.

In January 2020, the IASB issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1 'Presentation of Financial Statements')' which clarifies the requirements for classifying liabilities as current or non-current. More specifically these amendments:

- specify that an entity's right to defer settlement must exist at the end of the reporting period;
- clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement of a liability;
- clarify how lending conditions affect classification; and
- clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

In January 2020, the IASB issued 'Non-current liabilities with covenants (Amendments to IAS 1)' which clarified how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances.

On 22 September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)', which adds subsequent measurement requirements for sale and leaseback transactions.

On 25 May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures')' to add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group or the Company

New IFRS standards and amendments that are issued but are not effective until after 31 December 2024 have not yet been adopted by the UK and have not been early adopted by the Group are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

The following amendments have been adopted by the UK and are effective from 1 January 2025.

The IASB issued amendments Lack of Exchangeability (Amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates) that provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. This amendment is not expected to have a significant impact on the Group's consolidated financial statements or the Company's financial statements.

The following amendments are effective from 1 January 2026 but are yet to be adopted by the UK for which The Group intends to undertake an assessment of the impact in 2025.

'Amendments to IFRS 9 'Financial Instruments' and IFRS 7 Amendments to the Classification and Measurement of Financial Instruments' which provide further clarification and requirements for:

- the recognition and derecognition criteria for financial assets and liabilities;
- the classification requirements for financial assets, particularly those containing contingent, non-recourse features or contractually linked instruments; and
- disclosures related to the amendments to the classification requirements, and also for investments in equity instruments designated at fair value through other comprehensive income.

Annual improvements to IFRS Accounting Standards – Volume 11.

The following new standards are effective from 1 January 2027 but are yet to be adopted by the UK for which the Group intends to undertake an assessment of the impact in 2025.

IFRS 18 'Presentation and Disclosures in Financial Statements' which aims to ensure that financial statements provide relevant information that faithfully represents an entity's assets, liabilities, equity, income, and expenses. The standard introduces new requirements for the presentation of the statement of profit or loss, including mandatory sub-totals, aggregation, disaggregation, and disclosures related to management-defined performance measures.

IFRS 19 'Subsidiaries without Public Accountability: Disclosures' specifies reduced disclosure requirements that an eligible entity is permitted to apply instead of the disclosure requirements in other IFRS accounting standards.

(B) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities that are controlled by the Group at 31 December 2024 and 31 December 2023. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing whether the Group controls another entity, the existence and effect of the potential voting rights that are currently exercisable or convertible are considered.

A subsidiary acquired is included in the consolidated financial statements from the date it is controlled by the Group until the date the Group ceases to control it. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at fair value.

The Group accounts for the disposal of subsidiary undertakings or a disposal group when it ceases to exert control.

A gain or loss is measured as the difference between the fair value of consideration received or receivable and the value of the assets and liabilities de-recognised, which relate to businesses disposed of. The gain or loss is recognised on the effective date of the completion of the disposal.

All intercompany transactions, balances, income and expenses between Group entities are eliminated on consolidation.

(C) Material accounting policies and the use of estimates and judgements

Material accounting policies

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements.

The accounting policies in the table below are those that have the most material impact on the amounts recognised in the financial statements, with those judgements involving estimation summarised thereafter.

Material accounting policies	Policy reference
Insurance and reinsurance contracts (IFRS 17)	(F), (J)
Fair value of investment properties (IAS 40)	(O)
Financial instruments (IFRS 9)	(P)
Impairment provisions – financial assets (IFRS 9)	(P)

Accounting policies continued

(C) Material accounting policies and the use of estimates and judgements continued

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Critical accounting judgements	Note reference
Level of aggregation and combination of insurance contracts The Group exercises judgement in determining whether a set of insurance and reinsurance contracts with the same or related counterparty should be treated collectively, considering both qualitative and quantitative factors like pricing and credit risk exposure. Additionally, judgement is applied in defining portfolios of insurance contracts by grouping contracts with similar risks that are managed together. This involves assessing which risks are similar and how contracts are operationally managed, with contracts in the same product line typically grouped in the same portfolio.	(J)
Classification of financial instruments The Group exercises judgement in assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales and has concluded on the classification category of each portfolio of financial instrument in accordance with IFRS 9.	(P)
Impairment of financial assets The measurement of the expected credit loss ("**ECL**") allowance under IFRS 9 for financial assets measured at amortised cost requires significant judgements and assumption in particular, for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios, and the relevant inputs used.	(P)

The critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2023, except for a new accounting judgement in relation to combination of direct and reinsurance contracts with Motability.

Additionally, the following areas are no longer considered significant:

- PAA eligibility (see note (J) Level of aggregation for further details)
- Onerous contracts (see note (J) Loss components and loss offsetting)

Key sources of estimation uncertainty

The table below sets out those items considered particularly susceptible to changes in estimates and assumptions, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and the relevant note disclosures.

Key sources of estimation uncertainty	Policy reference	Carrying value	Sensitivity
Measurement of insurance and reinsurance contracts The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. Key estimates involved in determining both the insurance liabilities and the corresponding recoverable amount from reinsurance contracts include the amount and timing of future claims payments in relation to claims already incurred, the allowance for illiquidity premium in the determination of discount rates, and the calibration of risk adjustment.	(J)	Note 19	Note 1.3.1
Fair value of financial instruments and investment property Where quoted market prices are not available, valuation techniques are used to value financial instruments and investment property. These include broker quotes and models using both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuations for financial instruments and investment property.	(O), (P)	Note 22	Note 1.3.2

There have been no significant changes in the basis upon which judgement and estimates have been determined, compared to that applied as at 31 December 2023.

(D) Foreign currency translation

Group entities record transactions in the currency of the primary economic environment in which they operate (their functional currency), translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the statement of financial position date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the statement of profit or loss.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in the statement of profit or loss except for differences arising on equity investments held at FVOCI, which are recognised in other comprehensive income.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the foreign exchange rates ruling at the statement of financial position date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in the consolidated statement of other comprehensive income. The amount accumulated in equity is reclassified from equity to the consolidated statement of profit or loss on disposal or partial disposal of a foreign operation.

(E) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. There were no changes in valuation techniques during the year.

(F) Insurance service result

Insurance revenue

For insurance contracts applying the premium allocation approach ("**PAA**"), the insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Group allocates the expected premium receipts and instalment income (being the additional fees payable by a policyholder associated with paying for an insurance contract over 12 months that are considered non-distinct from the underlying insurance policy) to each period of insurance contract services on the basis of the passage of time.

Cash flows associated with arrangement fee and administrative fee income are included within the insurance revenue cash flows as they are considered non-distinct from the underlying insurance policy, and spread evenly over the term of the policy.

Insurance service expenses

Insurance service expenses include the following:

- incurred claims and other claims expenses;
- other incurred directly attributable expenses, such as marketing and acquisition costs;
- changes that relate to past service (i.e. changes in fulfilment cash flows relating to liability for incurred claims ("**LIC**")); and
- other directly attributable claims income including vehicle replacement referral fees, salvage income and legal services fees which have been assessed as part of the IFRS 17 contract boundary.

Other expenses not included above are included in other operating expenses in the consolidated statement of profit or loss. Directly attributable overheads are allocated using a systematic and rational basis.

Income and expenses from reinsurance contracts held

Income and expenses from reinsurance contracts held represents the insurance service result for groups of reinsurance contracts held and is comprised of:

- the allocation of reinsurance premiums paid, which is calculated using the same principles as used to calculate revenue on insurance contracts;
- amounts recoverable from reinsurers, which is calculated using the same principles as used to calculate insurance service expenses on insurance contracts;
- the recognition of, and subsequent movements in, reinsurance loss recovery components; and
- the effect of changes in the risk of reinsurers' non-performance.

(G) Insurance finance result

Insurance finance income and expenses comprise the change in the carrying amount of the group of insurance contracts in respect of incurred claims arising from:

- the effect of the time value of money and changes in the time value of money. This mainly comprises interest accreted on the LIC; and
- the effect of financial risk and changes in financial risk. This mainly includes the effect of changes in interest rates (i.e discount rates) and the inflation assumptions for Periodic Payment Orders ("**PPOs**") (which are predominantly inflated with respect to the ASHE 6115 index).

(H) Investment return

Interest income on financial assets held at amortised cost is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset.

Rental income from investment property is recognised in the statement of profit or loss on a straight-line basis over the period of the contract.

Dividend income is recognised when the right to receive payment is established.

(I) Other income

The Group's other operating income comprises vehicle recovery and repair services provided to other third-party customers. Income in respect of vehicle recovery and repairs is recognised upon completion of the repair obligations in accordance with IFRS 15 'Revenue from contracts with customers'. The price is determined using market rates for the services and materials used after discounts have been deducted where applicable.

Revenue from any goods provided is accounted for at the point of sale.

Accounting policies continued

(J) Insurance and reinsurance contracts

IFRS 17 measurement models

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

The Group issues mainly short-term insurance contracts for various products in the normal course of business, under which it accepts significant insurance risk from its policyholders.

The Group has reinsurance treaties and other reinsurance contracts, in the form of quota share and excess of loss ("**XoL**"), that transfer significant insurance risk. The Group cedes insurance risk by reinsurance in the normal course of business.

The Group applies the following measurement model to its insurance and reinsurance contracts:

Model	Applicable business
PAA	Short duration insurance contracts automatically eligible for PAA
	Longer duration insurance contracts which meet the PAA eligibility requirements
	Reinsurance contracts issued or held automatically eligible for PAA
	Reinsurance contracts issued or held which meet PAA eligibility requirements

The basis for the measurement model is determined as follows:

- the coverage period of each contract in the group is one year or less and therefore automatically eligible, including insurance contract services arising from all premiums within the contract boundary; or
- for groups of insurance and reinsurance contracts longer than one year, the Group has modelled possible future scenarios to test the measurement of the liability for remaining coverage, for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced by applying the General Measurement Model. Materiality is a key consideration in the quantitative assessment of results, and qualitative factors about the nature of the contracts, including the timing and size of cash flows are considered when forming conclusions on PAA applicability.

The Group's reinsurance contracts (both quota share and Motor excess of loss) include contracts with a coverage period greater than one year and therefore do not automatically qualify for PAA. The measurement of the asset for remaining coverage between the PAA and the general model is determined and where the difference in measurement is immaterial, PAA is applied.

Insurance contracts – initial measurement

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as:

- the premiums, if any, received at initial recognition; plus
- any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

An insurance or reinsurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Any premiums received before the recognition of the corresponding group of insurance contracts are recognised as deferred revenues in trade and other liabilities. When a group of contracts is recognised as per above the premiums received are reclassified to the liability for remaining coverage.

Reinsurance contracts – initial measurement

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example, the generation of expenses or reduction in expenses rather than revenue.

Insurance contracts – subsequent measurement

The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as:

- the liability for remaining coverage at the beginning of the period; plus
- premiums received in the period; minus
- the amount recognised as insurance revenue for the services provided in the period.

Where an entity is required to apply IAS 34 (as for the Group) there is an option as to whether to choose a "year-to-date" basis or a "period-to-period" basis for financial reporting. The Group has opted to apply the option to use "period-to-period" accounting for interim reporting.

Claims reserves are assessed separately for large and attritional claims, typically using standard actuarial methods of projection such as the Chain Ladder and Bornhuetter-Furguson methods.

Reinsurance contracts – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance contracts held.

A credit exposure exists with respect to reinsurance contracts held, to the extent that any reinsurer is unable to meet its obligations.

Combination of insurance contracts

The Group exercises judgement in deciding whether a set of insurance and reinsurance contracts with the same or a related counterparty should be treated collectively. Specifically, the Group assesses whether the direct and reinsurance contracts with Motability should be considered a combined agreement or as separate contracts. Based on management's assessment, it was concluded that each contract should be treated on a standalone basis.

Separating components from insurance and reinsurance contracts

The Group assesses its insurance contracts to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Group applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Group's contracts do not include any distinct components that require separation.

Level of aggregation

Insurance contracts are aggregated into groups for management purposes at initial recognition. The grouping of contracts is not subsequently reconsidered. The level of aggregation for the Group is determined firstly by dividing the business written into portfolios.

The Group defines a portfolio as insurance contracts subject to similar risks and managed together. Contracts within the same product line are expected to be in the same portfolio as they have similar risks and are managed together. The assessment of which risks are similar and how contracts are managed requires the exercise of judgement. The general principles for defining the portfolio of insurance contracts for level of aggregation are equally applicable to reinsurance contracts held. Portfolios and groups may be changed prospectively if there are changes to facts and circumstances.

The Group manages insurance contracts issued by product and brand. Contracts within each product and brand are grouped together into different sub-groups for IFRS 17 reporting and disclosure based on the criterial of similar risks which are managed together, the nature of the product and brand and profitability.

Portfolios are further divided based on expected profitability and within a calendar year at inception into three categories:

i. onerous contracts, if any;
ii. contracts with no significant risk of becoming onerous; and
iii. the remainder group of contracts in the portfolio.

A group of insurance contracts is considered to be onerous at initial recognition if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. This occurs if the present value of expected claims, attributable expenses and risk adjustment exceeds the premium. As all inwards contracts are measured under the PAA model, due to the short-term nature of the contracts, the Group takes the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held based on the criteria of similar risks which are managed together on a product level. The reinsurance contract held portfolios are further divided within a calendar year into three groups that comprise:

i. contracts for which there is a net gain at initial recognition, if any;
ii. contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and
iii. remaining contracts in the portfolio.

The grouping of insurance and reinsurance contracts is determined at initial recognition and is not subsequently reassessed.

Recognition, modification and derecognition

Recognition

The Group recognises groups of insurance contracts it issues from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; or
- for a group of onerous contracts, when facts and circumstances indicate that the group is onerous.

The Group recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

- the beginning of the coverage period of the group of XoL reinsurance contracts held. However, the Group delays the recognition of a group of reinsurance contracts held that provide proportionate coverage (the Group's quota share reinsurance) until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- the date the Group recognises an onerous group of underlying insurance contracts if the Group entered into the related reinsurance contract held at or before that date.

Modification and derecognition

The Group derecognises insurance contracts when:

- the rights and obligations relating to the contract are extinguished (i.e. discharged, cancelled or expired); or
- the contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Group derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Group recognises amounts paid or received for the modification of the contract as an adjustment to the estimate of fulfilment cash flows.

Estimates of future cash flows

The estimate of future cash flows for the liability for incurred claims represents the best estimate of the Group's cost to fulfil a contract incorporating current estimates of non-financial assumptions. The estimate allows for all the cash inflows and outflows expected to occur within the contract boundary.

In estimating future cash flows, the Group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows reflects the Group's view of current conditions at the reporting date, ensuring the estimates of any relevant market variables are consistent with observable market prices. However, these cash flows are inherently uncertain in size, timing and are based on probability-weighted average expectations.

Cash flows are modelled separately for gross and reinsurance contracts for which the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes, is included.

Accounting policies continued

(J) Insurance and reinsurance contracts continued

Contract boundaries

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised, as such amounts relate to future insurance contracts.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and therefore may change over time.

The contract boundary for a reinsurance contract is dependent on the terms and conditions of the reinsurance contract and therefore may not necessarily be the same as for the underlying insurance contracts. For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive insurance contract services from the reinsurer.

Risk adjustment

A risk adjustment for non-financial risk is determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion.

The Group estimates the probability distribution of the expected present value of future cash flows from the contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. Once the risk adjustment is determined at Group level on a gross and net of reinsurance basis, it is allocated to groups of contracts based on the size of their reserves. More recent accident periods tend to be less developed with generally larger reserves than older contract periods, so that a higher proportion of the overall risk adjustment is allocated to these more uncertain groups of contracts.

The target confidence level is at the 75th percentile for the liability for incurred claims.

Financial assumptions

Discount rates
The Group adjusts the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims, including those that are expected to be paid within one year of being incurred.

The Group has selected to apply the 'bottom up' approach to determine discount rates which requires the use of risk-free rate curves and adding the illiquidity premium.

The Group determines the risk-free discount rate using Solvency II risk-free rates sourced from the Bank of England.

The illiquidity premium is determined by using a fundamental spread approach by deducting the risk-free rate and credit risk premium from corresponding corporate bond reference portfolios having regard to the assumptions on the Prudential Regulation Authority ("**PRA**") Solvency II website. The term and credit rating of the underlying bonds is aligned with the duration of the liabilities and quality of assets held to match the liabilities. For non-PPOs, the reference portfolio is A rated bonds with terms of 1 to 3 years and for PPOs, the reference portfolio is BBB rated bonds with a remaining term of 15 or more years.

Judgement is applied when determining the illiquidity premium with respect to allowances for past and future trends, considering changes in the economic environment. Generally, the illiquidity premium is expected to be stable over time however, assessment of the illiquidity premium assumption is reviewed periodically and adjusted where required.

The Group has chosen to take the effect of the time value of money and changes in the time value of money and financial risk to the statement of profit or loss.

There is no allowance made for the time value of money where insurance premiums are due within one year of the coverage period.

Inflation assumptions
Future inflation assumptions that are contractually linked to an inflation index are treated as a financial assumption.

Presentation of financial assumption changes
The Group recognises the impact of financial assumption changes in the statement of profit or loss.

Loss components and loss offsetting

In utilising the PAA measurement model approach, the Group assumes that no material contracts are onerous at initial recognition unless facts and circumstances indicate otherwise.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Group performs additional analysis based on the Strategic Business Plan to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Group recognises a loss in the consolidated statement of profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Group for the liability for remaining coverage for any such onerous group depicting the losses recognised. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Group establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

After initial recognition quarterly reviews are undertaken to determine the likelihood of changes in facts and circumstances which could result in groups of contracts subsequently becoming onerous.

Insurance acquisition cash flows

The Group has taken the option to expense insurance acquisition cash flows as they are incurred.

Presentation

The Group presents in the consolidated statement of financial position:

- the carrying amount of portfolios of insurance contracts issued that are assets;
- portfolios of insurance contracts issued that are liabilities;
- portfolios of reinsurance contracts held that are assets; and
- portfolios of reinsurance contracts held that are liabilities.

The Group presents net the income or expenses from reinsurance contracts held and the expenses or income from insurance contracts issued gross.

The Group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims recoverable from reinsurance contract held and treats amounts not dependent on the underlying claims, such as ceding commissions, as a reduction in the premiums paid to the reinsurer.

Presentation of reinsurance contract with 'funds withheld' arrangement

The Group has quota share reinsurance contracts that have funds withheld features, whereby the quota share proportion of reinsurance premiums and related recoveries are retained by the Group and will be settled on a net basis at commutation.

Under this arrangement, no assets are transferred to the reinsurer at the inception of the contract. Instead, the asset is deposited within a segregated funds withheld account that is maintained by the Group with a third-party custodian. Cash withheld under funds withheld arrangements is presented in cash and cash equivalents within the statement of financial position.

The funds withheld account balance is adjusted at the agreed commutation date, with any shortfall or surplus resulting from reinsurance premium compared to reinsurance recoveries necessitating an adjustment to funds withheld. The funds withheld account is measured by reference to the fulfilment cash flows (of the reinsurance contract held) that, according to the contractual terms, give rise to the funds withheld feature. Until it is settled in cash, the funds withheld liability is included within reinsurance contract assets or liabilities.

Whilst the funds withheld arrangement operates on a net settlement basis, the Group's policy is to present the reinsurance results on a gross basis in the notes to the financial statements, but combine them into a single line in the consolidated statement of profit or loss.

(K) Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, and which is initially recognised at cost and subsequently at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries is included in the statement of financial position category "goodwill and other intangible assets". The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill.

Other intangible assets

Other intangible assets consists primarily of internally generated software acquired by the Group and are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the statement of profit or loss over the assets' economic lives from the point it is operating as intended using methods that best reflect the pattern of economic benefits and is included in operating expenses. Other intangible assets are amortised on a straight line method over a period up to 10 years.

Expenditure on indirect advertising costs is written off as incurred. Direct costs relating to the development of internal-use computer software and associated business processes are capitalised once technical feasibility and economic viability have been established. These costs include payroll costs, the costs of materials and services and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended.

During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred, as are all training costs and general overheads.

(L) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the statement of profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold and leasehold buildings	50 years or the period of the lease if shorter
Other equipment, including computer equipment, vehicles and property adaptation costs	2 to 15 years

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the disposal proceeds, if any, and the carrying amount of the item.

(M) Leases

Where the Group is a lessee

At inception, the Group assesses whether a contract contains a lease arrangement, which involves assessing whether it obtains substantially all the economic benefits from the use of a specific asset, and it has the right to direct the use of that asset. The Group recognises a right-of-use ("**ROU**") asset and a lease liability at the commencement of the lease (when the underlying asset is available for use), except for short-term leases of 12 months or less and low-value leases which are expensed on a straight-line basis in the statement of profit or loss. The ROU asset is initially measured based on the present value of the lease payments, plus initial direct costs less any incentives received. Lease payments include fixed payments and variable payments. Variable payments relate to contractual rent increases linked to inflation indices. When leases contain an extension or purchase option which is reasonably expected to be exercised this is included in the measurement of the lease.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield-to-maturity pricing linked to the lease amount and term, and includes a credit spread. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured, with a corresponding adjustment to the ROU asset, when there is a change in future lease payments, terms or reassessment of options.

The Group's property leases mainly relate to office space and vehicle repair centres. Leases in respect of motor vehicles relate to recovery and replacement vehicles, and management cars. The Group also leases certain IT equipment which is not a significant portion of the total leased asset portfolio.

Accounting policies continued

(M) Leases continued

Where the Group is a lessor

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Lease income from operating leases is recognised in the statement of profit or loss on a straight-line basis over the lease term.

Right of use assets

Where the Group is the lessee, a lease liability equal to the present value of outstanding lease payments and a corresponding ROU asset equal to cost are initially recognised. The ROU asset is depreciated over the lease term, or its economic useful life if shorter, and is subject to impairment testing if there is an indicator of impairment.

(N) Impairment of non-financial assets

At each reporting date, the Group assesses whether any events or circumstances indicate that the carrying amount of its goodwill, intangible assets, property, plant and equipment or ROU assets may not be recoverable. If such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that it might be impaired. If an asset does not generate cash flows that are independent of those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit ("**CGU**") to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value-in-use.

Value-in-use is the present value of future cash flows from the asset or CGU, discounted at a rate that reflects market interest rates, adjusted for risks specific to the asset or CGU that have not been reflected in the estimation of future cash flows.

If the recoverable amount of an intangible or a tangible asset is less than its carrying value, an impairment loss is recognised immediately in the statement of profit or loss and the carrying value of the asset is reduced by the amount of the impairment loss.

A reversal of an impairment loss on intangible assets, property, plant and equipment or ROU assets is recognised as it arises provided the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

(O) Investment property

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value based on valuations completed quarterly by independent registered valuers, who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued, and in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property. Any gain or loss arising from a change in fair value is recognised in the statement of profit or loss.

Any significant risk of a material adjustment to the carrying amount of the investment property portfolio within the next financial year will be dependent on a number of factors including the developments in the economic outlook which could result in volatility in market prices, rental yields or occupancy rates. Sensitivity analysis for the investment property portfolio has been independently calculated by the Group's registered valuers by flexing inputs of internal models to a reasonable alternative yield to ascertain the impact on property valuations. There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

Investment property is derecognised when it has been either disposed of or permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the statement of profit or loss in the year of retirement or disposal.

(P) Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, financial assets are measured at fair value net of transaction costs. Subsequently they are measured at amortised cost, FVOCI or FVTPL, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Classification and subsequent measurement

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income is accounted for using the effective interest method. Such assets held by the Group include some of the Group's debt security portfolio, loans and receivables, trade and other receivables, and cash and cash equivalents.

Financial liabilities are measured at amortised cost, except for derivative financial liabilities, which are held at fair value.

Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the statement of financial position at their fair value, inclusive of transaction costs.

The Group elects at initial recognition to account for equity instruments at FVOCI. For these investments, dividends are recognised in the statement of profit or loss but fair value gains and losses are not subsequently reclassified to the statement of profit or loss following derecognition of the investment. The Group has one equity investment which is measured at fair value through other comprehensive income, being an investment in unlisted insurtech-focused equity funds.

If the Group assesses the need to recognise a loss allowance on a financial asset carried at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income; however, the recognition of a loss allowance does not impact the carrying value of the asset on the statement of financial position. Cumulative gains and losses on equity instruments at fair value through other comprehensive income are not recycled to the statement of profit or loss.

Financial instruments measured at fair value through profit or loss

Financial assets are classified as FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where they are designated at FVTPL to reduce an accounting mismatch. The Group has elected to account for those debt securities which back its insurance contracts as FVTPL to reduce the accounting mismatch caused by fluctuations in values of underlying insurance contracts due to changes in discount rates.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each statement of financial position date.

Financial assets measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the statement of profit or loss within the investment return in the period in which they occur.

Financial liabilities are measured at FVTPL where they are trading liabilities such as derivative financial instruments. Financial liabilities measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses are recognised in the statement of profit or loss in the period in which they occur.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques.

Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from that asset have expired or when the Group has transferred its rights to receive cash flows from the asset and either the Group has transferred substantially all the risks and rewards of ownership of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of ownership and the Group has not retained control.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into, and subsequently remeasured to their fair value at the end of each reporting period. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the statement of profit or loss unless the derivative is the hedging instrument in a qualifying hedge.

The Group enters into a small number of immaterial cash flow hedges and applies the hedge accounting requirements of IFRS 9. Hedge accounting relationships are formally documented at inception. The documentation includes the Group’s risk management objective and strategy for undertaking the hedge, identifying the hedged item and the hedging instrument, the nature of the risk that is being hedged, and the way in which the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including identifying potential sources of hedge ineffectiveness).

In a cash flow hedge, the effective portion of the gain or loss on the economic hedging instrument is recognised in other comprehensive income. Any ineffective portion is recognised in the statement of profit or loss.

Impairment of financial assets

The ECL model is used to calculate the impairment to be recognised for all financial assets measured at amortised cost. The general approach, which utilises the three-stage model, is used for financial investment and debt securities, whilst impairment for the remaining assets is measured using the simplified approach.

The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

The ECL three-stage model is based on forward looking information regarding changes in credit quality since inception.

The three stages of ECL are defined and assessed as follows:

Stage 1 – no significant increase in credit risk since inception;

Stage 2 – significant increase in credit risk since inception;

Stage 3 – asset is impaired.

For assets in stage 1, the allowance is calculated as the ECLs from events within 12 months after the reporting date. For assets in stage 2 and 3, the allowance is calculated as the expected credit loss from events in the remaining lifetime of each asset.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECL impairment charges are recognised in the statement of profit or loss within the investment return.

Note 1.3.3 explains how the Group assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

(Q) Cash and cash equivalents and borrowings

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. The average maturity of short-term highly liquid investments is 10 days.

Borrowings, which consist of bank overdrafts, are measured at amortised cost using the effective interest rate method. As part of the Group's cash management strategy, they are repayable on demand and are therefore included within cash and cash equivalents in the cash flow statement. Bank overdrafts primarily arise from short-term timing differences between transactions recorded by the Group and those processed by the bank. In the statement of financial position, bank overdrafts are presented within current liabilities under borrowings.

Accounting policies continued

(R) Assets and liabilities held for sale

Non-current assets, including investment property, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and if the sale is considered highly probable. Investment property is measured at fair value less costs to sell. Other non-current assets are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised in the statement of profit or loss for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale is recognised at the date of derecognition.

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position and are not depreciated or amortised.

(S) Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at fair value net of transaction costs incurred. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

(T) Provisions

The Group recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

When the Group has an onerous contract outside of the scope of IFRS 17, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected future economic benefit.

Restructuring provisions are made, including redundancy costs, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan and has communicated the plan to those affected.

(U) Employee benefits

Short-term employee benefits

Liabilities recognised in respect of staff bonuses and rewards are measured at the undiscounted amount of benefits expected to be paid in exchange for the related service.

Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to the Group's defined contribution pension scheme are recognised in the statement of profit or loss when payable.

The Group's defined benefit pension scheme, as described in note 24, was closed in 2003. Scheme liabilities are measured on an actuarial basis, using the projected unit credit method, and discounted at a rate that reflects the current rate of return on a high-quality corporate bond of equivalent term and currency to the scheme liabilities.

Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the statement of financial position as an asset (surplus) or liability (deficit). The past service costs, together with the net interest on the net pension liability or asset, are charged or credited to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside the statement of profit or loss and presented in other comprehensive income under "Items that will not be reclassified subsequently to the statement of profit or loss".

Insurance assets resulting from a bulk annuity insurance policy ‘buy-in’ transaction result in the insurance asset exactly matching the pension liability. A ‘buy-in’ is not a settlement and the liability is not derecognised as the Group retains ultimate responsibility for funding the plan.

Share-based payments

The Group operates a number of share-based compensation plans under which it awards Ordinary Shares and share options to its employees. Such awards are generally subject to vesting conditions that can alter the amount of shares to which an employee is entitled.

Vesting conditions include service conditions (requiring the employee to complete a specified period of service) and performance conditions (requiring the Group to meet specified performance targets).

The fair value of options granted is estimated using valuation techniques which incorporate exercise price, term, risk-free interest rates, the current share price and its expected volatility.

The cost of employee services received in exchange for an award of shares or share options granted is measured by reference to the fair value of the shares or share options on the date the award is granted and takes into account non-vesting conditions and market performance conditions (conditions related to the market price of the Company's Ordinary Shares).

The cost is expensed on a straight-line basis over the vesting period (the period during which all the specified vesting conditions must be satisfied) with a corresponding increase in equity in an equity-settled award. The cost is adjusted for vesting conditions (other than market performance conditions) so as to reflect the number of shares or share options that actually vest.

The cancellation of an award through failure to meet non-vesting conditions triggers an immediate expense for any unrecognised element of the cost of an award.

(V) Income taxes

Current tax

The tax charge or credit represents the proportion of the tax payable and receivable arising in the current year only.

The current tax charge is based on the taxable profits for the year as determined in accordance with the relevant tax legislation, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Provision for taxation is calculated using tax rates that have been enacted, or substantively enacted, by the statement of financial position date and is allocated over profits before taxation or amounts charged or credited to components of other comprehensive income or equity, as appropriate.

Deferred tax

Deferred taxation is accounted for in full using the statement of financial position liability method on all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is probable that they will not be recovered.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are realised or liabilities are settled based on laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

(W) Share capital

Ordinary share capital

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Employee share trust shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity.

Dividends

Interim dividends on Ordinary Shares are recognised in equity in the period in which they are paid. Final dividends on Ordinary Shares are recognised when they have been approved at the Annual General Meeting ("**AGM**").

(X) Capital instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, or as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

The Tier 1 notes are classified as equity as they have a perpetual maturity and the Group has full discretion over interest payments, including ability to defer or cancel interest payments indefinitely.

(Y) Earnings per share

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

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

(Z) Subsidiaries exemption from audit by parent guarantee

The following subsidiaries incorporated in the United Kingdom, are exempt from the requirements relating to the audit of individual accounts, under s479A-479C of the Companies Act 2006. The parental guarantee is provided by Direct Line Insurance Group plc.

- Direct Line Group Limited (Registered number: 02811437)
- Finsure Premium Finance Limited (Registered number: 01670887)
- Green Flag Holdings Limited (Registered number: 03577191)

Consolidated Statement of Profit or Loss

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Insurance revenue	3	**4,567.0**	3,601.7
Insurance service expenses	3	**(4,185.0)**	(3,806.3)
Net expense from reinsurance contracts held[1]	3	**(259.6)**	(46.8)
Insurance service result	3	**122.4**	(251.4)
Total interest income calculated using effective interest rate method	4	**226.6**	171.8
Other interest and similar income	4	**17.4**	16.1
Investment fees	4	**(8.8)**	(9.3)
Investment income	4	**235.2**	178.6
Total net fair value gains on financial assets held at fair value through profit or loss	4	**30.3**	127.0
Net fair value gains/(losses) on investment property	4	**6.6**	(1.9)
Net credit impairment gains/(losses) on financial investments	4	**0.2**	(0.7)
Investment return	4	**272.3**	303.0
Net finance expenses from insurance contracts issued	4	**(21.0)**	(193.8)
Net finance (expenses)/income from reinsurance contracts held	4	**(20.2)**	28.0
Investment return and net insurance finance result	4	**231.1**	137.2
Other operating income		**20.3**	21.8
Other operating expenses	5	**(135.3)**	(59.6)
Other finance costs	8	**(15.4)**	(14.5)
(Loss)/gain on disposal of business	9	**(4.7)**	443.9
Profit before tax		**218.4**	277.4
Tax charge[2]	10	**(55.8)**	(54.5)
Profit for the year attributable to the owners of the Company		**162.6**	222.9
Earnings per share:			
Basic (pence)	12	**11.2**	15.9
Diluted (pence)	12	**11.1**	15.7

Notes:

1. To improve presentation, the Group has opted to combine the net income and expense from reinsurance contracts held into a single item. Prior period amounts have been re-presented for comparability.
2. Tax on (loss)/gain on disposal of business is included in this figure.

The accompanying notes on pages 173 to 229 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2024

	Notes:	2024 £m	2023 £m
Profit for the year attributable to the owners of the Company		**162.6**	222.9
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gain on defined benefit pension scheme	24	**0.6**	0.1
Fair value gain on equity investments measured at fair value through other comprehensive income	4	**1.2**	3.3
Realised gain/(loss) on equity investments measured at fair value through other comprehensive income	4	**0.4**	(0.6)
Tax relating to items that will not be reclassified	20	**(0.2)**	–
		2.0	2.8
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**0.2**	(0.2)
		0.2	(0.2)
Other comprehensive income for the year net of tax		**2.2**	2.6
Total comprehensive income for the year attributable to the owners of the Company		**164.8**	225.5

The accompanying notes on pages 173 to 229 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2024

	Notes:	2024 £m	2023 £m
Assets			
Goodwill and other intangible assets	15	**776.3**	818.6
Property, plant and equipment	16	**92.7**	91.6
Right-of-use assets	17	**101.0**	96.1
Investment property	18	**287.6**	277.1
Insurance contract assets	19	**5.7**	5.4
Reinsurance contract assets	19	**1,802.1**	1,346.0
Deferred tax assets	20	**53.0**	56.5
Current tax assets		**19.9**	82.8
Other receivables		**21.8**	35.2
Prepayments, accrued income and other assets	21	**103.6**	101.5
Derivative financial instruments	23	**19.1**	27.4
Retirement benefit asset	24	**0.8**	1.3
Financial investments	23	**4,343.3**	3,691.6
Cash and cash equivalents	25	**1,156.0**	1,772.2
Assets held for sale	26	**12.2**	13.9
Total assets		**8,795.1**	8,417.2
Equity			
Shareholders' equity	14	**2,137.9**	2,058.2
Tier 1 notes	29	**346.5**	346.5
Total equity		**2,484.4**	2,404.7
Liabilities			
Subordinated liabilities	30	**259.1**	258.8
Insurance contract liabilities	19	**5,086.9**	5,238.8
Reinsurance contract liabilities	19	**549.5**	116.6
Borrowings	25	**66.8**	82.4
Derivative financial instruments	23	**38.7**	15.4
Provisions	31	**15.6**	30.8
Trade and other payables	32	**178.9**	163.6
Lease liabilities	17	**113.7**	106.1
Current tax liabilities	20	**1.5**	–
Total liabilities		**6,310.7**	6,012.5
Total equity and liabilities		**8,795.1**	8,417.2

The accompanying notes on pages 173 to 229 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 3 March 2025 and were signed on its behalf by:

Jane Poole
Chief Financial Officer

Registration No. 02280426

Consolidated Statement of Changes in Equity

For the year ended 31 December 2024

	Share capital (note 27) £m	Employee trust shares £m	Capital reserves (note 28) £m	Equity investments revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 29) £m	Total equity £m
Balance at 1 January 2023	143.1	(39.0)	1,456.9	0.9	–	283.4	1,845.3	346.5	2,191.8
Profit for the year	–	–	–	–	–	222.9	222.9	–	222.9
Other comprehensive income/(loss)	–	–	–	2.7	(0.2)	0.1	2.6	–	2.6
Total comprehensive income/(loss) for the year	–	–	–	2.7	(0.2)	223.0	225.5	–	225.5
Dividends and appropriations paid (note 11)	–	–	–	–	–	(16.6)	(16.6)	–	(16.6)
Shares acquired by employee trusts	–	(10.2)	–	–	–	–	(10.2)	–	(10.2)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	13.9	13.9	–	13.9
Shares distributed by employee trusts	–	19.3	–	–	–	(19.3)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.3	0.3	–	0.3
Total transactions with equity holders	–	9.1	–	–	–	(21.7)	(12.6)	–	(12.6)
Balance at 31 December 2023	143.1	(29.9)	1,456.9	3.6	(0.2)	484.7	2,058.2	346.5	2,404.7
Profit for the year	**–**	**–**	**–**	**–**	**–**	**162.6**	**162.6**	**–**	**162.6**
Other comprehensive income	**–**	**–**	**–**	**1.4**	**0.2**	**0.6**	**2.2**	**–**	**2.2**
Total comprehensive income for the year	**–**	**–**	**–**	**1.4**	**0.2**	**163.2**	**164.8**	**–**	**164.8**
Dividends and appropriations paid (note 11)	**–**	**–**	**–**	**–**	**–**	**(94.8)**	**(94.8)**	**–**	**(94.8)**
Shares acquired by employee trusts	**–**	**(7.2)**	**–**	**–**	**–**	**–**	**(7.2)**	**–**	**(7.2)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**14.6**	**14.6**	**–**	**14.6**
Shares distributed by employee trusts	**–**	**17.6**	**–**	**–**	**–**	**(17.6)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**2.3**	**2.3**	**–**	**2.3**
Total transactions with equity holders	**–**	**10.4**	**–**	**–**	**–**	**(95.5)**	**(85.1)**	**–**	**(85.1)**
Balance at 31 December 2024	**143.1**	**(19.5)**	**1,456.9**	**5.0**	**–**	**552.4**	**2,137.9**	**346.5**	**2,484.4**

The accompanying notes on pages 173 to 229 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2024

	Notes:	2024 £m	2023 £m
Cash (used in)/generated from operating activities before investment of insurance assets	34	**(31.0)**	132.0
Cash (used in)/generated from investment of insurance assets	34	**(347.1)**	304.4
Cash (used in)/generated from operating activities		**(378.1)**	436.4
Taxes received/(paid)		**13.9**	(30.9)
Cash flow hedges		**(0.3)**	(0.6)
Net cash (used in)/generated from operating activities		**(364.5)**	404.9
Cash flows (used in)/generated from investing activities			
Payments for acquisition of intangible assets	15	**(93.2)**	(124.1)
Purchases of property, plant and equipment	16	**(13.3)**	(18.9)
Proceeds on disposals of assets held for sale		**–**	21.9
Proceeds from disposal of business	9	**–**	520.0
Net cash inflow/(outflow) from acquisition of businesses		**–**	(0.6)
Net cash (used in)/generated from investing activities		**(106.5)**	398.3
Cash flows used in financing activities			
Dividends and appropriations paid	11	**(94.8)**	(16.6)
Other finance costs (including lease interest)		**(15.1)**	(14.2)
Principal element of lease payments		**(12.5)**	(10.8)
Purchase of employee trust shares		**(7.2)**	(10.2)
Net cash used in financing activities		**(129.6)**	(51.8)
Net (decrease)/increase financing activities		**(600.6)**	751.4
Cash and cash equivalents at the beginning of the year	25	**1,689.8**	938.4
Cash and cash equivalents at the end of the year	25	**1,089.2**	1,689.8

The attached notes on pages 173 to 229 form an integral part of these consolidated financial statements.

Notes to the financial statements

1. Risk management

1.1 The 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. Further information can be found in the Risk management section of the Strategic report on page 38.

1.2 Risk and capital management modelling

The Board has ultimate responsibility for ensuring that the Group has sufficient funds to meet its liabilities as they fall due. The Group carries out detailed modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Group's own assessment of its solvency capital requirement ("**SCR**"), using its partial internal model approved by the PRA in 2016. The SCR quantifies the insurance, market, credit and operational risks that its regulated entities are undertaking.

The Board maintains an active and integral role in the SCR process and reviews, challenges and approves its results.

1.3 Principal risks from insurance activities and use of financial instruments

The Risk management section of the Strategic report sets out the material risks assessed by the Group as principal risks and provides details of emerging risks that the Group has considered as part of its emerging risk process. Also detailed in the section below is the Group's risk exposure arising from its insurance activities and use of financial instruments specifically in respect of insurance risk, market risk, credit risk, operational risk and liquidity risk.

Geopolitical Risks

The global and UK economic environment remains uncertain, influenced by heightened geopolitical tensions, particularly the ongoing conflicts in the Middle East and Ukraine. In the UK, these geopolitical risks may impact government economic policies, with potential effects on the Group through claims inflation, rising living costs, and interest rate fluctuations affecting the Group's investment portfolio. These factors may also influence the Group's ability to meet the evolving needs and preferences of its target markets. The trend in claims inflation remains uncertain and continues to be closely monitored.
A geopolitical event may also increase the risk of a cyber-attack on critical infrastructure, disruption in supply chains or trigger a need to onshore outsourced activities. Impacts on supply chains and operations could cause significant disruption to business processes leading to an increased potential for customer and conduct risk, and a distraction from other strategic business priorities.

The Group's Investment and Treasury function continues to assess the impact of adverse economic conditions on its investment portfolio holdings as part of its ongoing investment management oversight.

Claims inflation

The insurance sectors in which the Group operates are affected by inflation. In particular, reserves and claims from policies underwritten are exposed to the risk of claims inflation which can increase the costs of car parts, used car prices, services, care worker labour rates and construction materials. In recent years, there have been significant increases in the Group's claims for motor, home and commercial property due to high levels of claims inflation. Although this has subsided, the uncertainty from future inflation volatility and its outlook continues to be closely monitored. Details of the Group's sensitivity to claims inflation are included in note 1.3.1.

Environmental

The Group recognises that the effects of climate change are wide-ranging, and the Group reflects the effects of climate change in the drivers of the risks defined in the Group Risk Taxonomy. This has the effect of embedding the management of climate related risks in the normal risk management processes for managing risks across the Group’s risk profile. In addition, the Group Risk Taxonomy includes an environmental, social, and governance risk that provides coverage of the operational and strategic aspects of climate change that are not addressed within other core risk types.

The Group has continued to enhance its climate risk management and governance during 2024 as it works through the actions included in the Group Climate Action Roadmap. The roadmap sets out a range of actions, implemented by 2025 to further integrate climate risk management across the business and to build additional capabilities in areas such as climate risk modelling and scenario analysis.

1.3.1 Insurance risk

The Group is exposed to insurance risk as a primary consequence of its business. Key insurance risks focus on the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting.

The Group is mainly exposed to the following insurance risks:

Reserve risk
This is the risk of understatement or overstatement of claims reserves arising from:

- the uncertain nature of claims, in particular large bodily injury claims;
- the unexpected future impact of socio-economic trends or regulatory changes, for example changes to the Ogden discount rate;
- data issues and changes to the claims reporting process;
- operational failures;
- failure to recognise claims trends in the market including a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts; and
- changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due. Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost; for example insufficient resource to pursue strategic projects and develop the business.

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.1 Insurance risk continued

Reserve risk is managed through a range of processes and controls:

- regular reviews of the claims and premiums, in line with IFRS 17 requirements for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping[1] and scenario analysis;
- use of reinsurance programmes, through motor, liability, property catastrophe and travel, which are renewable annually;
- oversight of the reserving process by relevant senior management and the Board;
- quarterly reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help set the risk adjustment within the liability for incurred claims.

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as changes in the Ogden discount rate. Detailed information on the Ogden discount rate is provided in note 19.4.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made, typically over the lifetime of the injured party. Under IFRS 17 all claims reserves are held on a discounted basis and so are sensitive to changes in the discount rate, however this sensitivity tends to be more significant to the Group's PPO reserves given their longer duration.

There is the risk that claims are reserved or paid inappropriately, including the timing of such activity. However, there are claims management controls in place to mitigate this risk, as outlined below:

- claims are managed utilising a range of IT system-driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner;
- each Reserving exercise for on-going business includes meetings with Pricing, Underwriting and Claims to ensure that any operational changes are understood with appropriate adjustments made;
- each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside their authority, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements, all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures;
- loss adjusters are used in certain circumstances to handle claims to conclusion. This involves liaising with the policyholder, third parties, suppliers and the Claims Function;
- specialist bodily injury claims teams are responsible for handling these types of losses, with the nature of handling dependent on the level and type of claim. Claims exceeding a certain threshold are referred to the technical and large loss teams who also deal with all other claim types above defined limits or within specific criteria; and
- a process is in place to deal with major weather and other catastrophic events, known as the 'Surge Demand Plan'. A surge is the collective name given to an incident which significantly increases the volume of claims reported to the Group's Claims Function. The plan covers surge demand triggers, stages of incident, operational impact, communication and management information monitoring of the plan.

Note:

1. See glossary on pages 238 to 241 for definitions.

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (for example the illiquidity premium ("**ILP**")) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Group.

	Increase/(decrease) in profit before tax and equity gross of reinsurance[1,2]		Increase/(decrease) in profit before tax and equity net of reinsurance[1,2]	
	2024	2023	**2024**	2023
At 31 December	**£m**	£m	**£m**	£m
Discount curve - PPOs[3]				
Impact of an increase in the ILP of the discount rate used in the calculation of present values of 100 basis points	**87.0**	95.0	**38.5**	39.0
Impact of a decrease in the ILP of the discount rate used in the calculation of present values of 100 basis points	**(115.1)**	(127.8)	**(51.4)**	(52.1)
Discount curve - other claims[4]				
Impact of an increase in the ILP of the discount rate used in the calculation of present values of 100 basis points	**65.1**	55.9	**41.3**	37.2
Impact of a decrease in the ILP of the discount rate used in the calculation of present values of 100 basis points	**(68.3)**	(58.6)	**(43.2)**	(38.9)
Ogden discount rate[5]				
Impact of the Group reserving at a discount rate of 1.5% compared to 0.5% (2023: 0.75% compared to minus 0.25%)	**143.6**	105.1	**57.7**	48.1
Impact of the Group reserving at a discount rate of minus 0.5% compared to 0.5% (2023: minus 1.25% compared to minus 0.25%)	**(204.9)**	(220.6)	**(73.8)**	(97.0)
Claims inflation				
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**129.7**	112.8	**73.9**	71.7
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(131.7)**	(114.6)	**(75.0)**	(72.8)
Risk adjustment (restated)[6]				
Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile	**52.3**	52.3	**26.9**	28.9
Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile	**(61.4)**	(60.5)	**(30.2)**	(33.9)

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

Notes:

1. These sensitivities exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the statement of financial position date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the discount rate used for PPOs illustrate a movement in the time value of money. The PPO sensitivity has been calculated on the direct impact of the change in the discount rate with all other factors remaining unchanged. The sensitivity is calculated on the basis of a change in the discount rate used for the actuarial best estimate reserves as at 31 December. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.
4. The sensitivities relating to an increase or decrease in the yield curve used to discount all reserves excluding PPOs illustrate a movement in the time value of money from the assumed level at the statement of financial position dates. The sensitivity has been calculated on the direct impact of the change in the discount curve with all other factors remaining unchanged.
5. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged.
6. The risk adjustment sensitivities are with respect to the discounted risk adjustment at the statement of financial position dates, with the year-end 2023 sensitivities having been restated from an undiscounted basis as reported in the Group's 2023 Annual Report and Accounts.

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.1 Insurance risk continued

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. The launch of Direct Line on Price Comparison Websites ("**PCWs**") will increase the Group's existing exposure to personal lines motor business written through price comparison websites (previously obtained through the Churchill and Privilege brands).The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small and medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate. Since 2023, the Group also underwrites vehicle insurance under a fleet arrangement for the Motability Scheme that is reviewed and repriced every 6 months.

The Solvency II definition of underwriting risk includes catastrophe risk and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

The key underwriting risks relating to climate change today are UK floods and major UK windstorms. The Group recognises that climate change may impact its business over the longer term. In particular, there is a risk that climate change affects the frequency and severity of extreme weather events (physical risk), which may change the Group's view of underwriting risk, reinsurance and pricing. The Group will continue to develop its risk management systems and monitoring tools over 2025 in line with the Group's Climate Risk Roadmap. Low-frequency, high-severity weather losses are significantly mitigated by the catastrophe reinsurance programme, the ceding of Home high flood risks to Flood Re, and the commercial direct underwriting strategy which actively reduces high flood risk exposure. The Group expects these specific risks to materialise in the medium to longer term (see page 60 for definition). Furthermore, there is a risk that the Group's insurance products will not meet its customers' needs as a result of changes in market dynamics and customer behaviour in relation to climate change, for example a rapid shift towards electric vehicle usage. The Group anticipates that its continued strategic and operational response to the transition to a lower-carbon economy will support mitigation of these risks and the associated impacts in the long term.
When underwriting policies, the Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group's business is wholly written in the UK general insurance market. The Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200 year windstorm/storm surge and flood losses. The programme has been renewed on 1 January 2025 and will cover a 12 month period; and
- product concentration risk – the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers.

It is important to note that none of these risk categories are independent of the others and that giving due consideration to the relationship between these risks is an important aspect of the effective management of insurance risk.

Pricing risk

This is the risk of economic loss arising from business being incorrectly priced or inappropriately underwritten. Pricing risk may occur due to errors in pricing models, pricing or underwriting rule change implementation or through inappropriately accepting business. The Group manages these risks through the operational controls including controls around model build, data usage, permitted factors and rate deployment. The effectiveness of these controls is assessed through the Risk and Control Assessment process and control testing. Governance around pricing changes includes the Model Governance Board which approves pricing models for use and pricing committees that approve pricing and underwriting change deployment and monitor rate performance.

Reinsurance risk

This is the risk of inappropriate selection and/or placement of reinsurance arrangements, with either individual or multiple reinsurers, which renders the transfer of insurance risk to the reinsurer(s) inappropriate and/or ineffective.

Other risks include:

- reinsurance credit risk – the management of concentration of credit exposure to any given counterparty is controlled by the Group Reinsurance Credit Risk Framework;
- reinsurance capacity being reduced and/or withdrawn;
- underwriting risk appetite and reinsurance contract terms not being aligned;
- reinsurance contract terms being inappropriate or ineffective resulting in classes or types of business not being appropriately reinsured;
- non-adherence to the reinsurance policy terms and conditions, in terms of both policy management and claims not being handled within the reinsurance contract terms and conditions, or paid on an ex-gratia basis, resulting in reinsurance recoveries not being made in full;
- inappropriate or inaccurate management information and/or modelling being used to determine the value for money and purchasing of reinsurance (including aggregate modelling); and
- changes in the external legal, regulatory, social or economic environment (including changes resulting from climate change) altering the definition and application of reinsurance policy wordings or the effectiveness or value for money of reinsurance.

The Group uses a range of external reinsurance to:

- protect its insurance results against the impact of major individual or catastrophic events such as windstorms, storm surge or floods;
- protect its insurance results against unexpected volumes of, or adverse trends in, individual large claims, in order to reduce volatility and to improve stability of earnings;
- facilitate effective capital management and protection of the Group's capital position; and
- transfer risk that is not within its current risk appetite or where there is limited expertise or regulatory constraints on underwriting that business.

The Group may also utilise reinsurance in respect of risks that are within risk appetite but where there could be other reasons to reinsure. The Group does not have a significant exposure to a single reinsurer.

1.3.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Group is mainly exposed to the following market risk factors:

- spread risk;
- interest rate risk;
- property risk; and
- currency risk.

The Group has clearly defined market risk policies which include a range of parameters that are subject to approval by the Investment Committee. These policies also set out the principles to which the Group should adhere when considering investment strategy, including risk appetites and capital efficiency.

The Group monitors its market risk exposure on a daily basis and has established an aggregate exposure limit consistent with its risk objective to maintain capital adequacy. Interdependencies across risk factors have also been considered within the aggregate exposure limit. The allocation of the Group's investments across asset classes has been approved by the Investment Committee. The Committee also determines policy and controls, covering such areas as risk, liquidity and performance. The Investment Committee meets at least three times a year to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it.

In 2024, the Group continued with the implementation of the proposals from a Strategic Asset Allocation exercise undertaken during Q2 2023 and approved by the Investment Committee. This included moving excess cash exposures to increasing the proportions invested in US credit holdings and investing in a new asset class, index linked gilts to partially match the PPOs. The long-term PPO ALM strategy is under review and the Group may undertake additional investments to further hedge PPOs.

The investment management objectives are to:

- maintain the safety of the portfolio's principal both in economic terms and from a capital, accounting and reporting perspective;
- maintain sufficient liquidity to provide cash requirements for operations, including in the event of a catastrophe; and
- maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the investment guidelines and capital allocation.

The Investment Committee has agreed long-term targets for the investment portfolio in relation to supporting the Group's objectives on climate change. These are: ensuring the Group's entire investment portfolio is net zero emissions by 2050 in line with the aims of the Race to Zero campaign; and an interim target of a 50% reduction in weighted average greenhouse gas emissions intensity by 2030 within the Group's corporate bonds portfolio, the largest part of its investment portfolio, compared to a 2020 baseline. See page 53 for more information on investment portfolio targets, exclusions and preferences and pages 51 to 53 for the Group's approved Science-Based Targets.

The Group has a property portfolio and invests in index linked gilts and infrastructure debt to generate a real return which, from an asset and liability matching perspective, is used to offset the liability arising from longer duration PPOs.

When setting the strategic asset allocation, the Group is subject to concentration risk in a variety of forms including:

- large exposures to individual assets (either bond issuers or deposit-taking institutions); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Concentration risk on investments arises through excessive exposure to particular industry sectors, groups of business undertakings or similar activities. The Group may suffer significant losses in its investment portfolio as a result of over-exposure to particular sectors engaged in similar activities or having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.2 Market risk continued

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK):

At 31 December 2024	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	131.2	–	–	–	**131.2**
Austria	4.9	–	–	–	**4.9**
Belgium	30.0	12.0	–	–	**42.0**
Canada	90.1	–	–	–	**90.1**
Cayman Islands	0.4	–	–	–	**0.4**
China	6.6	–	–	–	**6.6**
Denmark	19.7	–	–	–	**19.7**
Finland	13.2	–	–	–	**13.2**
France	241.8	–	–	–	**241.8**
Germany	174.0	–	–	–	**174.0**
Hong Kong	8.2	–	–	–	**8.2**
Ireland	3.2	–	–	–	**3.2**
Italy	25.5	–	–	–	**25.5**
Japan	58.8	–	–	–	**58.8**
Luxembourg	5.1	–	–	–	**5.1**
Mexico	9.1	–	–	–	**9.1**
Netherlands	118.5	–	–	–	**118.5**
New Zealand	0.3	–	–	–	**0.3**
Norway	–	1.0	–	–	**1.0**
South Africa	6.4	–	–	–	**6.4**
Spain	57.9	–	–	–	**57.9**
Sweden	26.4	–	–	–	**26.4**
Switzerland	57.2	–	–	–	**57.2**
United Kingdom	813.3	–	746.0	–	**1,559.3**
USA	1,314.9	–	–	–	**1,314.9**
Supranational	–	–	–	17.9	**17.9**
Total	**3,216.7**	**13.0**	**746.0**	**17.9**	**3,993.6**

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK):

At 31 December 2023	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	119.8	–	–	–	119.8
Austria	3.1	–	–	–	3.1
Belgium	39.3	–	–	–	39.3
Canada	48.2	–	–	–	48.2
China	0.6	–	–	–	0.6
Denmark	18.2	–	–	–	18.2
Finland	8.9	–	–	–	8.9
France	229.3	–	–	–	229.3
Germany	140.8	–	–	–	140.8
Hong Kong	0.8	–	–	–	0.8
Italy	17.4	–	–	–	17.4
Japan	20.8	–	–	–	20.8
Luxembourg	4.8	–	–	–	4.8
Mexico	7.1	–	–	–	7.1
Netherlands	105.4	–	–	–	105.4
Norway	0.5	0.9	–	–	1.4
Portugal	6.5	–	–	–	6.5
South Africa	6.4	–	–	–	6.4
Spain	66.0	–	–	–	66.0
Sweden	23.4	–	–	–	23.4
Switzerland	55.0	–	–	–	55.0
United Kingdom	745.4	–	657.1	–	1,402.5
USA	933.7	–	23.7	–	957.4
Supranational	–	–	–	25.6	25.6
Total	2,601.4	0.9	680.8	25.6	3,308.7

The table below analyses the distribution of debt securities by industry sector classifications:

At 31 December	**2024** £m	**2024** %	2023 £m	2023 %
Basic materials	**67.1**	**2%**	43.0	1%
Communications	**156.6**	**4%**	135.7	4%
Consumer, cyclical	**329.3**	**8%**	244.2	7%
Consumer, non-cyclical	**352.3**	**9%**	216.2	7%
Diversified	**16.8**	**0%**	16.9	1%
Energy	**77.9**	**3%**	81.6	3%
Financial	**1,678.8**	**42%**	1,424.5	43%
Industrial	**220.2**	**6%**	145.8	4%
Sovereign, supranational and local government	**776.9**	**19%**	707.3	21%
Technology	**97.4**	**2%**	65.6	2%
Transport	**13.1**	**0%**	12.8	0%
Utilities	**207.2**	**5%**	215.1	7%
Total	**3,993.6**	**100%**	3,308.7	100%

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.2 Market risk continued

The table below analyses the distribution of infrastructure debt by industry sector classifications:

At 31 December	2024		2023	
	£m	%	£m	%
Social, of which:				
Education	**86.7**	**46%**	93.0	44%
Health	**56.4**	**30%**	60.5	28%
Other	**41.5**	**22%**	43.9	20%
Transport	**4.1**	**2%**	16.8	8%
Total	**188.7**	**100%**	214.2	100%

The Group uses its partial internal model to determine its regulatory capital requirements and monitors its market risk exposure based on a 99.5% value-at-risk measure. The Group also conducts market risk stress and scenario testing to determine the economic impact of specific severe market conditions. The results of this analysis are used to enhance the Group's understanding of market risk. The market risk minimum control standard, which is part of the Group's Risk Policy and Minimum Control Standard Framework, explicitly prohibits the use of derivatives for speculative or gearing purposes. However, the Group is able to and does use derivatives to hedge its currency risk and interest rate risk exposures in some mandates.

Spread risk

This is the risk of loss from the sensitivity of the value of assets and investments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The level of spread is the difference between the risk-free rate and actual rate paid on the asset, with larger spreads being associated with higher-risk assets. The Group is exposed to spread risk through its asset portfolio, most notably through its investment in corporate bonds.

Net interest rate risk

This is the risk of loss from changes in the term structure of interest rates or interest rate volatility which impact assets and liabilities. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group has subordinated Tier 2 notes with fixed coupon rates with a nominal value of £260 million that were issued on 5 June 2020 and perpetual Tier 1 notes with fixed coupon rates with a nominal value of £350 million that were issued on 7 December 2017.

The Group also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. At 31 December 2024, £227.1m (2023: £419.4 million) fixed rate investment grade US dollar and Euro corporate debt securities were hedged using interest rate swaps.

The Group is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The hedged items include holdings of US dollar and Euro denominated fixed rate debt securities.

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2024, the value of these property investments was £287.6 million (2023: £277.1 million). The property investments are located in the UK.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates. Exposure to currency risk is generated by the Group's investments in US dollar and Euro denominated debt bonds.

The Group maintains exposure to US dollar securities through £1,214.0 million (2023: £763.1 million) of investments in US dollar bonds and Euro securities through £232.8 million (2023: £219.1 million) of Euro bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Group's insurance and other contractual liabilities. Currency risk is not material at Group level.

Use of derivatives

The Group uses derivatives to hedge against interest rate and currency risk.

The tables below analyse the maturity of the Group's derivative assets and liabilities:

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	**Total**
At 31 December 2024	**£m**	£m	£m	£m	**£m**
Derivative assets					
At fair value through profit or loss					
Foreign exchange contracts (forwards)	**907.4**	14.9	–	–	**14.9**
Interest rate swaps	**106.7**	–	0.9	3.3	**4.2**
Designated as hedging instruments					
Foreign exchange contracts (forwards)	**24.0**	–	–	–	**–**
Total	**1,038.1**	**14.9**	**0.9**	**3.3**	**19.1**

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	**Total**
At 31 December 2024	**£m**	£m	£m	£m	**£m**
Derivative liabilities					
At fair value through profit or loss					
Foreign exchange contracts (forwards)	**2,007.0**	36.4	–	–	**36.4**
Interest rate swaps	**93.3**	–	0.7	1.6	**2.3**
Total	**2,100.3**	**36.4**	**0.7**	**1.6**	**38.7**

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	Total
At 31 December 2023	£m	£m	£m	£m	£m
Derivative assets					
At fair value through profit or loss					
Foreign exchange contracts (forwards)	1,568.7	27.1	–	–	27.1
Interest rate swaps	49.2	0.1	0.2	–	0.3
Total	1,617.9	27.2	0.2	–	27.4

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	Total
At 31 December 2023	£m	£m	£m	£m	£m
Derivative liabilities					
At fair value through profit or loss					
Foreign exchange contracts (forwards)	908.4	8.2	–	–	8.2
Interest rate swaps	252.8	–	1.7	5.2	6.9
Designated as hedging instruments					
Foreign exchange contracts (forwards)	14.2	0.3	–	–	0.3
Total	1,175.4	8.5	1.7	5.2	15.4

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.2 Market risk continued

Sensitivity analysis

The table below provides a sensitivity analysis of the impact on financial investments and derivatives of a change in a single factor that is reasonably possible, with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Group.

	Increase/(decrease) in profit before tax[1] at 31 December	
	2024	2023
	£m	£m
Spread		
Impact of a 100 basis points increase in spreads on financial investments[2]	**(80.5)**	(72.1)
Interest rate		
Impact of a 100 basis points increase in interest rates on financial investments and derivatives[2,3]	**(108.7)**	(62.2)
Investment property		
Impact of a 15% decrease in property markets	**(43.1)**	(41.6)

Notes:

1. These sensitivities exclude the impact of taxation and have not considered the impact of the general market changes on the value of the Group's insurance liabilities. They reflect one-off impacts at 31 December and should not be interpreted as predictions.
2. The impact on profit or loss does not reflect any fair value movement in infrastructure debt, commercial real estate loans and private placement debt securities that would not be recorded in the financial statements under IFRS 9 as they are classified as loans and receivables and private placement respectively, which are carried at amortised cost. It is estimated that a fair value reduction in these asset categories resulting from a 100 basis points increase in credit spreads would have been £10.2 million (2023: £11.7 million) and a 100 basis points increase in interest rates would have been £2.1 million (2023: £2.8 million).
3. The sensitivities set out above reflect one-off impacts at 31 December, with the exception of the statement of profit or loss interest rate sensitivity on financial investments and derivatives, which projects a movement in a full year's interest charge as a result of the increase in the interest rate applied to these assets or liabilities on those positions held at 31 December.

The Group has a number of open interest rate and foreign exchange derivative positions. Collateral management arrangements are in place for significant counterparty exposures. At 31 December 2024, the Group has pledged £8.3 million in cash (2023: £16.6 million) to cover initial margins and out-of-the-money derivative positions. At 31 December 2024, counterparties have pledged £7.6 million in cash (2023: £12.8 million in cash) to the Group to cover in-the-money derivative positions.

The terms and conditions of collateral pledged for both assets and liabilities are market-standard. When securities are pledged they are required to be readily convertible to cash, and as such no policy has been established for the disposal of assets not readily convertible into cash.

1.3.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed. The Group's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Group. The Group is mainly exposed to counterparty default risk.

Counterparty default risk

This is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings, and is monitored at Group Level.

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty or that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where the customer makes a declaration of significant financial difficulty, or the account has been transferred to recoveries and the relationship is terminated.

The main sources of counterparty default risk for the Group are:

- investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy;
- reinsurance recoveries – this represents amounts receivable from the reinsurer to cover claims paid to policyholders. PPOs have the potential to increase the ultimate value of a claim and, by their very nature, to increase significantly the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity;
- commercial credit – this arises as brokers collect premiums on behalf of the Group; and
- consumer credit – exposure from offering monthly instalments on annual insurance contracts.

The Group cedes insurance risk to reinsurers but, in return, assumes counterparty default risk against recoveries as it remains liable for claims payments to policyholders in case of reinsurer default. The financial security of the Group's panel of reinsurers is therefore important and both the quality and amount of the assumed counterparty default risk are subject to an approval process whereby reinsurance is only purchased from reinsurers that hold a credit rating of at least A– for short tail reinsurance and the majority of long tail reinsurance is to be purchased from reinsurers rated A+ or above. Exceptions to the above or strategic reinsurance arrangements are assessed on a case-by-case basis and follow internal credit risk processes. The reinsurance team monitors the credit rating of the Group's current and potential reinsurance counterparties on a regular basis. The Group aims to deal with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

The following tables analyse the carrying value of the Group's financial, insurance and reinsurance contracts assets that bear counterparty default risk between those assets that have not been impaired by age in relation to due date and those that have been impaired.

The Group's maximum exposure to credit risk is represented by the carrying value of financial investments, cash and cash equivalent, the carrying value of loans and advances and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements which are settled on a net basis. In addition, the Group operates a 100% quota share reinsurance treaty on its Brokered commercial business which was sold to RSA Insurance Limited on a funds withheld basis, which substantially reduces credit risk, as the Group retains the cash received from policyholders. The Group does not use credit derivatives or similar instruments to mitigate exposure.

All financial investments held at amortised cost have been assessed for impairment using the ECL model under IFRS 9. The assessment has been made on mark to model credit ratings which would adopt similar processes to those applied by external rating agencies on corporate debt securities.

Infrastructure debt and commercial real estate loans are categorised as loans and receivables and thus reported within the statutory accounts at amortised cost. The credit rating of these loans are monitored regularly and are considered low risk under IFRS 9, with the majority remaining within stage 1 and a 12 month ECL for the impairment provision. Any loans downgraded to below BBB or any sub BBB loan that is downgraded by 1 full credit rating, are considered by the Group to have significantly increased in credit risk, and therefore are stage 2 or stage 3 under IFRS 9. Credit ratings for Investment assets held at FVTPL are market observable from a combination of external credit ratings agencies.

At 31 December 2024	**Neither past due nor impaired £m**	Past due 1 – 90 days £m	Past due more than 90 days £m	**Carrying value in the statement of financial position £m**
Reinsurance contract assets[1]	**1,785.9**	8.4	7.8	**1,802.1**
Other receivables	**16.6**	2.3	2.9	**21.8**
Derivative financial instruments	**19.1**	–	–	**19.1**
Debt securities	**3,993.6**	–	–	**3,993.6**
Infrastructure debt	**188.7**	–	–	**188.7**
Commercial real estate loans	**135.5**	–	–	**135.5**
Cash and cash equivalents[2]	**1,156.0**	–	–	**1,156.0**
Other loans	**5.4**	–	–	**5.4**
Total	**7,300.8**	**10.7**	**10.7**	**7,322.2**

At 31 December 2023	Neither past due nor impaired £m	Past due 1 – 90 days £m	Past due more than 90 days £m	Carrying value in the statement of financial position £m
Reinsurance contract assets[1]	1,340.4	5.5	0.1	1,346.0
Other receivables	32.9	2.0	0.3	35.2
Derivative financial instruments	27.4	–	–	27.4
Debt securities	3,308.7	–	–	3,308.7
Infrastructure debt	214.2	–	–	214.2
Commercial real estate loans	145.9	–	–	145.9
Cash and cash equivalents[2]	1,772.2	–	–	1,772.2
Other loans	3.1	–	–	3.1
Total	6,844.8	7.5	0.4	6,852.7

Notes:

1. Before the recognition of the £298.1 million (2023: £241.8 million) funds withheld amount associated with the quota share arrangement with RSA Insurance Limited.
2. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

The Group's maximum exposure to credit risk from insurance contract assets is £5.7 million (2023: £5.4 million). The Group's maximum exposure to credit risk from reinsurance contract assets is the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements which are settled on a net basis, being £1,487.8 million (2023: £1,098.6 million).

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.3 Credit risk continued

The tables below analyse the credit quality of debt securities that are neither past due nor impaired:

At 31 December 2024	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	**Total £m**
Corporate	69.0	221.1	1,549.5	1,074.4	301.2	1.5	**3,216.7**
Supranational	17.9	–	–	–	–	–	**17.9**
Local government	1.0	12.0	–	–	–	–	**13.0**
Sovereign	–	746.0	–	–	–	–	**746.0**
Total	**87.9**	**979.1**	**1,549.5**	**1,074.4**	**301.2**	**1.5**	**3,993.6**

At 31 December 2023	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
Corporate	56.8	152.7	1,201.6	899.6	289.2	1.5	2,601.4
Supranational	25.6	–	–	–	–	–	25.6
Local government	0.9	–	–	–	–	–	0.9
Sovereign	4.7	676.1	–	–	–	–	680.8
Total	88.0	828.8	1,201.6	899.6	289.2	1.5	3,308.7

The tables below analyse the credit quality of financial and insurance assets that are neither past due nor impaired (excluding debt securities analysed above). The tables include reinsurance exposure, after provision. The Group's approach to reinsurance counterparty default risk is detailed on page 182.

At 31 December 2024	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	**Total £m**
Reinsurance contract assets	–	343.7	1,439.7	2.4	–	0.1	**1,785.9**
Other receivables	0.2	–	1.1	–	–	15.3	**16.6**
Derivative financial instruments	–	17.6	1.5	–	–	–	**19.1**
Infrastructure debt	–	–	31.0	157.7	–	–	**188.7**
Commercial estate loans	19.8	38.0	40.4	31.6	5.7	–	**135.5**
Cash and cash equivalents[1]	1,019.3	44.7	86.3	0.9	–	4.8	**1,156.0**
Other loans	–	–	–	–	–	5.4	**5.4**
Total	**1,039.3**	**444.0**	**1,600.0**	**192.6**	**5.7**	**25.6**	**3,307.2**

At 31 December 2023	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
Reinsurance contract assets	–	290.5	1,047.5	2.4	–	–	1,340.4
Other receivables	0.4	1.7	4.8	0.3	–	25.7	32.9
Derivative financial instruments	–	26.4	0.4	0.6	–	–	27.4
Infrastructure debt	–	–	34.5	179.7	–	–	214.2
Commercial estate loans	12.1	47.9	51.6	28.6	5.7	–	145.9
Cash and cash equivalents[1]	1,624.2	14.0	133.0	0.9	–	0.1	1,772.2
Other loans	–	–	–	–	–	3.1	3.1
Total	1,636.7	380.5	1,271.8	212.5	5.7	28.9	3,536.1

Note:

1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

Debt instruments measured at amortised cost.

The table below shows the credit quality and the maximum exposure to credit risk per the Group's internal credit rating model. The amounts presented are gross of ECL allowances:

	2024			2023		
	12 month expected credit loss	Lifetime expected credit loss	**Total**	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	**£m**	£m	£m	£m
AA+ to AA-	11.5	–	**11.5**	11.5	–	11.5
A+ to A-	16.0	–	**16.0**	16.0	–	16.0
BBB+ to BBB-	28.6	–	**28.6**	33.8	–	33.8
BB+ and below	–	–	**–**	–	10.1	10.1
Total	**56.1**	**–**	**56.1**	61.3	10.1	71.4

Loans and receivables measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk per the Group's internal credit rating model. The amounts presented are gross of ECL allowances:

	2024			2023		
	12 month expected credit loss	Lifetime expected credit loss	**Total**	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	**£m**	£m	£m	£m
AAA	19.8	–	**19.8**	12.1	–	12.1
AA+ to AA-	38.0	–	**38.0**	47.9	–	47.9
A+ to A-	71.5	–	**71.5**	86.2	–	86.2
BBB+ to BBB-	190.4	–	**190.4**	209.4	–	209.4
BB+ and below	–	13.3	**13.3**	–	28.9	28.9
Not rated	–	5.9	**5.9**	–	3.4	3.4
Total	**319.7**	**19.2**	**338.9**	355.6	32.3	387.9

The Group's Investment and Treasury team prepares internal ratings for instruments held in which its counterparties are rated using internal grades (AAA to BB+ and below). The ratings are determined incorporating both qualitative and quantitative information that builds on information from credit agencies, supplemented with information specific to the counterparty and other external information that could affect the counterparty's behaviour. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

The tables below analyse the change in the carrying amount and loss allowance of debt securities measured at amortised cost and the corresponding ECL.

	2024			2023		
	12 month expected credit loss	Lifetime expected credit loss	**Total**	12 month expected credit loss	Lifetime expected credit loss	Total
Carrying amount	£m	£m	**£m**	£m	£m	£m
Amortised cost as at 1 January	61.3	10.1	**71.4**	88.1	10.1	98.2
Assets derecognised or matured	(15.2)	–	**(15.2)**	(26.8)	–	(26.8)
Accrued interest capitalised	(0.1)	–	**(0.1)**	–	–	–
Transfer to 12 month ECL	10.1	(10.1)	**–**	–	–	–
Amortised cost as at 31 December	**56.1**	**–**	**56.1**	61.3	10.1	71.4

	2024			2023		
	12 month expected credit loss	Lifetime expected credit loss	**Total**	12 month expected credit loss	Lifetime expected credit loss	Total
Loss allowance	£m	£m	**£m**	£m	£m	£m
Loss allowance as at 1 January	(0.3)	(0.5)	**(0.8)**	(0.4)	(0.6)	(1.0)
Transfer to lifetime ECL	(0.5)	0.5	**–**	–	–	–
Effect of changes in assessed ECL	0.4	–	**0.4**	0.1	0.1	0.2
Loss allowance as at 31 December	**(0.4)**	**–**	**(0.4)**	(0.3)	(0.5)	(0.8)

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.3 Credit risk continued

The tables below analyse the change in the carrying amount and loss allowance of loans and receivables measured at amortised cost and the corresponding ECL.

	2024			2023		
	12 month expected credit loss	Lifetime expected credit loss	**Total**	12 month expected credit loss	Lifetime expected credit loss	Total
Carrying amount	£m	£m	**£m**	£m	£m	£m
Amortised cost as at 1 January	355.6	32.3	**387.9**	423.3	37.8	461.1
New assets originated or purchased	24.2	2.5	**26.7**	–	1.5	1.5
Assets derecognised or matured	(59.3)	(15.7)	**(75.0)**	(75.5)	–	(75.5)
Accrued interest capitalised	(0.8)	0.1	**(0.7)**	0.8	–	0.8
Transfer to 12 month ECL	–	–	**–**	7.0	(7.0)	–
Amortised cost as at 31 December	**319.7**	**19.2**	**338.9**	355.6	32.3	387.9

	2024			2023		
	12 month expected credit loss	Lifetime expected credit loss	**Total**	12 month expected credit loss	Lifetime expected credit loss	Total
Loss allowance	£m	£m	**£m**	£m	£m	£m
Loss allowance as at 1 January	(1.1)	(23.6)	**(24.7)**	(1.5)	(22.3)	(23.8)
New assets originated or purchased	–	(0.2)	**(0.2)**	–	–	–
Assets derecognised or matured	0.1	15.6	**15.7**	–	–	–
Transfer to lifetime ECL	–	–	**–**	(0.1)	0.1	–
Effect of changes in assessed ECL	(0.1)	–	**(0.1)**	0.5	(1.4)	(0.9)
Loss allowance as at 31 December	**(1.1)**	**(8.2)**	**(9.3)**	(1.1)	(23.6)	(24.7)

1.3.4 Operational risk

This is the risk of loss due to inadequate or failed internal processes or systems, including from human error or from external events. Material sources of operational risk for the Group include:

Change risk
Change risk is defined as the risk of failing to manage the change portfolio and associated change initiatives, within desired scope, time, cost, quality and Group risk appetite, leading to a failure to deliver strategic benefits, good customer outcomes and possibly causing business disruption.

Technology and infrastructure risk
Technology and infrastructure risk is defined as the risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components internally or externally provisioned.

Supplier management and outsourcing risk
Procurement and outsourcing is the risk an outsourcing arrangement that is deemed critical or material failing to deliver the service provision in question to the expected levels. This includes both domestic and offshore outsourcing activities.

Cyber risk
Cyber risk arises from inadequate internal and external cyber security, where failures impact the confidentiality integrity and availability of data.

Partnership contractual obligations
This is the risk of contractual obligations not being delivered for business partners resulting in damaged reputation, the loss of contract at renewal, significant liability payments and/or the early termination of a partnership scheme.

The Group has in place agreed policies and standards to establish and monitor key controls relating to operational risk.

Risk concentrations and management
The Group is subject to concentration in its operational risk profile. For example, the Group's IT infrastructure and change initiatives can expose the Group to the risk of losses in a number of scenarios such as system outages and data security breaches. There is a dedicated resilience framework in place across the Group to mitigate operational risk concentrations.

The Group proactively manages its operational risks to mitigate potential customer harm, regulatory or legal censure, financial and reputational impacts. The Group has in place operational processes and systems, including prevention and detection measures. These include processes which seek to ensure the Group can absorb and/or adapt to internal or external events that could impact customer operations and the wider business, as well as to learn from these situations to improve the Group's overall risk and control systems moving forward.

1.3.5 Liquidity risk

This is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations as they fall due.

The measurement and management of the Group's liquidity risk is undertaken within the limits and other policy parameters of the Group's liquidity risk appetite and is detailed in the liquidity risk minimum standard. As part of this process, the Investment Management and Treasury team is required to put in place a liquidity plan which must consider expected and stressed scenarios for cash inflows and outflows that is reviewed at least annually by the Investment Committee. Compliance is monitored in respect of both the minimum standard and the regulatory requirements of the PRA.

The following table analyses the carrying value of financial investments and cash and cash equivalents, by contractual maturity, which can fund the repayment of liabilities as they crystallise.

At 31 December 2024	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**
Debt securities	937.0	1,565.4	803.6	422.9	264.7	**3,993.6**
Infrastructure debt	17.8	33.1	34.5	76.0	27.3	**188.7**
Commercial real estate loans	23.7	64.2	47.6	–	–	**135.5**
Cash and cash equivalents[1]	1,156.0	–	–	–	–	**1,156.0**
Other loans	–	5.4	–	–	–	**5.4**
Total	**2,134.5**	**1,668.1**	**885.7**	**498.9**	**292.0**	**5,479.2**

At 31 December 2023	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m
Debt securities	566.1	1,542.0	598.2	503.6	98.8	3,308.7
Infrastructure debt	20.4	32.8	41.2	81.8	38.0	214.2
Commercial real estate loans	46.5	55.5	43.9	–	–	145.9
Cash and cash equivalents[1]	1,772.2	–	–	–	–	1,772.2
Other loans	–	0.4	2.7	–	–	3.1
Total	2,405.2	1,630.7	686.0	585.4	136.8	5,444.1

Note:

1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

The following table analyses the undiscounted cash flows of insurance and financial liabilities, based on the future cash flows expected to be paid out in the periods presented, and financial and other liabilities by maturity dates.

At 31 December 2024	Less than 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Insurance contract liabilities[1]	1,446.4	1,112.7	790.7	601.5	1,686.2	**5,637.5**	3,900.0
Subordinated liabilities	10.4	20.8	20.8	286.0	–	**338.0**	259.1
Borrowings[2]	66.8	–	–	–	–	**66.8**	66.8
Trade and other payables	176.8	16.0	0.7	–	–	**193.5**	178.9
Total	**1,700.4**	**1,149.5**	**812.2**	**887.5**	**1,686.2**	**6,235.8**	**4,404.8**

At 31 December 2023	Less than 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Insurance contract liabilities[1,3]	1,444.3	1,052.3	643.0	517.0	1,706.6	5,363.2	3,874.0
Subordinated liabilities	10.4	20.8	20.8	296.4	–	348.4	258.8
Borrowings[2]	82.4	–	–	–	–	82.4	82.4
Trade and other payables	157.4	6.1	0.1	–	–	163.6	163.6
Total	1,694.5	1,079.2	663.9	813.4	1,706.6	5,957.6	4,378.8

Notes:

1. Insurance contract liabilities represent the estimate of present value cash flows as disclosed in note 19.1 and are presented gross of reinsurance.
2. See note 25 for details of borrowings.
3. The 2023 Insurance contract liabilities numbers have been restated to correct a misallocation of amounts related to maturity dates.

Notes to the financial statements continued

1. Risk management continued

1.3 Principal risks from insurance activities and use of financial instruments continued

1.3.5 Liquidity risk continued

The following table analyses the undiscounted cash flows of derivative financial instruments, by contractual maturity.

At 31 December 2024	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	**Total £m**	Carrying value £m
Derivative assets	19.1	–	–	–	**19.1**	19.1
Derivative liabilities	(38.7)	–	–	–	**(38.7)**	(38.7)
Total	**(19.6)**	**–**	**–**	**–**	**(19.6)**	**(19.6)**

At 31 December 2023	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Total £m	Carrying value £m
Derivative assets	27.6	(0.1)	(0.1)	–	27.4	27.4
Derivative liabilities	(14.4)	(1.0)	–	–	(15.4)	(15.4)
Total	13.2	(1.1)	(0.1)	–	12.0	12.0

1.4 Capital management

Group Capital

At 31 December 2024, the Group's capital position was comprised of shareholders' equity of £2,137.9 million (31 December 2023: £2,058.2 million) and Tier 1 notes of £346.5 million (31 December 2023: £346.5 million). In addition, the Group's consolidated statement of financial position also included £259.1 million of subordinated loan capital (31 December 2023: £258.8 million) which is classified as Tier 2 for Solvency II purposes.

The Solvency II financial information in this note is estimated, unaudited and is not part of the financial statements.

Solvency balance sheet management

The Group manages capital in accordance with the Group's capital management minimum standard, the aims of which are to manage capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, credit rating agency and policyholder requirements. The Group has a solvency risk appetite of 140% of the Group's solvency capital requirement ("**SCR**"). In normal circumstances, the Board expects that a solvency capital ratio of around 180% is appropriate and will take this into account when considering the potential for additional returns, alongside expectations for future capital requirements and other relevant factors. In the short term, the Group expects to maintain a solvency capital ratio above this level.

At 31 December 2024, the Group's (unaudited) solvency capital ratio, post dividends, was 195% (31 December 2023: 188%[1]). Further details on the Group's capital position is included in the Group financial performance section of the Strategic Report

Capital adequacy

The Group's regulatory capital position is assessed against the Solvency II framework. From 1 July 2016, the Group gained approval to assess its SCR using a partial internal model, including a full internal model for the U K Insurance Limited underwriting entity. The model is calibrated to a 99.5% confidence interval and considers business written to date and one year of future written business over a one-year time horizon, in line with Solvency II requirement, as modified by the PRA's 2024 reforms.

During the year, the Group and its regulated entities complied with all external capital requirements.

Using the Group's partial internal model, there is a capital surplus of approximately £1.11 billion above an estimated SCR of £1.16 billion as at 31 December 2024 (31 December 2023: £1.00 billion and £1.13 billion respectively). The Group's capital requirements and solvency position are produced and presented to the Board on a regular basis. The Solvency II capital regime requires insurers to calculate regulatory capital adequacy at both individual regulated subsidiaries and an aggregate Group level. This information is estimated and is therefore subject to change. This paragraph is unaudited.

Note:

1. During the Group's half year results preparation, a miscalculation has been identified within the Group's audited Solvency II own funds for the year ended 2023. Correcting for the miscalculation, the solvency capital ratio (post-dividend) at year end 2023 was 188%, which was above the Group's risk appetite range of 140% to 180% (the previously reported solvency capital ratio was 197%). The Group has taken action to strengthen the control environment in relation to the specific area where the miscalculation occurred.

2. Segmental information

The chief operating decision maker, being the Chief Executive Officer, regularly reviews the operating results at the segmental level as described below and disclosed in the tables in this note to assess performance and make decisions about allocation of resources. During 2024, the Group redefined its operating segments following changes in management responsibilities and its decision to exit or stop investing in Non-core businesses. The redefined segments are detailed below. Data relating to previous periods has been re-presented to reflect these changes.

Ongoing operations

Motor

This segment consists of personal Motor insurance together with the associated legal protection cover. The Group sells Motor insurance direct to customers through its own brands Direct Line, Churchill, Privilege, By Miles and Darwin, through price comparison websites ("**PCWs**") and through partnership brands, including the Group's partnership with Motability Operations, as well as via vehicle manufacturers.

Non-Motor

Non-Motor includes three primary businesses: Home insurance, Rescue products and Commercial insurance for small and micro-sized enterprises.

- Home insurance: The Group offers home insurance through its Direct Line, Churchill, and Privilege brands, as well as through partnership brands such as Natwest Group. These products are also available on PCWs.
- Rescue products: Rescue services are provided primarily through the Group's Green Flag brand, sold directly to customers. Additionally, rescue policies are available as add-ons to Motor policies and through various partnerships.
- Commercial Insurance: The Group provides Commercial insurance for small and micro-businesses through its Direct Line for Business and Churchill brands. Both brands sell products directly to customers, while Churchill also offers products through PCWs.

Non Ongoing Operations

The Group has aggregated the results of the Brokered commercial business and the non-core and run-off businesses and excluded them from its ongoing results. All relevant comparatives have been restated and the segmental analysis has been amended to reflect the changes. Results relating to ongoing operations are clearly labelled. The profit/(loss) before restructuring and one-off costs relating to the Brokered commercial business and non-core and run-off businesses in 2024 was £33.9 million profit and £5.3 million profit (2023: £50.0 million profit and £25.0 million loss respectively).

Brokered commercial business

On 6 September 2023 the Group announced the sale of its Brokered commercial insurance business to Royal & Sun Alliance Insurance Limited ("**RSAI**"). Under the terms of the agreement, the Group has retained the back book of the business written and earned prior to 1 October 2023 (the "**Risk Transfer Date**"). Business written or earned on or subsequent to the Risk Transfer Date is subject to a quota share reinsurance arrangement between the two companies with RSAI as the reinsurer. The parties are working towards a Part VII transfer relating to the policies dealt with under the quota-share reinsurance arrangement, as envisaged in the agreements entered into on 6 September 2023.

Non-core and Run-off

Non-core and Run-off includes the following Other Personal Lines insurance: Travel and Pet, which are sold directly to customers through Direct Line and Churchill brands; Select, which targets mid- to high-net worth customers and is sold through Direct Line and partnership brands; and Creditor, which is closed to new business with renewal policies written under the UKI brands. The Group has now exited all Run-off Rescue and Travel partnerships.

Inter-segmental transactions

Where inter-segment transactions occur, transfer prices between operating segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation. Inter-segment revenue between segments was not material.

For each operating segment, there are no individual policyholders or customers that represent 10% or more of the Group's total revenue.

Restructuring and one-off costs

Restructuring costs are costs incurred in respect of those business activities which have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature. These costs have not been allocated between business segments as they relate to the business as a whole.

Notes to the financial statements continued

2. Segmental information continued

Group results and assets and liabilities by segment

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2024, and the Group's assets and liabilities by reportable segment[3] at 31 December 2024.

	Motor	Non-Motor	**Total Group - ongoing operations[1]**	Brokered commercial business[1]	Non-core and Run-off[1]	Restructuring and one-off costs[1,2]	**Total Group**
	£m	£m	**£m**	£m	£m		**£m**
Statement of profit or loss							
Insurance revenue	2,739.0	1,020.9	**3,759.9**	620.4	186.7	–	**4,567.0**
Insurance service expenses	(2,669.9)	(868.3)	**(3,538.2)**	(470.2)	(172.6)	(4.0)	**(4,185.0)**
Net expense from reinsurance contracts held	(49.8)	(67.3)	**(117.1)**	(135.2)	(7.3)	–	**(259.6)**
Insurance service result	**19.3**	**85.3**	**104.6**	**15.0**	**6.8**	**(4.0)**	**122.4**
Investment return	191.2	38.1	**229.3**	40.6	2.4	–	**272.3**
Net finance income/(expense) from insurance contracts issued	12.1	(15.4)	**(3.3)**	(15.0)	(2.7)	–	**(21.0)**
Net finance income/(expense) from reinsurance contracts held	(14.2)	2.0	**(12.2)**	(8.3)	0.3	–	**(20.2)**
Investment return and net insurance finance result	**189.1**	**24.7**	**213.8**	**17.3**	**–**	**–**	**231.1**
Other operating income	0.6	17.2	**17.8**	1.3	1.2	–	**20.3**
Other operating expenses	(2.0)	(16.8)	**(18.8)**	0.3	(2.7)	(114.1)	**(135.3)**
Profit/(loss) before other finance costs	**207.0**	**110.4**	**317.4**	**33.9**	**5.3**	**(118.1)**	**238.5**
Loss on disposal of business							**(4.7)**
Other finance costs							**(15.4)**
Profit before tax							**218.4**
Assets							
Goodwill	134.0	74.5	**208.5**	–	–		**208.5**
Assets held for sale	7.7	2.0	**9.7**	2.0	0.4		**12.1**
Other segment assets	4,468.2	1,280.9	**5,749.1**	891.1	126.5		**6,766.7**
Reinsurance contract assets	1,136.1	55.4	**1,191.5**	608.9	1.7		**1,802.1**
Insurance contract assets	–	–	**–**	–	5.7		**5.7**
Total segment assets	**5,746.0**	**1,412.8**	**7,158.8**	**1,502.0**	**134.3**		**8,795.1**
Liabilities							
Reinsurance contract liabilities	(58.6)	(5.9)	**(64.5)**	(484.0)	(1.0)		**(549.5)**
Insurance contract liabilities	(3,338.8)	(927.6)	**(4,266.4)**	(718.5)	(102.0)		**(5,086.9)**
Other segment liabilities	(442.7)	(122.9)	**(565.6)**	(95.2)	(13.5)		**(674.3)**
Total segment liabilities	**(3,840.1)**	**(1,056.4)**	**(4,896.5)**	**(1,297.7)**	**(116.5)**		**(6,310.7)**
Segment net assets	**1,905.9**	**356.4**	**2,262.3**	**204.3**	**17.8**		**2,484.4**

Notes:

1. See glossary on pages 238 to 241 for definitions and appendix A – Alternative performance measures on pages 242 to 245 for reconciliation to financial statement line items.
2. The Group incurred £118.1 million of restructuring and one-off costs in 2024, which were a result of several items including cost out and control initiatives, non-cash impairments, as well as work carried out in relation to the takeover approach from Ageas NV and the offer from Aviva plc.
3. This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2023, and the Group's assets and liabilities by reportable segment[4] at 31 December 2023 (restated[1]).

	Motor	Non-Motor	**Total Group - ongoing operations[2]**	Brokered commercial business[1]	Non-core and Run-off[2]	Restructuring and one-off costs[3]	**Total Group**
	£m	£m	**£m**	£m	£m	£m	**£m**
Statement of profit or loss							
Insurance revenue	1,805.4	919.2	**2,724.6**	600.8	276.3	–	**3,601.7**
Insurance service expenses	(2,145.2)	(768.6)	**(2,913.8)**	(564.3)	(303.4)	(24.8)	**(3,806.3)**
Net expense from reinsurance contracts held	8.2	(31.0)	**(22.8)**	(22.6)	(1.4)	–	**(46.8)**
Insurance service result	**(331.6)**	**119.6**	**(212.0)**	**13.9**	**(28.5)**	**(24.8)**	**(251.4)**
Investment return	179.3	56.8	**236.1**	59.0	7.9	–	**303.0**
Net finance income/(expense) from insurance contracts issued	(146.2)	(22.3)	**(168.5)**	(21.9)	(3.4)	–	**(193.8)**
Net finance income/(expense) from reinsurance contracts held	25.5	1.9	**27.4**	0.4	0.2	–	**28.0**
Investment return and net insurance finance result	**58.6**	**36.4**	**95.0**	**37.5**	**4.7**	**–**	**137.2**
Other operating income	4.2	16.4	**20.6**	0.4	0.8	–	**21.8**
Other operating expenses	(5.6)	(15.5)	**(21.1)**	(1.8)	(2.0)	(34.7)	**(59.6)**
Profit/(Loss) before other finance costs	**(274.4)**	**156.9**	**(117.5)**	**50.0**	**(25.0)**	**(59.5)**	**(152.0)**
Gain on disposal of business							**443.9**
Other finance costs							**(14.5)**
Profit before tax							**277.4**
Assets							
Goodwill	134.0	74.5	**208.5**	–	–		**208.5**
Assets held for sale	8.7	2.5	**11.2**	2.3	0.4		**13.9**
Other segment assets	4,356.6	1,212.8	**5,569.4**	1,059.6	214.4		**6,843.4**
Reinsurance contract assets	1,076.4	61.0	**1,137.4**	203.6	5.0		**1,346.0**
Insurance contract assets	–	–	**–**	–	5.4		**5.4**
Total segment assets	**5,575.7**	**1,350.8**	**6,926.5**	**1,265.5**	**225.2**		**8,417.2**
Liabilities							
Reinsurance contract liabilities	(16.9)	(8.4)	**(25.3)**	(89.6)	(1.7)		**(116.6)**
Insurance contract liabilities	(3,305.9)	(892.7)	**(4,198.6)**	(866.0)	(174.2)		**(5,238.8)**
Other segment liabilities	(415.1)	(112.1)	**(527.2)**	(108.7)	(21.2)		**(657.1)**
Total segment liabilities	**(3,737.9)**	**(1,013.2)**	**(4,751.1)**	**(1,064.3)**	**(197.1)**		**(6,012.5)**
Segment net assets	**1,837.8**	**337.6**	**2,175.4**	**201.2**	**28.1**		**2,404.7**

Notes:

1. 2023 balances are re-presented to reflect changes in operating segments (see explanation on page 189)
2. See glossary on pages 238 to 241 for definitions and appendix A – Alternative performance measures on pages 242 to 245 for reconciliation to financial statement line items.
3. The Group incurred £59.5 million of restructuring and one-off costs in 2023, which were predominantly driven by work carried out in relation to the Group's two past business reviews, cost efficiency initiatives and impairments.
4. This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

Notes to the financial statements continued

3. Insurance service result

The table below analyses insurance and reinsurance revenue and expenses that comprise the Group's insurance service result in profit or loss:

	2024 £m	2023 £m
Insurance revenue	**4,567.0**	3,601.7
Insurance service expenses		
Incurred claims and other claims expenses	**(3,360.4)**	(2,817.5)
Past service – incurred claims	**82.5**	(80.9)
Other directly attributable expenses[1]	**(907.1)**	(907.9)
Total insurance service expenses	**(4,185.0)**	(3,806.3)
Allocation of reinsurance premiums paid	**(1,439.6)**	(470.2)
Insurance claims recoverable from reinsurance contracts held		
Claims recoveries	**1,232.3**	495.7
Past service – claim recoveries	**(85.0)**	(63.1)
Other directly attributable expenses[2]	**30.8**	(3.4)
Effect of non-performance risk of reinsurers	**1.9**	(5.8)
Total amounts recoverable from reinsurance contracts held	**1,180.0**	423.4
Total insurance service result	**122.4**	(251.4)

Notes:

1. This includes insurance acquisition expenses of £233.0 million (2023: £292.3 million) which are fully expensed at initial recognition in accordance with the Group's accounting policy and do not form part of the liability for remaining coverage.
2. This includes expenses recoverable under the reinsurance arrangement in place for the Brokered commercial business.

4. Insurance finance result

This note analyses the Group's finance result, including its insurance and reinsurance finance income/(expenses) in profit or loss and other comprehensive income.

	2024 £m	2023 £m
Amounts recognised in profit or loss		
Interest income calculated using effective interest rate method:		
Debt securities	**129.8**	78.9
Cash and cash equivalents	**72.0**	65.2
Infrastructure debt	**14.7**	14.8
Commercial real estate loans	**10.0**	12.9
Other loans	**0.1**	–
Total interest income calculated using effective interest rate method	**226.6**	171.8
Rental income from investment property	**17.4**	16.1
Other interest and similar income	**17.4**	16.1
Investment income	**244.0**	187.9
Investment fees	**(8.8)**	(9.3)
Net investment income	**235.2**	178.6
Net fair value gains on financial assets held at fair value through profit or loss:		
Debt securities	**23.9**	134.1
Derivatives	**6.5**	(6.4)
Equity investments	**(0.1)**	(0.7)
Total net fair value gains on financial assets held at fair value through profit or loss	**30.3**	127.0
Net fair value gains/(losses) on investment property	**6.6**	(1.9)
Net credit impairment gains/(losses) on financial investments	**0.2**	(0.7)
Investment return	**272.3**	303.0
Insurance finance expense from insurance contracts issued:		
Interest accreted to insurance contracts using current financial assumptions	**(21.0)**	(193.8)
Reinsurance finance (expense)/income from reinsurance contracts held:		
Interest accreted to reinsurance contracts using current financial assumptions	**(20.2)**	28.0
Insurance and reinsurance finance expenses	**(41.2)**	(165.8)
Total investment return, insurance and reinsurance finance expenses	**231.1**	137.2
Amounts recognised in other comprehensive income		
Net fair value gains on equity investments measured at fair value through other comprehensive income	**1.6**	2.7

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

	2024 £m	2023 £m
Gains/(losses) on foreign exchange hedging:		
Foreign exchange forward contracts[1]	**(11.5)**	43.0
Associated foreign exchange risk	**11.5**	(48.5)
Total gains/(losses) on foreign exchange hedging	**–**	(5.5)
Interest rate swaps:		
Gains/(losses) on interest rate swaps[1]	**6.5**	(0.9)
Total gains/(losses) on foreign exchange hedging and interest rate hedging instruments	**6.5**	**(6.4)**

Note:

1. Foreign exchange forward contracts and interest rate swaps are measured at fair value through the statement of profit or loss.

The Group holds fixed rate USD and EUR denominated bonds whose fair value is exposed to movements in interest rates. In order to economically hedge the interest rate risk of these bonds the Group enters into interest rate swaps, paying a fixed rate and receiving a floating rate.

Notes to the financial statements continued

5. Other operating expenses

This note analyses the Group's other operating expenses in profit or loss.

	2024 £m	2023 £m
Non-directly attributable IT and other operating expenses	**92.5**	33.4
Non-directly attributable staff expenses	**17.9**	15.7
Impairment of intangible and fixed assets	**24.9**	10.5
Total other operating expenses	**135.3**	59.6

Other operating expenses include cost efficiency initiatives, non-cash impairments of software development and response work carried out in relation to the takeover approach from Ageas NV and the offer from Aviva plc.

6. Employee information

This note shows where the Group's staff are employed, their aggregate remuneration, analyses Directors' emoluments and the Group's share-based payments obligations.

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

	At 31 December		Average for the year	
	2024	2023	2024	2023
Insurance operations	**5,941**	7,015	**6,480**	6,743
Repair centre operations	**1,709**	1,715	**1,731**	1,620
Support	**1,403**	1,401	**1,390**	1,321
Total	**9,053**	10,131	**9,601**	9,684

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

	2024 £m	2023 £m
Wages and salaries	**452.4**	421.4
Social security costs	**55.6**	47.7
Pension costs	**30.6**	28.7
Share-based payments	**14.6**	13.9
Total	**553.2**	511.7

Of the total aggregate remuneration, £17.9 million (2023: £15.7 million) relates to other operating expenses with the remainder included in note 3, in the insurance service result, as part of other directly attributable expenses.

Aggregate Directors' emoluments

The table below analyses the total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations.

	2024 £m	2023 £m
Salaries, fees, bonuses and benefits in kind	**3.9**	3.7
Gains on exercise of share options	**2.1**	0.3
Total	**6.0**	4.0

Further information about the remuneration of individual current Directors is provided in the Directors' Remuneration Report.

At 31 December 2024, no Directors (2023: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2024, two Directors exercised share options (2023: one Director).

Shared-based payments

The Group operates equity-settled, share-based compensation plans in the form of a Long-Term Incentive Plan ("**LTIP**"), a Restricted Shares Plan, a Deferred Annual Incentive Plan ("**DAIP**") and Direct Line Group Share Incentive Plans, including both the Free Share awards and a Buy-As-You-Earn Plan, details of which are set out below. All awards are to be satisfied using market-purchased shares.

Long-Term Incentive Plan

Executive Directors and certain members of senior management are eligible to participate in the LTIP with awards granted in the form of nil-cost options. Under the plan, the shares vest at the end of a three-year period dependent upon continued employment by the Group and also the Group achieving predefined performance conditions associated with total shareholder return ("**TSR**"), return on tangible equity ("**RoTE**"), from 2022 emissions, from 2023 operating earnings per share ("**Operating EPS**") and from 2024 expenses ratio. The Executive Directors are subject to an additional two-year holding period following the three-year vesting period.

An award was made in the year ended 31 December 2024 of 8.1 million Ordinary Shares with an estimated fair value of £15.4 million at the 2024 grant date (2023: 8.0 million Ordinary Shares with an estimated fair value of £10.9 million).

The estimated fair value of the LTIP share awards with market-based performance conditions was calculated using a Monte Carlo simulation model. The table below details the inputs into the model:

	2024	2023
Weighted average assumptions during the year:		
Share price (pence)	**180**	139
Exercise price (pence)	**0**	0
Volatility of share price	**40%**	32%
Average comparator volatility	**33%**	35%
Expected life	**2 years**	3 years
Risk-free rate	**3.78 %**	3.54%

Expected volatility was determined by considering the actual volatility of the Group's share price since its initial public offering and that of a group of listed UK insurance companies.

Plan participants are entitled to receive additional shares in respect of dividends paid to shareholders over the vesting period. Therefore, no deduction has been made from the fair value of awards in respect of dividends.

Expected life was based on the contractual life of the awards and adjusted based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Restricted Shares Plan

The purpose of the Restricted Shares Plan is to facilitate the wider participation in Group share-based awards of eligible employees. These awards can be granted in the form of a nil-cost option at any time during the year, generally have no performance criteria, and vest over periods ranging up to seven years from the date of the grant, subject to continued employment. During the year awards were made of 5.8 million Ordinary Shares (2023: 7.8 million Ordinary Shares) with an estimated fair value of £11.1 million (2023: £11.6 million) using the market value at the date of grant.

Deferred Annual Incentive Plan

To incentivise delivery of performance over a one-year operating cycle, Executive Directors and certain members of senior management are eligible for awards under the Annual Incentive Plan ("**AIP**"), of which at least 40% is granted in the form of a nil-cost option under the DAIP with the remainder being settled in cash following year end. During the year awards were made of 0.1 million Ordinary shares (2023: No Ordinary Shares) with an estimated fair value of £0.1 million using the market value at the date of grant.

The awards outstanding at 31 December 2024 have no performance criteria attached; there is a requirement that the employee remains in employment with the Group for three years from the date of grant.

Direct Line Group Share Incentive Plans

No free share awards have been granted to eligible employees since 2021.

The Buy-As-You-Earn Plan entitles employees to purchase shares from pre-tax pay for between £10 and £150 per month and receive one nil-cost matching share for every two shares purchased.

In the year ended 31 December 2024, matching share awards were granted of 0.8 million Ordinary Shares (2023: 1.0 million Ordinary Shares) with an estimated fair value of £1.4 million (2023: £1.7 million). The fair value of each matching share award is estimated using the market value at the date of grant.

Under the plan, the shares vest at the end of a three-year period dependent upon continued employment with the Group together with continued ownership of the associated purchased shares up to the point of vesting.

Notes to the financial statements continued

6. Employee information continued

Movement in total share awards

	Number of share awards	
	2024 millions	2023 millions
At 1 January	**34.0**	28.7
Granted during the year	**14.0**	13.5
Additional awards in respect of the equivalent dividend	**0.8**	3.3
Forfeited during the year	**(6.8)**	(8.1)
Exercised during the year	**(7.1)**	(3.4)
At 31 December	**34.9**	34.0
Exercisable at 31 December	**4.1**	3.8

In respect of the outstanding options at 31 December 2024, the weighted average remaining contractual life is 1.52 years (2023: 1.50 years). No share awards expired during the year (2023: nil).

The weighted average share price for awards exercised during the year ended 31 December 2024 was £1.99 (2023: £1.63).

The Group recognised total expenses in the year ended 31 December 2024 of £14.6 million (2023: £13.9 million) relating to equity-settled share-based compensation plans.

The Share-based payment reserve within Retained earnings at 31 December 2024 was £7.4 million (2023: £5.6 million).

Further information on share-based payments, in respect of Executive Directors, is provided in the Directors' Remuneration Report.

7. Auditors remuneration

This note analyses the Auditor's remuneration in respect of the Group's operations.

	2024 £m	2023 £m
Fees payable for the audit of:		
The Company's annual accounts	**0.4**	0.5
The Company's subsidiaries	**3.2**	3.3
Total audit fees	**3.6**	3.8
Audit-related assurance services[1]	**0.5**	0.4
Other assurance services	**–**	0.2
Non-audit services[1]	**–**	1.6
Total[2]	**4.1**	6.0

Notes:

1. Fees of £0.5 million for audit-related assurance services have been provided in 2024 (2023: £0.4 million) in respect of reporting accountant services. Fees of £40,000 for non-audit services have been incurred in 2024 (2023: £1.6 million) relating to agreed upon procedures.
2. Total audit fees, excluding VAT.

8. Other finance costs

This note analyses the Group's interest and other finance costs on its subordinated debt and interest expense on its lease liabilities.

	2024 £m	2023 £m
Interest expense on subordinated liabilities	**10.5**	10.5
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**0.3**	0.2
Interest expense on lease liabilities	**4.6**	3.8
Total	**15.4**	14.5

9. (Loss)/gain on disposal of business

On 6 September 2023, the Group announced that it had entered into an agreement with RSAI, a wholly-owned subsidiary of Intact Financial Corporation, to dispose of its Brokered commercial business. For further details of the transaction see the Annual Report & Accounts 2023. During the year an additional amount of £4.7 million has been provided for relating to additional transaction costs.

There is potential for further consideration of up to £30 million contingent upon certain earn-out provisions relating to the financial performance of the business. At 31 December 2024, based on a probability-weighted average of scenario analysis of the estimated future profitability of the contracts, no contingent consideration has been recognised.

The operations of the Brokered commercial business have not been classified as discontinued operations since they do not represent a separate major line of business or geographical operations.

The table below summarises the pre-tax (loss)/gain on disposal recognised.

	2024 £m	2023 £m
Cash consideration	–	520.0
Less: Net assets disposed of	–	(6.3)
Transaction cost	(4.7)	(50.3)
Assets written-off and impaired as part of disposal	–	(19.5)
(Loss)/gain on disposal – pre-tax impact	**(4.7)**	443.9

10. Tax charge

This note analyses the tax charge for the year and explains the factors that affect it.

	2024 £m	2023 £m
Current taxation:		
Charge for the year	54.9	24.3
Over-provision in respect of prior period	(4.4)	(2.6)
	50.5	21.7
Deferred taxation (note 20)		
Charge for the year	3.5	29.5
Under-provision for the year-provision in respect of prior year	1.8	3.3
	5.3	32.8
Current taxation	50.5	21.7
Deferred taxation (note 20)	5.3	32.8
Tax charge for the year	**55.8**	54.5

The following table analyses the difference between the actual income tax charge and the expected income tax charge computed by applying the standard rate of corporation tax of 25.0% (2023: 23.5%[1]).

	2024 £m	2023 £m
Profit for the year	218.4	277.4
Expected tax charge	54.6	65.2
Effects of:		
Previously unrecognised capital losses now offset against capital gains	–	(12.4)
Disallowable expenses	8.1	3.7
Non-taxable items	(0.3)	(0.1)
Movement in deferred tax asset/liability not recognised	0.2	(0.1)
Effect of change in corporation taxation rate[1]	–	0.2
(Over)/under-provision in respect of prior year	(2.6)	0.7
Revaluation of property	–	1.2
Deductible Tier 1 notes coupon payment in equity	(4.2)	(3.9)
Tax charge for the year	**55.8**	54.5
Effective income tax rate	**25.5%**	19.6%

Notes:

1. In the Finance Act 2021, the UK Government enacted, on 10 June 2021, an increase in the UK corporation tax rate from 19% to 25% effective from 1 April 2023. As a consequence closing deferred tax assets and liabilities were recognised at the tax rates expected to apply when the temporary differences reversed. The impact of these changes on the tax charge for the year is set out in the table above.
2. The Group is within the scope of the OECD Pillar Two Model rules and Pillar two legislation has been enacted in the UK with effect from 1 January 2024. However, in line with the position previously expressed, there is no expectation of any exposure to Pillar Two Top-up Taxes and accordingly no accrual has been recorded in these 2024 Financial Statements.
3. The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Notes to the financial statements continued

11. Dividends and appropriations

This note analyses the total dividends and Tier 1 coupon payments paid during the year, as set out in the table below. Details are also provided for the year's final dividend for the year, which is not accrued in the financial statements and are excluded from the table's totals.

	2024 £m	2023 £m
Amounts recognised as distributions to equity holders in the period:		
2024 interim dividend of 2.0 pence per share paid on 11 October 2024	**26.1**	–
2023 final dividend of 4.0 pence per share paid on 17 May 2024	**52.1**	–
	78.2	–
Coupon payments in respect of Tier 1 notes	**16.6**	16.6
	94.8	16.6
Proposed dividends:		
2023 final dividend of 4.0 pence per share		52.0
2024 final dividend of 5.0 pence per share	**65.1**	–

Note:

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

The proposed final dividend for 2024 has not been included as a liability in these financial statements.

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards, which reduced the total dividends paid for the year ended 31 December 2024 by £0.6 million. No dividends were paid or proposed during the year ended 31 December 2023.

12. Earnings per share

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

Basic earnings per share

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

Diluted earnings per share

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

	2024 £m	2023 £m
Earnings attributable to the owners of the Company	**162.6**	222.9
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit for the calculation of earnings per share	**146.0**	206.3
Weighted average number of Ordinary Shares in issue for the purpose of basic earnings per share (millions)	**1,300.6**	1,299.0
Effect of dilutive potential of share options and contingently issuable shares (millions)	**19.5**	17.3
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,320.1**	1,316.3
Basic earnings per share (pence)	**11.2**	15.9
Diluted earnings per share (pence)	**11.1**	15.7

13. Net asset value per share and net tangible asset value per share

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

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

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

	2024 £m	2023 £m
Net assets	**2,137.9**	2,058.2
Goodwill and other intangible assets[1]	**(776.3)**	(818.6)
Tangible net assets	**1,361.6**	1,239.6
Number of Ordinary Shares (millions)	**1,311.4**	1,311.4
Shares held by employee trusts (millions)	**(10.4)**	(13.7)
Closing number of Ordinary Shares (millions)	**1,301.0**	1,297.7
Net asset value per share (pence)	**164.3**	158.6
Tangible net asset value per share (pence)	**104.7**	95.5

Note:

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

14. Return on equity

The return on equity is calculated by using earnings attributable to the owners of the Company divided by the average shareholders' equity for the year. The average shareholders' equity for the year is the mean average of the opening and closing shareholders' equity.

The table below details the calculation of return on equity:

	2024 £m	2023 £m
Earnings attributable to the owners of the Company	**162.6**	222.9
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit for the calculation of return on equity	**146.0**	206.3
Opening shareholders' equity	**2,058.2**	1,845.3
Closing shareholders' equity	**2,137.9**	2,058.2
Average shareholders' equity	**2,098.1**	1,951.8
Return on equity	**7.0%**	10.6%

Notes to the financial statements continued

15. Goodwill and other intangible assets

This note analyses the changes to the carrying amounts of goodwill and other intangible assets during the year and details the results of impairment testing on goodwill.

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2023	215.0	1,218.8	1,433.8
Acquisitions and additions	3.6	124.1	127.7
Disposals and write-off[1]	(10.1)	(14.1)	(24.2)
At 31 December 2023	208.5	1,328.8	1,537.3
Acquisitions and additions	**–**	**93.2**	**93.2**
Disposals and write-off	**–**	**–**	**–**
At 31 December 2024	**208.5**	**1,422.0**	**1,630.5**
Accumulated amortisation and impairment			
At 1 January 2023	–	611.6	611.6
Amortisation charge for the year	–	100.6	100.6
Disposals and write-off[1]	–	(8.1)	(8.1)
Impairment losses[2]	–	14.6	14.6
At 31 December 2023	–	718.7	718.7
Amortisation charge for the year	**–**	**112.5**	**112.5**
Disposals and write-off	**–**	**–**	**–**
Impairment losses[2]	**–**	**23.2**	**23.2**
At 31 December 2024	**–**	**854.2**	**854.2**

Carrying amount			
At 31 December 2024	**208.5**	**567.8**	**776.3**
At 31 December 2023	208.5	610.1	818.6

Notes:

1. Disposals and write-off of goodwill in 2023 arose from the sale of the Brokered commercial business. The sale of the Brokered commercial business is detailed further in note 9. Disposals and write-off of other intangible assets include fully amortised intangible assets no longer utilised by the Group in its operating activities.
2. Impairment losses in 2024 relate to capitalised software development costs for ongoing IT projects primarily relating to development of new systems, and intangible assets no longer utilised by the Group in its operating activities. Of this amount, £23.2 million (2023: £5.4 million) is included within Other operating expenses and £nil (2023: £9.2 million) is included within (Loss)/gain on disposal of business.

Goodwill

Goodwill arose on the acquisitions of U K Insurance Limited (£141.0 million), Churchill Insurance Company Limited (£70.0 million), By Miles Group Limited (£2.7 million) and accident repair networks (£4.9 million), offset with the disposal of the Brokered commercial business (£10.1 million).

Goodwill is allocated to a CGU or group of CGUs for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose and represents the lowest level at which goodwill is monitored for internal management purposes, being the reportable segments (note 2).

Other intangible assets

Included within other intangible assets are assets still under development of £26.4 million (2023: £100.8 million). The decrease of £74.4 million is primarily due to the building of a new Home platform and development of new capabilities for the Group's Motor platform which is now in use. Assets under development at 31 December 2024 relate mainly to finance and core technology projects which are expected to be ready for use in 2025. These assets are tested for impairment during the Group's annual impairment review at each reporting date.

Other intangible assets relate mainly to internally generated software. For year ended 31 December 2024, other intangible assets additions, which are internally generated, are £92.7 million (2023: £122.8 million).

Impairment assessments

The Group's testing for impairment of goodwill and intangible assets includes the comparison of the recoverable amount of each CGU or group of CGUs to which goodwill and other intangible assets have been allocated with its carrying value and is updated annually for goodwill, at each reporting date for other intangibles, and whenever there are indications of impairment.

A segment-level summary of the goodwill allocation is presented below:

	2024 £m	2023[1] £m
Motor	**134.0**	134.0
Non-Motor	**74.5**	74.5
Total	**208.5**	208.5

There is no goodwill impairment for the year ended 31 December 2024 (2023: £nil).

Goodwill is tested for impairment by comparing the carrying value of the CGU or group of CGUs to which the goodwill relates to the recoverable value of those CGUs. The recoverable amount is the value in use of the CGUs unless otherwise stated.

Value in use and sensitivity analysis

Value in use is calculated as the discounted value of expected future profits of each business, using the Group's strategic plan covering a three year period. The long-term growth rates have been based on gross domestic product rates adjusted for inflation. The risk discount rates incorporate observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis.

Key assumptions used in the value in use calculation and sensitivity information on the key assumptions are presented below:

	Assumptions				Change to key assumptions needed to reduce headroom to nil			
	2024		2023[1]					
Segment	Terminal growth rate %	Pre-tax discount rate %	Terminal growth rate %	Pre-tax discount rate %	Headroom under key assumptions £m	Reduction to future profits in the Groups strategic plan %	Reduction in terminal growth rate % (abs)	Increase in pre-tax discount rate % (abs)
Motor	**1.5**	**14.1**	1.5	11.4	833.2	30.2	7.2	5.0
Non-Motor	**1.5**	**14.0**	1.5	11.4	1,372.1	81.4	n/a[2]	47.2

Notes:

1. Re-presented to reflect segmental changes.
2. No change in this metric could reduce the headroom to nil.

Management considers that no reasonably possible changes to the key assumptions would reduce a CGU’s headroom to £nil.

16. Property, plant and equipment

This note analyses the Group's property, plant and equipment.

	Land and buildings £m	Other equipment £m	Total £m
Cost			
At 1 January 2023	36.9	174.2	211.1
Acquisition of subsidiary	–	2.7	2.7
Additions	–	18.9	18.9
Disposals	–	(8.8)	(8.8)
At 31 December 2023	36.9	187.0	223.9
Additions	–	13.2	13.2
Disposals	–	(7.6)	(7.6)
At 31 December 2024	**36.9**	**192.6**	**229.5**
Accumulated depreciation and impairment			
At 1 January 2023	4.6	122.8	127.4
Depreciation charge for the year	0.5	10.5	11.0
Disposals	–	(6.1)	(6.1)
At 31 December 2023	5.1	127.2	132.3
Depreciation charge for the year	**0.5**	**11.3**	**11.8**
Disposals	**–**	**(7.3)**	**(7.3)**
At 31 December 2024	**5.6**	**131.2**	**136.8**
Carrying amount			
At 31 December 2024	**31.3**	**61.4**	**92.7**
At 31 December 2023	31.8	59.8	91.6

The Group is satisfied that the aggregate fair value of property, plant and equipment is not less than its carrying value.

Notes to the financial statements continued

17. Lease assets and liabilities

This note contains analysis of the Group's right-of-use assets and operating lease commitments where the Group is the lessor and lessee.

The following table analyses the right-of-use assets relating to property and motor vehicles:

	Property £m	Motor vehicles £m	Total £m
Cost			
At 1 January 2023	121.0	9.6	130.6
Additions	30.9	5.5	36.4
Disposals	(6.9)	(5.0)	(11.9)
At 31 December 2023	145.0	10.1	155.1
Additions	**11.4**	**8.8**	**20.2**
Disposals	**(4.7)**	**(1.0)**	**(5.7)**
At 31 December 2024	**151.7**	**17.9**	**169.6**
Accumulated depreciation and impairment			
At 1 January 2023	51.3	6.3	57.6
Depreciation charge for the year	9.1	2.8	11.9
Disposals	(5.8)	(4.7)	(10.5)
At 31 December 2023	54.6	4.4	59.0
Depreciation charge for the year	**9.8**	**5.5**	**15.3**
Disposals	**(4.7)**	**(1.0)**	**(5.7)**
At 31 December 2024	**59.7**	**8.9**	**68.6**
Carrying amount			
At 31 December 2024	**92.0**	**9.0**	**101.0**
At 31 December 2023	90.4	5.7	96.1

The weighted average contract duration at inception for Property is 20 years, and for Motor vehicles is three years.

Operating lease commitments where the Group is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants:

	2024 £m	2023 £m
Within one year	**16.7**	14.8
Between 1 and 2 years	**15.0**	13.8
Between 2 and 3 years	**13.0**	12.9
Between 3 and 4 years	**11.0**	11.0
Between 4 and 5 years	**10.6**	9.1
Later than 5 years	**85.4**	66.8
Total[1,2]	**151.7**	128.4

Notes:

1. In the table above, the amounts disclosed for year ended 31 December 2024 exclude total future aggregate minimum lease payments receivable of £0.2 million (2023: £0.1 million) which relate to leases to third-party tenants on properties the Group has classified as assets held for sale.
2. At year ended 31 December 2024: £150.0 million of the total operating lease commitments where the Group is the lessor relates to the lease of investment properties detailed in note 18 (2023: £126.5 million).

The Group's investment properties portfolio consists of 18 (2023: 18) properties in total, all based in the UK with exposure predominantly to the South of England operating in the following sectors; retail, retail warehouse, supermarkets, industrial, hotels and alternative sectors.

The investment properties are leased to tenants under operating leases with rental income for the majority paid a quarter in advance with an average unexpired lease to expiry (including break clauses and tenants currently in rent free periods) of 9.9 years (2023: 9.8 years). 55% (2023: 49%) of rental income is RPI/index linked.

Where considered necessary to reduce credit risk, the Group may obtain guarantees from parent companies for the terms of the leases.

Other lease disclosures

The following table analyses the amounts that have been included in the consolidated statement of profit or loss for leases:

	31 Dec 2024	31 Dec 2023
	£m	£m
Depreciation of ROU assets	15.3	11.9
Loss on disposal of leases	–	1.4
Interest on lease liabilities	4.6	3.8
Short-term leases[2]	2.3	2.2
Low-value leases[2]	1.5	1.4
Total[1]	**23.7**	20.7

Notes:

1. Total cash outflows in respect of leases were £20.9 million (2023: £18.2 million) which includes amounts expensed for short-term leases and leases of low-value assets.
2. At years ended 31 December 2024 and 31 December 2023, expenses relating to short-term leases and leases of low-value assets were not included in the measurement of lease liabilities as they were not considered significant.

Lease commitments where the Group is the lessee

Lease liabilities total £113.7 million (2023: £106.1 million). Future contractual aggregate minimum lease payments are as follows:

	2024	2023
	£m	£m
Within one year	14.0	12.7
In the second to fifth year inclusive	48.6	45.3
After five years	81.1	78.7
Sub total	**143.7**	**136.7**
Less effect of discounting and unearned interest	(30.0)	(30.6)
Total	**113.7**	**106.1**

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed.

The lease agreements do not impose any covenants other than the security interest in the leased assets that are held by the lessor.

18. Investment property

This note gives details of the properties that the Group holds for long-term rental yields or capital appreciation.

	Retail	Retail warehouse	Supermarkets	Industrials	Hotels	Alternative sector	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
At 1 January 2023	25.3	21.3	51.1	112.0	50.3	18.5	278.5
Capitalised expenditure	0.1	–	–	0.4	–	–	0.5
Fair value adjustments	(1.0)	(0.5)	(4.0)	3.3	0.2	0.1	(1.9)
At 31 December 2023[1]	**24.4**	**20.8**	**47.1**	**115.7**	**50.5**	**18.6**	**277.1**
Capitalised expenditure	**0.5**	**–**	**–**	**3.2**	**–**	**0.2**	**3.9**
Fair value adjustments	**(0.7)**	**8.5**	**(2.2)**	**2.5**	**(1.5)**	**–**	**6.6**
At 31 December 2024[1]	**24.2**	**29.3**	**44.9**	**121.4**	**49.0**	**18.8**	**287.6**

Note:

1. The cost included in the carrying value at 31 December 2024 is £220.9 million (2023: £217.0 million).

The investment properties are measured at fair value derived from valuation work carried out at the statement of financial position date by independent property valuers. The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. This approach to valuation is consistent with the methodology used in the year ended 31 December 2023.

Lease agreements with tenants are drawn up in line with local practice and the Group has no exposure to leases that include contingent rents.

Notes to the financial statements continued

18. Investment property continued

The following tables provide a sensitivity analysis for +/- 5 basis points and +/- 50 basis points movement in tenants' rental income and impact on property valuation in sterling:

2024		-50bp	-5bp	Baseline as at 31 December 2024	+5bp	+50bp
Equivalent yield	%	**5.62**	**6.11**	**6.17**	**6.22**	**6.72**
Value	£m	**264.7**	**285.1**	**287.6**	**290.1**	**314.9**

2023		-50bp	-5bp	Baseline as at 31 December 2022	+5bp	+50bp
Equivalent yield	%	5.31	5.81	5.87	5.92	6.42
Value	£m	253.5	274.6	277.1	279.8	305.7

19. Insurance contract assets and liabilities - gross and reinsurance

This note analyses the following in respect of insurance and reinsurance contracts:

- carrying amount by segment;
- movements in the year;
- claims development; and
- significant judgements, estimates and assumptions.

19.1 Carrying amount by segment

The Group has presented its analyses of net assets and liabilities for insurance contracts issued and reinsurance contracts held for remaining coverage and incurred claims for the whole Group, Motor, Non-motor and Non-ongoing operations.

	Motor £m	Non-Motor £m	**Total Group - ongoing operations[1] £m**	Brokered commercial business[1] £m	**Non-core and Run-off[1] £m**	**Total Group £m**
2024						
Insurance contract assets	–	–	**–**	–	5.7	**5.7**
Insurance contract liabilities	(3,338.8)	(927.6)	**(4,266.4)**	(718.5)	(102.0)	**(5,086.9)**
Net insurance contract liabilities	**(3,338.8)**	**(927.6)**	**(4,266.4)**	**(718.5)**	**(96.3)**	**(5,081.2)**
Reinsurance contract assets	1,136.1	55.4	**1,191.5**	608.9	1.7	**1,802.1**
Reinsurance contract liabilities	(58.6)	(5.9)	**(64.5)**	(484.0)	(1.0)	**(549.5)**
Net reinsurance contract assets	**1,077.5**	**49.5**	**1,127.0**	**124.9**	**0.7**	**1,252.6**
2023						
Insurance contract assets	–	–	–	–	5.4	**5.4**
Insurance contract liabilities	(3,305.9)	(892.7)	(4,198.6)	(866.0)	(174.2)	**(5,238.8)**
Net insurance contract liabilities	**(3,305.9)**	**(892.7)**	(4,198.6)	**(866.0)**	(168.8)	**(5,233.4)**
Reinsurance contract assets	1,076.4	61.0	1,137.4	203.6	5.0	**1,346.0**
Reinsurance contract liabilities	(16.9)	(8.4)	(25.3)	(89.6)	(1.7)	**(116.6)**
Net reinsurance contract assets	**1,059.5**	**52.6**	1,112.1	**114.0**	3.3	**1,229.4**

Note:

1. See glossary on pages 238 to 241 for definitions

The following table sets out the carrying amounts of insurance and reinsurance contracts expected to be settled/(recovered) more than 12 months after the reporting date.

	2024 £m	2023 £m
Insurance contract liabilities	**(2,496.0)**	(2,828.0)
Reinsurance contract assets	**1,108.3**	821.6

The table below analyses insurance and reinsurance contract assets and liabilities for remaining coverage and for incurred claims by segment:

	Motor £m	Non-Motor £m	**Total Group – ongoing operations[1] £m**	Brokered commercial business[1] £m	Non-core and Run-off[1] £m	**Total Group £m**
2024						
Insurance contracts assets/(liabilities)						
Remaining coverage	**(463.2)**	**(362.9)**	**(826.1)**	**(125.6)**	**(19.8)**	**(971.5)**
Excluding loss component	(463.2)	(362.9)	(826.1)	(125.6)	(19.8)	**(971.5)**
Loss component	–	–	–	–	–	**–**
Incurred claims	**(2,875.6)**	**(564.7)**	**(3,440.3)**	**(592.9)**	**(76.5)**	**(4,109.7)**
Estimate of present value cash flows	(2,727.3)	(537.0)	(3,264.3)	(562.6)	(73.1)	**(3,900.0)**
Risk adjustment	(148.3)	(27.7)	(176.0)	(30.3)	(3.4)	**(209.7)**
Total insurance contracts assets/(liabilities)	**(3,338.8)**	**(927.6)**	**(4,266.4)**	**(718.5)**	**(96.3)**	**(5,081.2)**
2023						
Insurance contracts assets/(liabilities)						
Remaining coverage	(514.7)	(326.1)	**(840.8)**	(289.2)	(22.5)	**(1,152.5)**
Excluding loss component	(514.7)	(326.1)	**(840.8)**	(289.2)	(22.5)	**(1,152.5)**
Loss component	–	–	**–**	–	–	**–**
Incurred claims	**(2,791.2)**	**(566.6)**	**(3,357.8)**	**(576.8)**	**(146.3)**	**(4,080.9)**
Estimate of present value cash flows	(2,647.6)	(538.3)	**(3,185.9)**	(547.1)	(141.0)	**(3,874.0)**
Risk adjustment	(143.6)	(28.3)	**(171.9)**	(29.7)	(5.3)	**(206.9)**
Total insurance contracts assets/(liabilities)	**(3,305.9)**	**(892.7)**	**(4,198.6)**	**(866.0)**	**(168.8)**	**(5,233.4)**

	Motor £m	Non-Motor £m	**Total Group – ongoing operations[1] £m**	Brokered commercial business[1] £m	Non-core and Run-off[1] £m	**Total Group £m**
2024						
Reinsurance contracts (liabilities)/assets						
Remaining coverage	**(58.5)**	**(6.0)**	**(64.5)**	**(484.0)**	**(1.0)**	**(549.5)**
Excluding loss component	(58.5)	(6.0)	(64.5)	(484.0)	(1.0)	**(549.5)**
Loss component	–	–	–	–	–	**–**
Incurred claims	**1,136.0**	**55.5**	**1,191.5**	**608.9**	**1.7**	**1,802.1**
Estimate of present value cash flows	1,065.5	48.7	1,114.2	589.4	1.0	**1,704.6**
Risk adjustment	70.5	6.8	77.3	19.5	0.7	**97.5**
Total reinsurance contracts assets/(liabilities)	**1,077.5**	**49.5**	**1,127.0**	**124.9**	**0.7**	**1,252.6**
2023						
Reinsurance contracts (liabilities)/assets						
Remaining coverage	(16.9)	(8.4)	**(25.3)**	(89.6)	(1.7)	**(116.6)**
Excluding loss component	(16.9)	(8.4)	**(25.3)**	(89.6)	(1.7)	**(116.6)**
Loss component	–	–	**–**	–	–	**–**
Incurred claims	**1,076.4**	**61.0**	**1,137.4**	**203.6**	**5.0**	**1,346.0**
Estimate of present value cash flows	1,012.7	55.1	**1,067.8**	192.4	4.2	**1,264.4**
Risk adjustment	63.7	5.9	**69.6**	11.2	0.8	**81.6**
Total reinsurance contracts assets/(liabilities)	**1,059.5**	**52.6**	**1,112.1**	**114.0**	**3.3**	**1,229.4**

Note:

1. See glossary on pages 238 to 241 for definitions.

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.2 Movement in carrying amounts of insurance and reinsurance contracts

The following movements have occurred in the carrying amounts of insurance contract balances in the year:

Carrying amount	Notes:	2024 £m	2023 £m
At 1 January		**(5,233.4)**	**(4,608.5)**
Insurance revenue	3	**4,567.0**	3,601.7
Insurance service expenses	3	**(3,952.0)**	(3,514.0)
Insurance finance expense	4	**(21.0)**	(193.8)
Premiums received	19.2.2	**(4,386.0)**	(3,758.9)
Claims and expenses paid, including investment component	19.2.1	**3,944.2**	3,240.1
At 31 December		**(5,081.2)**	**(5,233.4)**

The carrying amount for reinsurance contracts is recognised separately from insurance contract balances. Detailed movements on both are included in the notes below.

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts in each segment changed during the year as a result of cash flows and amounts recognised in the statement of profit and loss.

Judgement is required when determining the appropriate level of disaggregation for disclosure. Management have disaggregated information by reportable segment, as defined in IFRS 8 'Operating Segments'. This is so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics. For Motor, Non-Motor and non-ongoing operations, the Group presents a table that separately analyses the movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the statement of profit and loss.

19.2.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – total Group

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2023	–	–	**–**	966.3	95.3	**1,061.6**	**1,061.6**
Insurance/reinsurance contract liabilities as at 1 January 2023	(3,394.3)	(218.9)	**(3,613.2)**	–	–	**–**	**(3,613.2)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(3,394.3)	(218.9)	**(3,613.2)**	966.3	95.3	**1,061.6**	**(2,551.6)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(3,360.6)	(72.5)	**(3,433.1)**	464.6	27.7	**492.3**	**(2,940.8)**
Past service – incurred claims	(165.4)	84.5	**(80.9)**	(21.7)	(41.4)	**(63.1)**	**(144.0)**
Effect of non-performance risk of reinsurers				(5.8)		**(5.8)**	**(5.8)**
Insurance service result	(3,526.0)	12.0	**(3,514.0)**	437.1	(13.7)	**423.4**	**(3,090.6)**
Insurance/reinsurance finance expenses/ income	(193.8)		**(193.8)**	28.0		**28.0**	**(165.8)**
Total amounts recognised in comprehensive income	(3,719.8)	12.0	**(3,707.8)**	465.1	(13.7)	**451.4**	**(3,256.4)**
Cash flows:							
Claims and other expenses paid/recovered	3,240.1		**3,240.1**	(167.0)		**(167.0)**	**3,073.1**
Total cash flows	3,240.1		**3,240.1**	(167.0)		**(167.0)**	**3,073.1**
Insurance/reinsurance contract assets as at 31 December 2023	–	–	**–**	1,264.4	81.6	**1,346.0**	**1,346.0**
Insurance/reinsurance contract liabilities as at 31 December 2023	(3,874.0)	(206.9)	**(4,080.9)**	–	–	**–**	**(4,080.9)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(3,874.0)**	**(206.9)**	**(4,080.9)**	**1,264.4**	**81.6**	**1,346.0**	**(2,734.9)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(3,957.7)	(76.8)	(4,034.5)	1,224.0	39.1	1,263.1	(2,771.4)
Past service – incurred claims	8.5	74.0	82.5	(61.8)	(23.2)	(85.0)	(2.5)
Effect of non-performance risk of reinsurers				1.9		1.9	1.9
Insurance service result	(3,949.2)	(2.8)	**(3,952.0)**	1,164.1	15.9	**1,180.0**	**(2,772.0)**
Insurance/reinsurance finance expenses/ income	(21.0)		**(21.0)**	(20.2)		**(20.2)**	**(41.2)**
Total amounts recognised in comprehensive income	(3,970.2)	(2.8)	**(3,973.0)**	1,143.9	15.9	**1,159.8**	**(2,813.2)**
Cash flows:							
Claims and other expenses paid/recovered	3,944.2		**3,944.2**	(703.7)		**(703.7)**	**3,240.5**
Total cash flows	3,944.2		**3,944.2**	(703.7)		**(703.7)**	**3,240.5**
Insurance/reinsurance contract assets as at 31 December 2024	–	–	**–**	1,704.6	97.5	**1,802.1**	**1,802.1**
Insurance/reinsurance contract liabilities as at 31 December 2024	(3,900.0)	(209.7)	**(4,109.7)**	–	–	**–**	**(4,109.7)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(3,900.0)**	**(209.7)**	**(4,109.7)**	**1,704.6**	**97.5**	**1,802.1**	**(2,307.6)**

Note:

1. The amounts recognised in Insurance service result for the year of £3,952.0 million (2023: £3,514.0 million) does not include insurance acquisition expenses of £233.0 million (2023: £292.3 million). Please see note 3.

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.2.2 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – total Group

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component	Loss component	**Total**	Excluding loss recovery component	Loss recovery component	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2023	17.3	–	**17.3**	13.3	–	**13.3**	**30.6**
Insurance/reinsurance contract liabilities as at 1 January 2023	(1,012.6)	–	**(1,012.6)**	(13.9)	–	**(13.9)**	**(1,026.5)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(995.3)	–	**(995.3)**	(0.6)	–	**(0.6)**	**(995.9)**
Insurance revenue/reinsurance expenses	3,601.7		**3,601.7**	(470.2)		**(470.2)**	**3,131.5**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–			–	**–**	
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	3,601.7	–	**3,601.7**	(470.2)	–	**(470.2)**	**3,131.5**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	3,601.7	–	**3,601.7**	(470.2)	–	**(470.2)**	**3,131.5**
Cash flows:							
Premium received/paid	(3,758.9)		**(3,758.9)**	354.2		**354.2**	**(3,404.7)**
Total cash flows	(3,758.9)		**(3,758.9)**	354.2		**354.2**	**(3,404.7)**
Insurance/reinsurance contract assets as at 31 December 2023	5.4	–	**5.4**	–	–	**–**	**5.4**
Insurance/reinsurance contract liabilities as at 31 December 2023	(1,157.9)	–	**(1,157.9)**	(116.6)	–	**(116.6)**	**(1,274.5)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(1,152.5)**	**–**	**(1,152.5)**	**(116.6)**	**–**	**(116.6)**	**(1,269.1)**
Insurance revenue/reinsurance expenses	4,567.0		**4,567.0**	(1,439.6)		**(1,439.6)**	**3,127.4**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–			–	**–**	
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	4,567.0	–	**4,567.0**	(1,439.6)	–	**(1,439.6)**	**3,127.4**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	4,567.0	–	**4,567.0**	(1,439.6)	–	**(1,439.6)**	**3,127.4**
Cash flows:							
Premium received/paid	(4,386.0)		**(4,386.0)**	1,006.7		**1,006.7**	**(3,379.3)**
Total cash flows	(4,386.0)		**(4,386.0)**	1,006.7		**1,006.7**	**(3,379.3)**
Insurance/reinsurance contract assets as at 31 December 2024	5.7	–	**5.7**	–	–	**–**	**5.7**
Insurance/reinsurance contract liabilities as at 31 December 2024	(977.2)	–	**(977.2)**	(549.5)	–	**(549.5)**	**(1,526.7)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(971.5)**	**–**	**(971.5)**	**(549.5)**	**–**	**(549.5)**	**(1,521.0)**

19.2.3 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – Motor

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2023	–	–	**–**	866.5	76.3	**942.8**	**942.8**
Insurance/reinsurance contract liabilities as at 1 January 2023	(2,259.6)	(148.9)	**(2,408.5)**	–	–	**–**	**(2,408.5)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(2,259.6)	(148.9)	**(2,408.5)**	866.5	76.3	**942.8**	**(1,465.7)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(1,946.5)	(42.2)	**(1,988.7)**	302.0	17.2	**319.2**	**(1,669.5)**
Past service – incurred claims	(139.4)	47.5	**(91.9)**	(35.1)	(29.8)	**(64.9)**	**(156.8)**
Effect of non-performance risk of reinsurers				(5.7)		**(5.7)**	**(5.7)**
Insurance service result[1]	(2,085.9)	5.3	**(2,080.6)**	261.2	(12.6)	**248.6**	**(1,832.0)**
Insurance/reinsurance finance expenses/ income	(146.2)		**(146.2)**	25.5		**25.5**	**(120.7)**
Total amounts recognised in comprehensive income	(2,232.1)	5.3	**(2,226.8)**	286.7	(12.6)	**274.1**	**(1,952.7)**
Cash flows:							
Claims and other expenses paid/recovered	1,844.1		**1,844.1**	(140.5)		**(140.5)**	**1,703.6**
Total cash flows	1,844.1		**1,844.1**	(140.5)		**(140.5)**	**1,703.6**
Insurance/reinsurance contract assets as at 31 December 2023	–	–	**–**	1,012.7	63.7	**1,076.4**	**1,076.4**
Insurance/reinsurance contract liabilities as at 31 December 2023	(2,647.6)	(143.6)	**(2,791.2)**	–	–	**–**	**(2,791.2)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(2,647.6)**	**(143.6)**	**(2,791.2)**	**1,012.7**	**63.7**	**1,076.4**	**(1,714.8)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,611.1)	(48.8)	(2,659.9)	815.7	22.8	838.5	(1,821.4)
Past service – incurred claims	29.3	44.1	73.4	(44.0)	(16.0)	(60.0)	13.4
Effect of non-performance risk of reinsurers				2.4		2.4	2.4
Insurance service result[1]	(2,581.8)	(4.7)	**(2,586.5)**	774.1	6.8	**780.9**	**(1,805.6)**
Insurance/reinsurance finance expenses/ income	12.1		**12.1**	(14.2)		**(14.2)**	**(2.1)**
Total amounts recognised in comprehensive income	(2,569.7)	(4.7)	**(2,574.4)**	759.9	6.8	**766.7**	**(1,807.7)**
Cash flows:							
Claims and other expenses paid/recovered	2,489.9		**2,489.9**	(707.1)		**(707.1)**	**1,782.8**
Total cash flows	2,489.9		**2,489.9**	(707.1)		**(707.1)**	**1,782.8**
Insurance/reinsurance contract assets as at 31 December 2024	–	–	**–**	1,065.5	70.6	**1,136.1**	**1,136.1**
Insurance/reinsurance contract liabilities as at 31 December 2024	(2,727.4)	(148.3)	**(2,875.7)**	–	(0.1)	**(0.1)**	**(2,875.8)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(2,727.4)**	**(148.3)**	**(2,875.7)**	**1,065.5**	**70.5**	**1,136.0**	**(1,739.7)**

Note:

1. The amounts recognised in Insurance service result do not include insurance acquisition expenses. Please see note 3.

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.2.4 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – Motor

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component £m	Loss component £m	Total £m	Excluding loss recovery component £m	Loss recovery component £m	Total £m	Total £m
Insurance/reinsurance contract assets as at 1 January 2023	–	–	–	13.3	–	13.3	13.3
Insurance/reinsurance contract liabilities as at 1 January 2023	(451.8)	–	(451.8)	–	–	–	(451.8)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(451.8)	–	(451.8)	13.3	–	13.3	(438.5)
Insurance revenue/reinsurance expenses	1,805.4		1,805.4	(240.5)		(240.5)	1,564.9
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	–		–	–	–
Losses/ loss recovery and reversal of losses from onerous contracts		–	–		–	–	–
Insurance service result	1,805.4	–	1,805.4	(240.5)	–	(240.5)	1,564.9
Insurance/reinsurance finance expenses/ income		–	–		–	–	–
Total amounts recognised in comprehensive income	1,805.4	–	1,805.4	(240.5)	–	(240.5)	1,564.9
Cash flows:							
Premium received/paid	(1,868.3)		(1,868.3)	210.3		210.3	(1,658.0)
Total cash flows	(1,868.3)		(1,868.3)	210.3		210.3	(1,658.0)
Insurance/reinsurance contract assets as at 31 December 2023	–	–	–	–	–	–	–
Insurance/reinsurance contract liabilities as at 31 December 2023	(514.7)	–	(514.7)	(16.9)	–	(16.9)	(531.6)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(514.7)**	**–**	**(514.7)**	**(16.9)**	**–**	**(16.9)**	**(531.6)**
Insurance revenue/reinsurance expenses	2,739.0		2,739.0	(830.8)		(830.8)	1,908.2
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	–		–	–	–
Losses/ loss recovery and reversal of losses from onerous contracts		–	–		–	–	–
Insurance service result	2,739.0	–	2,739.0	(830.8)	–	(830.8)	1,908.2
Insurance/reinsurance finance expenses/ income		–	–		–	–	–
Total amounts recognised in comprehensive income	2,739.0	–	2,739.0	(830.8)	–	(830.8)	1,908.2
Cash flows:							
Premium received/paid	(2,687.4)		(2,687.4)	789.2		789.2	(1,898.2)
Total cash flows	(2,687.4)		(2,687.4)	789.2		789.2	(1,898.2)
Insurance/reinsurance contract assets as at 31 December 2024	–	–	–	–	–	–	–
Insurance/reinsurance contract liabilities as at 31 December 2024	(463.1)	–	(463.1)	(58.5)	–	(58.5)	(521.6)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(463.1)**	**–**	**(463.1)**	**(58.5)**	**–**	**(58.5)**	**(521.6)**

19.2.5 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – Non-motor

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2023	–	–	**–**	30.8	8.3	**39.1**	**39.1**
Insurance/reinsurance contract liabilities as at 1 January 2023	(524.6)	(34.5)	**(559.1)**	–	–	**–**	**(559.1)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(524.6)	(34.5)	**(559.1)**	30.8	8.3	**39.1**	**(520.0)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(677.3)	(13.3)	**(690.6)**	27.2	3.1	**30.3**	**(660.3)**
Past service – incurred claims	(21.2)	19.5	**(1.7)**	6.0	(5.6)	**0.4**	**(1.3)**
Effect of non-performance risk of reinsurers				–		**–**	**–**
Insurance service result	(698.5)	6.2	**(692.3)**	33.2	(2.5)	**30.7**	**(661.6)**
Insurance/reinsurance finance expenses/ income	(22.3)		**(22.3)**	1.9		**1.9**	**(20.4)**
Total amounts recognised in comprehensive income	(720.8)	6.2	**(714.6)**	35.1	(2.5)	**32.6**	**(682.0)**
Cash flows:							
Claims and other expenses paid/recovered	707.1		**707.1**	(10.7)		**(10.7)**	**696.4**
Total cash flows	707.1		**707.1**	(10.7)		**(10.7)**	**696.4**
Insurance/reinsurance contract assets as at 31 December 2023	–	–	**–**	55.2	5.8	**61.0**	**61.0**
Insurance/reinsurance contract liabilities as at 31 December 2023	(538.3)	(28.3)	**(566.6)**	–	–	**–**	**(566.6)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(538.3)**	**(28.3)**	(566.6)	**55.2**	**5.8**	61.0	(505.6)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(748.7)	(13.2)	(761.9)	10.9	3.2	14.1	(747.8)
Past service – incurred claims	(28.2)	13.8	(14.4)	(7.1)	(2.2)	(9.3)	(23.7)
Effect of non-performance risk of reinsurers				–		–	–
Insurance service result	(776.9)	0.6	**(776.3)**	3.8	1.0	**4.8**	**(771.5)**
Insurance/reinsurance finance expenses/ income	(15.4)		**(15.4)**	2.0		**2.0**	**(13.4)**
Total amounts recognised in comprehensive income	(792.3)	0.6	**(791.7)**	5.8	1.0	**6.8**	**(784.9)**
Cash flows:							
Claims and other expenses paid/recovered	793.6		**793.6**	(12.4)		**(12.4)**	**781.2**
Total cash flows	793.6		**793.6**	(12.4)		**(12.4)**	**781.2**
Insurance/reinsurance contract assets as at 31 December 2024	–	–	**–**	48.6	6.8	**55.4**	**55.4**
Insurance/reinsurance contract liabilities as at 31 December 2024	(537.0)	(27.7)	**(564.7)**	–	–	**–**	**(564.7)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(537.0)**	**(27.7)**	(564.7)	**48.6**	**6.8**	55.4	(509.3)

Note:

1. The amounts recognised in Insurance service result do not include insurance acquisition expenses. Please see note 3.

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.2.6 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – Non-motor

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component £m	Loss component £m	**Total £m**	Excluding loss recovery component £m	Loss recovery component £m	**Total £m**	**Total £m**
Insurance/reinsurance contract assets as at 1 January 2023	–	–	**–**	–	–	**–**	**–**
Insurance/reinsurance contract liabilities as at 1 January 2023	(292.9)	–	**(292.9)**	(7.8)	–	**(7.8)**	**(300.7)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(292.9)	–	**(292.9)**	(7.8)	–	**(7.8)**	**(300.7)**
Insurance revenue/reinsurance expenses	919.2		**919.2**	(61.5)		**(61.5)**	**857.7**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	919.2	–	**919.2**	(61.5)	–	**(61.5)**	**857.7**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	919.2	–	**919.2**	(61.5)	–	**(61.5)**	**857.7**
Cash flows:							
Premium received/paid	(952.4)		**(952.4)**	60.9		**60.9**	**(891.5)**
Total cash flows	(952.4)		**(952.4)**	60.9		**60.9**	**(891.5)**
Insurance/reinsurance contract assets as at 31 December 2023	–	–	**–**	–	–	**–**	**–**
Insurance/reinsurance contract liabilities as at 31 December 2023	(326.1)	–	**(326.1)**	(8.4)	–	**(8.4)**	**(334.5)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(326.1)**	**–**	(326.1)	**(8.4)**	**–**	(8.4)	(334.5)
Insurance revenue/reinsurance expenses	1,020.9		**1,020.9**	(72.0)		**(72.0)**	**948.9**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	1,020.9	–	**1,020.9**	(72.0)	–	**(72.0)**	**948.9**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	1,020.9	–	**1,020.9**	(72.0)	–	**(72.0)**	**948.9**
Cash flows:							
Premium received/paid	(1,057.7)		**(1,057.7)**	74.5		**74.5**	**(983.2)**
Total cash flows	(1,057.7)		**(1,057.7)**	74.5		**74.5**	**(983.2)**
Insurance/reinsurance contract assets as at 31 December 2024	–	–	**–**	–	–	**–**	**–**
Insurance/reinsurance contract liabilities as at 31 December 2024	(362.9)	–	**(362.9)**	(5.9)	–	**(5.9)**	**(368.8)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(362.9)**	**–**	**(362.9)**	**(5.9)**	**–**	**(5.9)**	**(368.8)**

19.2.7 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – Non-ongoing operations

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2023	–	–	**–**	69.0	10.6	**79.6**	**79.6**
Insurance/reinsurance contract liabilities as at 1 January 2023	(610.2)	(35.5)	**(645.7)**	–	–	**–**	**(645.7)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(610.2)	(35.5)	**(645.7)**	69.0	10.6	**79.6**	**(566.1)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(736.7)	(17.1)	**(753.8)**	135.4	7.4	**142.8**	**(611.0)**
Past service – incurred claims	(4.8)	17.5	**12.7**	7.4	(5.9)	**1.5**	**14.2**
Effect of non-performance risk of reinsurers				–		**–**	**–**
Insurance service result	(741.5)	0.4	**(741.1)**	142.8	1.5	**144.3**	**(596.8)**
Insurance/reinsurance finance expenses/ income	(25.3)		**(25.3)**	0.6		**0.6**	**(24.7)**
Total amounts recognised in comprehensive income	(766.8)	0.4	**(766.4)**	143.4	1.5	**144.9**	**(621.5)**
Cash flows:							
Claims and other expenses paid/recovered	688.9		**688.9**	(15.9)		**(15.9)**	**673.0**
Total cash flows	688.9		**688.9**	(15.9)		**(15.9)**	**673.0**
Insurance/reinsurance contract assets as at 31 December 2023	–	–	**–**	196.5	12.1	**208.6**	**208.6**
Insurance/reinsurance contract liabilities as at 31 December 2023	(688.1)	(35.1)	**(723.2)**	–	–	**–**	**(723.2)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(688.1)**	**(35.1)**	**(723.2)**	**196.5**	**12.1**	**208.6**	**(514.6)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(598.0)	(14.7)	(612.7)	397.5	13.0	410.5	(202.2)
Past service – incurred claims	7.4	16.1	23.5	(10.7)	(5.0)	(15.7)	7.8
Effect of non-performance risk of reinsurers				(0.5)		(0.5)	(0.5)
Insurance service result	(590.6)	1.4	**(589.2)**	386.3	8.0	**394.3**	**(194.9)**
Insurance/reinsurance finance expenses/ income	(17.7)		**(17.7)**	(8.0)		**(8.0)**	**(25.7)**
Total amounts recognised in comprehensive income	(608.3)	1.4	**(606.9)**	378.3	8.0	**386.3**	**(220.6)**
Cash flows:							
Claims and other expenses paid/recovered	660.7		**660.7**	15.7		**15.7**	**676.4**
Total cash flows	660.7		**660.7**	15.7		**15.7**	**676.4**
Insurance/reinsurance contract assets as at 31 December 2024	–	–	**–**	590.5	20.1	**610.6**	**610.6**
Insurance/reinsurance contract liabilities as at 31 December 2024	(635.7)	(33.7)	**(669.4)**	–	–	**–**	**(669.4)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(635.7)**	**(33.7)**	**(669.4)**	**590.5**	**20.1**	**610.6**	**(58.8)**

Note:

1. The amounts recognised in Insurance service result do not include insurance acquisition expenses. Please see note 3.

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.2.8 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – Non-ongoing operations

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component £m	Loss component £m	**Total £m**	Excluding loss recovery component £m	Loss recovery component £m	**Total £m**	**Total £m**
Insurance/reinsurance contract assets as at 1 January 2023	17.3	–	**17.3**	–	–	**–**	**17.3**
Insurance/reinsurance contract liabilities as at 1 January 2023	(267.8)	–	**(267.8)**	(6.1)	–	**(6.1)**	**(273.9)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2023	(250.5)	–	**(250.5)**	(6.1)	–	**(6.1)**	**(256.6)**
Insurance revenue/reinsurance expenses	877.1		**877.1**	(168.2)		**(168.2)**	**708.9**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	877.1	–	**877.1**	(168.2)	–	**(168.2)**	**708.9**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	877.1	–	**877.1**	(168.2)	–	**(168.2)**	**708.9**
Cash flows:							
Premium received/paid	(938.2)		**(938.2)**	83.0		**83.0**	**(855.2)**
Total cash flows	(938.2)		**(938.2)**	83.0		**83.0**	**(855.2)**
Insurance/reinsurance contract assets as at 31 December 2023	5.4	–	**5.4**	–	–	**–**	**5.4**
Insurance/reinsurance contract liabilities as at 31 December 2023	(317.0)	–	**(317.0)**	(91.3)	–	**(91.3)**	**(408.3)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(311.6)**	**–**	**(311.6)**	**(91.3)**	**–**	**(91.3)**	**(402.9)**
Insurance revenue/reinsurance expenses	807.1		**807.1**	(536.8)		**(536.8)**	**270.3**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	807.1	–	**807.1**	(536.8)	–	**(536.8)**	**270.3**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	807.1	–	**807.1**	(536.8)	–	**(536.8)**	**270.3**
Cash flows:							
Premium received/paid	(640.9)		**(640.9)**	143.1		**143.1**	**(497.8)**
Total cash flows	(640.9)		**(640.9)**	143.1		**143.1**	**(497.8)**
Insurance/reinsurance contract assets as at 31 December 2024	5.7	–	**5.7**	–	–	**–**	**5.7**
Insurance/reinsurance contract liabilities as at 31 December 2024	(151.1)	–	**(151.1)**	(485.0)	–	**(485.0)**	**(636.1)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2024	**(145.4)**	**–**	**(145.4)**	**(485.0)**	**–**	**(485.0)**	**(630.4)**

19.3 Insurance and reinsurance contract assets and liabilities - claims development tables

The tables below illustrate how estimates of cumulative claims have developed over time on a gross and net of reinsurance basis.

Each table shows how the Group's estimates of total claims for each underwriting year have developed over time and reconciles the cumulative claims to the amount included in the statement of financial position. For accident years prior to 2015, the information is aggregated into one row.

Gross insurance liabilities

Accident year	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	2,135.9	2,169.8	2,226.8	2,337.6	2,085.7	1,786.5	1,912.8	2,283.2	2,755.0	3,328.3	
One year later	(57.4)	(95.8)	(142.6)	(129.6)	(72.0)	(79.4)	(5.7)	132.9	166.1		
Two years later	(131.5)	(63.9)	(108.8)	(48.7)	(43.5)	(13.8)	(34.7)	47.0			
Three years later	(58.5)	(89.5)	(38.0)	(6.0)	3.7	35.9	(3.6)				
Four years later	(28.7)	(42.9)	(20.4)	25.5	14.1	(63.6)					
Five years later	(21.9)	(13.5)	1.5	23.8	13.1						
Six years later	1.0	(12.0)	21.6	(42.5)							
Seven years later	22.4	9.2	2.8								
Eight years later	(18.2)	7.0									
Nine years later	(21.1)										
Current estimate of cumulative claims	1,822.0	1,868.4	1,942.9	2,160.1	2,001.1	1,665.6	1,868.8	2,463.1	2,921.1	3,328.3	
Cumulative payments to date	(1,757.5)	(1,806.4)	(1,868.2)	(2,071.3)	(1,845.6)	(1,518.5)	(1,584.3)	(1,970.1)	(1,992.3)	(1,759.0)	
	64.5	**62.0**	**74.7**	**88.8**	**155.5**	**147.1**	**284.5**	**493.0**	**928.8**	**1,569.3**	**3,868.2**
2014 and prior											**1,606.4**
Claims handling provision											**125.1**
Adjustment for non-financial risk											**305.3**
Effect of discounting											**(1,832.5)**
Other LIC											**37.2**
Gross liability for incurred claims included in the statement of financial position											**4,109.7**

Net insurance contract liabilities

Accident year	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	Total £m
Estimate of ultimate net claims costs:											
At end of accident year	1,920.1	1,934.4	2,012.0	2,141.0	1,922.8	1,623.6	1,758.1	2,184.2	2,241.9	2,002.9	
One year later	(79.5)	(31.4)	(95.9)	(82.2)	(37.2)	(54.0)	2.4	168.1	(30.0)		
Two years later	(63.4)	(47.2)	(61.4)	(20.7)	(40.7)	(39.2)	(13.0)	33.8			
Three years later	(29.4)	(43.4)	(17.7)	(24.0)	(4.5)	50.0	(9.9)				
Four years later	(21.8)	(15.2)	(27.5)	7.3	11.6	(15.3)					
Five years later	(22.8)	(10.1)	(9.4)	24.1	11.2						
Six years later	(1.8)	(11.6)	9.5	3.6							
Seven years later	1.3	(3.8)	2.8								
Eight years later	(3.6)	9.0									
Nine years later	2.3										
Current estimate of cumulative claims	1,701.4	1,780.7	1,812.4	2,049.1	1,863.2	1,565.1	1,737.6	2,386.1	2,211.9	2,002.9	
Cumulative payments to date	(1,687.6)	(1,753.8)	(1,780.1)	(1,995.3)	(1,786.9)	(1,464.0)	(1,542.3)	(1,966.3)	(1,575.1)	(1,117.7)	
	13.8	**26.9**	**32.3**	**53.8**	**76.3**	**101.1**	**195.3**	**419.8**	**636.8**	**885.2**	**2,441.4**
2014 and prior											**793.1**
Claims handling provision											**89.3**
Adjustment for non-financial risk											**148.9**
Effect of discounting											**(900.0)**
Due from reinsurers											**(265.1)**
Net liability for incurred claims included in the statement of financial position											**2,307.6**

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.4 Significant judgements, estimates and assumptions

This note gives details of the significant judgements made in applying IFRS 17, explaining the inputs, assumptions, methods and estimation techniques used to measure insurance, participating investment and reinsurance contracts.

Accounting policy (C) sets out the critical accounting judgements and the material accounting estimates that are considered particularly susceptible to changes in estimates and assumptions. This note provides further detail of how these are applied in the context of IFRS 17.

Significant judgements, estimates and assumptions associated with measuring insurance products and associated reinsurance are outlined below.

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment (discount rate) to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment.

Estimates of future cash flows

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, ensuring the estimates of any relevant market variables are consistent with observable market prices. However, these cash flows are inherently uncertain in size, timing and are based on probability-weighted average expectations. The Group applies the PAA to simplify the measurement of insurance contracts.

Claims

The Group makes provision for the full cost of outstanding claims from its general insurance business at the statement of financial position date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2024 amounted to £2,307.6 million (2023: £2,734.9 million).

Claims reserves are assessed separately for large and attritional claims, typically using standard actuarial methods of projection such as the Chain Ladder and Bornhuetter-Furguson methods. Key sources of estimation uncertainty include those arising from the selection of specific methods as well as assumptions for claims frequency and severity through the review of historical claims and emerging trends. The Group factors the probability-weighted expected value outcome from the range of possible outcomes in assessing claim liabilities, taking account of all the uncertainties involved.

The corresponding amount recoverable from reinsurance contracts held is calculated on an equivalent basis, with similar estimation uncertainty, as discussed in policy note (J). A credit exposure exists with respect to reinsurance contracts held, to the extent that any reinsurer is unable to meet its obligations.

Bodily injury claims

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is 0.5%.

The Ogden discount rate for England and Wales has increased from minus 0.25% on 11 January 2025. For Scotland and Northern Ireland, the bodily injury discount rate increased on 24 September 2024 to 0.5% from minus 0.75% and minus 1.5%, respectively.

The impact of potential future changes in the discount rate is shown in note 1.3.1. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 to 2024.

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

At 31 December 2024, the real discount rate for PPOs is 1.5% (2023: 0.7%), the combination of cash flow weighted inflation and discounting of 3.7% (2023: 3.9%), which allows for higher short-term ASHE 6115 inflation before reverting to a long term trend of 3.5%, and a yield curve based discount rate of 5.2% (2023: 4.6%).

The table in note 19.4 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2024 and 31 December 2023 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 1.3.1.

The table below analyses the outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2024 and 31 December 2023. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

At 31 December	Discounted 2024 £m	Undiscounted 2024 £m	Discounted 2023 £m	Undiscounted 2023 £m
Gross claims				
Approved PPO claims provisions	**506.6**	**1,592.5**	542.6	1,603.4
Anticipated PPOs	**151.1**	**458.9**	112.5	300.7
Total	**657.7**	**2,051.4**	655.1	1,904.1
Reinsurance				
Approved PPO claims provisions	**(297.0)**	**(939.8)**	(300.1)	(905.2)
Anticipated PPOs	**(98.6)**	**(308.1)**	(79.7)	(228.8)
Total	**(395.6)**	**(1,247.9)**	(379.8)	(1,134.0)
Net of reinsurance				
Approved PPO claims provisions	**209.6**	**652.7**	242.5	698.2
Anticipated PPOs	**52.5**	**150.8**	32.8	71.9
Total	**262.1**	**803.5**	275.3	770.1

The provisions for PPOs have been categorised as either claims which have already been determined by the courts as PPOs (approved PPO claims provisions) or those expected to settle as PPOs in the future (anticipated PPOs). The Group has estimated the likelihood of large bodily injury claims settling as PPOs. The anticipated PPOs in the table above are based on historically observed propensities adjusted for the assumed Ogden discount rate.

In the majority of cases, the inflation agreed in the settlement is the Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, for which the long-term cashflow-weighted average rate is assumed to be 3.7% (2023: 3.9%). The Group has estimated a cashflow-weighted average rate of interest used for the calculation of present values as 5.2% (2023: 4.6%), which results in a real discount rate of 1.5% (2023: 0.7%). The Group will continue to review the inflation and discount rates used to calculate these insurance reserves.

Claims inflation

The assessment of claims inflation, and the underlying drivers of claims inflation, remains a key consideration in deriving the reserves. Claims inflation is correlated with price inflation but there are several individual factors that are considered in addition, for example the salary of care workers, the price of used cars, judicial costs and repair costs. A range of general and specific scenarios for excess inflation has been considered in the reserving process. A range of data types and methods are used with historical comparators to assess the underlying position separate from the timing effects to mitigate the uncertainty.

Climate change

Changes in the climate can impact both frequency and severity of losses, particularly for windstorm and flood events. The impact on reserves is only seen when major loss events occur.

Discount rates

The Group determines the risk-free discount rate using Solvency II risk-free rates sourced from the Bank of England. This results in alignment between IFRS 17 and Solvency II and ensures consistency with the Bank of England credit risk premiums used in the illiquidity premium calculations.

The Group has selected to apply the 'bottom up' approach to determine discount rates which requires the use of the risk free rate curves and adding the illiquidity premium.

The illiquidity premium is determined by using a fundamental spread approach by deducting the risk-free rate and credit risk premium from corresponding corporate bond reference portfolios. For non-PPOs, the reference portfolio is A-rated bonds with terms of 1 to 3 years and for PPOs, the reference portfolio is BBB-rated bonds with a remaining term of 15 or more years.

Judgement is applied when determining the illiquidity premium with respect to allowances for past and future trends, considering changes in the economic environment. Generally, the illiquidity premium is expected to be stable over time however, assessment of the illiquidity premium assumption is reviewed periodically and adjusted where required.

Yield curves used to discount PPO and Non-PPO cash flows

As at 31 December 2024

Spot rate	1 year	3 year	15 year
PPOs	**5.7**	**5.4**	**5.4**
Non-PPOs	**5**	**4.7**	**4.7**

As at 31 December 2023

Spot rate	1 year	3 year	15 year
PPOs	6.1	5.1	4.8
Non-PPOs	4.9	3.9	3.6

Notes to the financial statements continued

19. Insurance contract assets and liabilities - gross and reinsurance continued

19.4 Significant judgements, estimates and assumptions continued

Risk adjustment

The Group estimates the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level is the 75th percentile for the liability for incurred claims (2023: 75th percentile). The risk adjustment is derived using the reserve risk distribution calculated in the internal economic capital model and consequently, is subject to model and parameter uncertainty.

Group diversification benefit is not considered at the individual insurance undertaking entity level but is considered in determining the confidence level at a consolidated level for disclosure purposes. A sensitivity which demonstrates the impact of the confidence level being at the 70th and 80th percentile on profit before tax is included in the note 1.3.1.

20. Tax assets and liabilities

This note analyses tax assets and liabilities that appear in the statement of financial position and explains movements in these balances in the year.

The aggregate current and deferred tax relating to items that are credited to equity is £2.3 million (2023: £0.3 million).

The table below analyses the major deferred tax assets and liabilities recognised by the Group and movements thereon:

	Provisions and other temporary differences	Retirement benefit obligations	Depreciation in excess of capital allowances	Share-based payments	Transitional adjustments on adoption of IFRS 9	Transitional adjustments on adoption of IFRS 17	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	4.6	(0.4)	(9.0)	1.8	65.4	26.6	89.0
(Charge)/credit to the statement of profit or loss	(2.9)	0.1	2.0	0.9	(6.3)	(26.6)	(32.8)
Credit direct to equity	–	–	–	0.3	–	–	0.3
At 31 December 2023	1.7	(0.3)	(7.0)	3.0	59.1	–	56.5
Credit/(charge) to the statement of profit or loss	**2.1**	**0.3**	**(2.8)**	**1.7**	**(6.6)**	**–**	**(5.3)**
Credit/(charge) to other comprehensive income	**–**	**(0.2)**	**–**	**–**	**–**	**–**	**(0.2)**
Credit direct to equity	**–**	**–**	**–**	**2.0**	**–**	**–**	**2.0**
At 31 December 2024	**3.8**	**(0.2)**	**(9.8)**	**6.7**	**52.5**	**–**	**53.0**

As at 31 December 2024, the Group has an unrecognised deferred tax asset of £0.2 million (2023: £0.1 million) in relation to capital losses, of which £nil (2023: £nil) relates to realised losses and £0.2 million (2023: £0.1 million) related to unrealised losses.

Deferred tax assets have been recognised in respect of IFRS 9 transitional tax adjustments and other temporary differences because it is probable that these assets will be recovered, with the exception of unrecognised capital losses where recovery is uncertain as it is dependent on realising future capital gains. The deferred tax asset in respect of IFRS 9 transitional tax adjustments is being relieved for tax over 10 years from the adoption of IFRS 9 on 1 January 2023 and will therefore be recovered over the next 8 years. Other deferred tax assets will be recovered over a period of 1 to 11 years.

Recovery of deferred tax assets is dependent on future taxable profits, which are expected to arise in future years. Probability of recovery has been assessed based on the Group's forecasts for the next 4 years, and it is assumed that sufficient profits will continue to be realised in subsequent years for offset of the remaining future tax deductions.

21. Prepayments, accrued income and other assets

	2024	2023
	£m	£m restated[1]
Prepayments[1]	**61.0**	58.5
Accrued income from contracts with customers and other assets[1]	**42.6**	43.0
Total	**103.6**	101.5

Note:

1. The 2023 balance has been restated to correct the classification of accrued income, which was previously misclassified as prepayments. This reclassification has no impact on the total balance.

22. Fair value

Basis for determining fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. There were no changes in valuation techniques during the year.

For disclosure purposes, fair value measurements are classified as level 1, 2 or 3 based on the degree to which fair value is observable.

Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

Level 3 financial assets are measured using a valuation technique that includes inputs that are unobservable.

Financial instruments classified as level 2 include:

- debt securities for which pricing is obtained via pricing services, but where prices have not been determined in an active market;
- financial instruments with fair values based on broker quotes or instruments that are valued using the Group's own models whereby the majority of assumptions are market-observable;
- derivatives valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments; and
- quoted equity investments that the Group holds for which prices are available, but where the market transactions upon which those prices are based are not considered to be regularly occurring.

Financial instruments classified as level 3 due to unobservable inputs include:

- investment properties are measured at fair value derived from valuation work carried out at the statement of financial position date by independent property valuers. The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio.
- debt securities which do not trade on active markets are valued using discounted cash flow models designed to appropriately reflect the credit and illiquidity of these instruments. The key unobservable input elements from the discount rate used across private debt securities is the credit spread which is based on the credit quality of the assets and the illiquidity premium;
- infrastructure debt, commercial real estate debt and other loans are loans which do not trade on active markets. Valuations are derived from external asset managers' credit assessment and pricing models. These aim to take into account movements in broader credit spreads and are aligned to varying degrees with external credit rating equivalents; and
- equity fund partnerships are valued as the proportion of the Group's holding in the net asset value of the partnership based on external valuation reports prepared by a third-party fund manager using International Private Equity and Venture Capital Valuation Guidelines. Fair values of investments held by the partnerships that are not quoted in an active market are determined primarily using discounted cash flow models. Unobservable inputs include projected cashflows, and the liquidity and credit and risk premium are incorporated within the discount rate.

Carrying value and fair value of financial instruments

The carrying amounts of financial assets and liabilities are set out in the following table:

	Carrying value	Level 1	Level 2	Level 3	Fair value
At 31 December 2024	**£m**	£m	£m	£m	**£m**
Assets held at fair value through profit or loss:					
Investment property	**287.6**	–	–	287.6	**287.6**
Derivative assets	**19.1**	–	19.1	–	**19.1**
Debt securities	**3,937.9**	746.0	3,190.4	1.5	**3,937.9**
Listed equity investments	**–**	–	–	–	**–**
Unlisted equity investments	**0.7**	–	–	0.7	**0.7**
Assets held at fair value through other comprehensive income:					
Equity investments	**19.4**	–	–	19.4	**19.4**
Assets held at amortised cost:					
Debt securities	**55.7**	–	16.3	34.5	**50.8**
Infrastructure debt	**188.7**	–	–	190.5	**190.5**
Commercial real estate loans	**135.5**	–	–	134.8	**134.8**
Other loans	**5.4**	–	–	5.4	**5.4**
Total	**4,650.0**	**746.0**	**3,225.8**	**674.4**	**4,646.2**
Liabilities held at fair value through profit or loss:					
Derivative liabilities	**38.7**	–	38.7	–	**38.7**
Other financial liabilities:					
Subordinated liabilities	**259.1**	–	229.0	–	**229.0**
Total	**297.8**	**–**	**267.7**	**–**	**267.7**

Notes to the financial statements continued

22. Fair value continued

At 31 December 2023	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value through profit or loss:					
Investment property	**277.1**	–	–	277.1	**277.1**
Derivative assets	**27.4**	–	27.4	–	**27.4**
Debt securities	**3,238.1**	680.8	2,555.8	1.5	**3,238.1**
Listed equity investments	**0.1**	–	0.1	–	**0.1**
Unlisted equity investments	**0.7**	–	–	0.7	**0.7**
Assets held at fair value through other comprehensive income:					
Equity investments	**18.9**	–	–	18.9	**18.9**
Assets held at amortised cost:					
Debt securities	**70.6**	–	16.2	49.4	**65.6**
Infrastructure debt	**214.2**	–	–	213.9	**213.9**
Commercial real estate loans	**145.9**	–	–	145.4	**145.4**
Other loans	**3.1**	–	–	3.1	**3.1**
Total	**3,996.1**	**680.8**	**2,599.5**	**710.0**	**3,990.3**
Liabilities held at fair value through profit or loss:					
Derivative liabilities	**15.4**	–	15.4	–	**15.4**
Other financial liabilities:					
Subordinated liabilities	**258.8**	–	212.8	–	**212.8**
Total	**274.2**	**–**	**228.2**	**–**	**228.2**

Differences arise between carrying value and fair value where the measurement basis of the asset or liability is not fair value (for example; assets and liabilities carried at amortised cost). Fair values of the following assets and liabilities approximate their carrying values:

- cash and cash equivalents;
- borrowings; and
- trade and other payables, including insurance payables.

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy relate to investment property and unquoted equity investments. Investment property is analysed in note 18 along with further details on the Group's valuation approach. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 4.

There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2023.

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, as at 31 December 2024 and 2023 are shown below:

	Fair value £m		Valuation technique	Unobservable input	Range (weighted average)	
	2024	2023			**2024**	2023
Investment property[1]	**287.6**	277.1	Income capitalisation	Equivalent yield	**5.00% – 13.50% (average 6.17%)**	4.50% – 7.96% (average 5.77%)
				Estimated rental value per square foot	**£7.50 – £35.00 (average £19.85)**	£7.00 – £35.00 (average £16.38)
Debt securities	**34.5**	49.4	Discounted cash flow	Credit spread	**80.87 – 190.02 (average 126.83)**	65.44 – 272.02 (average 143.24)
Infrastructure debt	**190.5**	213.9	Credit assessment and pricing models	Credit spread	**SONIA + 0.88% - 2.98% (average SONIA + 1.33%)**	SONIA + 0.88% - 2.98% (average SONIA + 1.36%)
Commercial real estate loans	**134.8**	145.4	Credit assessment and pricing models	Credit spread	**SONIA + 230bps – 325bps (average SONIA +270bps)**	SONIA + 230bps – 525bps (average SONIA +284bps)

Note:

1. The methodology of valuation reflects commercial property held within U K Insurance Limited.

The table below analyses the movement in assets carried at fair value classified as level 3 in the fair value hierarchy.

	Investment property £m	Unquoted equity investments held at FVOCI £m	Unquoted equity investments held at FVTPL £m
At 1 January 2024	**277.1**	**18.9**	**0.7**
Additions	**3.9**	**2.5**	**–**
Increase in fair value in the period	**6.6**	**1.6**	**–**
Disposals	**–**	**(3.6)**	**–**
At 31 December 2024	**287.6**	**19.4**	**0.7**

23. Financial instruments

This note analyses the Group's financial instruments by type and amounts arising from expected credit losses.

	2024 £m	2023 £m
Debt securities measured at fair value through profit or loss		
Corporate	**3,161.0**	2,530.8
Supranational	**17.9**	25.6
Local government	**13.0**	0.9
Sovereign	**746.0**	680.8
Total	**3,937.9**	3,238.1
Debt securities measured at amortised cost		
Corporate	**55.7**	70.6
Total	**55.7**	70.6
Total debt securities	**3,993.6**	3,308.7
Of which:		
Fixed interest rate[1]	**3,992.8**	3,307.5
Floating interest rate	**0.8**	1.2
Loans and receivables measured at amortised cost		
Infrastructure debt	**188.7**	214.2
Commercial real estate loans	**135.5**	145.9
Other loans	**5.4**	3.1
Total loans and receivables	**329.6**	363.2
Equity investments measured at fair value through other comprehensive income		
Interest in unconsolidated structured entities	**19.4**	18.9
Total	**19.4**	18.9
Equity investments measured at fair value through profit or loss		
Unquoted equity investments	**0.7**	0.7
Quoted equity investments	**–**	0.1
Total equity investments	**20.1**	19.7
Total	**4,343.3**	3,691.6

Note:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2024 was £227.1 million (2023: £419.4 million).

Within the analysis of debt securities above are bank debt securities at 31 December 2024 of £1,135.0 million (2023: £973.7 million) that can be further analysed as: secured £4.2 million (2023: £11.1 million); unsecured £935.4 million (2023: £770.6 million); and subordinated £195.4 million (2023: £192.0 million).

Financial instruments measured at amortised cost

The Group has a portfolio of financial investments measured at amortised cost, primarily comprising infrastructure debt and commercial real estate loans (total 31 December 2024: £329.6 million; 31 December 2023: £363.2 million). During the year the effect of changes in assessing the ECL relating to financial investments amounted to £0.1 million (2023: £0.9 million).

The Group has a small portfolio of debt securities measured at amortised cost (31 December 2024: £55.7 million; 31 December 2023: £70.6 million). During the year the effect of changes in assessing the ECL on these securities amounted to £0.4 million (2023: £0.2million).

Notes to the financial statements continued

23. Financial instruments continued

Unconsolidated structured entities

The Group invests in structured entities, being insurtech-focused equity fund partnerships, whose primary activity is to invest in unquoted insurtech entities. These structured entities are not consolidated where the Group has determined it does not have control.

On initial recognition the Group made an irrevocable election to classify these equity investments as FVOCI given the instruments are strategic in nature, and are not held for trading.

The insurtech-focused equity investments are valued based on external valuation reports received from a third-party fund manager using International Private Equity and Venture Capital ("**IPEV**") Valuation Guidelines. Fair values for investments that are not quoted in an active market are determined primarily using discounted cash flow models. Unobservable inputs, such as projected cashflows, and the liquidity and credit and risk premium incorporated within the discount rate are regularly reviewed.

The maximum loss that the Group is exposed to at the period end date, before consideration of mitigating actions, is the carrying value. Once the Group has disposed of its partnership interest, it ceases to be exposed to any risk from that partnership. The Group has committed to further funding of £10.2 million which may increase the maximum loss exposure in future.

The Group's holdings in the partnerships are less than 20% and as such the net asset value of the structured entities is significantly higher than the carrying value of the Groups asset.

Amounts arising from ECL: financial investments measured at amortised cost

The table below shows the gross carrying value of financial investments and ECL in stages 1 to 3:

	Gross carrying amount 2024 £m	ECL allowance 2024 £m	Carrying amount 2024 £m	Carrying amount 31 Dec 2023 £m	Carrying amount 1 Jan 2023 £m
Stage 1	375.7	(1.5)	374.3	415.5	509.6
Stage 2	5.9	(0.5)	5.4	12.6	17.9
Stage 3	13.3	(7.7)	5.6	5.7	7.0
Total	**394.9**	**(9.7)**	**385.3**	**433.8**	**534.5**

The following table shows the Group's updated ECL allowances for financial investments measured at amortised cost should there be a three-notch downgrade. This reflects an immediate downgrade on the issuers' current credit ratings. The key driver of such a scenario could be a change in the economic outlook which could impact the portfolio as a whole, or a response to an unexpected negative event, for a specific company or industry.

	ECL 2024 £m	3-notch immediate downgrade 2024 £m	ECL 2023 £m	3-notch immediate downgrade 2023 £m
Infrastructure debt	(1.0)	(3.8)	(16.6)	(19.2)
Commercial real estate loans	(7.8)	(11.3)	(7.7)	(10.5)
Debt securities held at amortised cost	(0.3)	(1.7)	(0.8)	(2.7)
Other loans	(0.6)	(0.5)	(0.4)	(0.4)
Total	**(9.7)**	**(17.3)**	**(25.5)**	**(32.8)**

Derivative financial instruments

The table below shows the carrying values of the Group's derivative financial assets and liabilities.

	2024 £m	2023 £m
Derivative assets		
At fair value through profit or loss:		
Foreign exchange contracts (forwards)	**14.9**	27.1
Interest rate swaps	**4.2**	0.3
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**–**	–
Total	**19.1**	27.4
Derivative liabilities		
At fair value through profit or loss:		
Foreign exchange contracts (forwards)	**36.4**	8.2
Interest rate swaps	**2.3**	6.9
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**–**	0.3
Total	**38.7**	15.4

Note:

1. Foreign exchange contracts (forwards) are designated as cash flow hedges in relation to supplier payments.

24. Retirement benefit obligations

Defined contribution scheme

The pension charge in respect of the defined contribution scheme for the year ended 31 December 2024 was £30.6 million (2023: £28.7 million).

Defined benefit scheme

The Group's defined benefit pension scheme was closed in 2003, although the Group remains the sponsoring employer for obligations to current and deferred pensioners based on qualifying years' service and final salaries. The defined benefit scheme is legally separated from the Group with a trustee who is required by law to act in the interests of the scheme and of all the relevant stakeholders. The trustee of the pension scheme is responsible for the investment policy with regard to the assets of the scheme.

The weighted average duration of the defined benefit obligations at 31 December 2024 is 15 years (2023: 16 years) using accounting assumptions.

The table below sets out the principal assumptions used in determining the defined benefit scheme obligations:

	2024 %	2023 %
Rate of increase in pension payment	**2.5**	2.5
Rate of increase in deferred pensions	**2.6**	2.5
Discount rate	**5.2**	4.5
Inflation rate	**3.1**	3.1

No assumption has been made for salary growth as there are no obligations in the scheme that are linked to future increases in salaries.

Post-retirement mortality assumptions

	2024	2023
Life expectancy at age 60 now:		
Males	**86.8**	87.0
Females	**88.9**	89.0
Life expectancy at age 60 in 20 years' time:		
Males	**88.3**	88.9
Females	**90.3**	90.8

The table below analyses the fair value of the scheme assets by type of asset.

	2024 £m	2023 £m
Insurance policies[1]	**46.7**	51.8
Index-linked bonds	**0.5**	0.5
Government bonds	**0.3**	0.3
Defined contribution section funds[2]	**1.0**	1.4
Other	**0.5**	1.7
Total	**49.0**	55.7

Notes:

1. Insurance policies are valued at the present value of the related obligations.
2. The defined contribution section funds relate to members in that section who have a defined benefit underpin that exceeds the value of the defined contribution funds. The investments are largely in a diversified growth fund. The corresponding liability is included in the defined benefit scheme obligation (see the movement in net pension surplus table below).

The majority of debt instruments held directly or through the liquidity fund have quoted prices in active markets.

Notes to the financial statements continued

24. Retirement benefit obligations continued

Movement in net pension surplus

	Fair value of defined benefit scheme assets £m	Present value of defined benefit scheme obligations £m	Net pension surplus £m
At 1 January 2023	53.4	(51.8)	1.6
Statement of Profit or Loss:			
Net interest income/(cost)[1]	2.5	(2.4)	0.1
Administration costs	(0.5)	–	(0.5)
Statement of Comprehensive Income:			
Remeasurement gains			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	2.7	–	2.7
Actuarial losses on defined benefit scheme			
Experience losses	–	(1.3)	(1.3)
Gains from change in demographic assumptions	–	0.4	0.4
Losses from change in financial assumptions	–	(1.7)	(1.7)
Benefits paid	(2.4)	2.4	–
At 31 December 2023	55.7	(54.4)	1.3
Statement of Profit or Loss:			
Net interest income/(cost)[1]	**2.4**	**(2.4)**	**–**
Administration costs	**(1.1)**	**–**	**(1.1)**
Statement of Comprehensive Income:			
Remeasurement gains			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**(5.2)**	**–**	**(5.2)**
Actuarial gains on defined benefit scheme			
Experience gains	**–**	**0.1**	**0.1**
Gains from change in demographic assumptions	**–**	**0.3**	**0.3**
Gains from change in financial assumptions	**–**	**5.4**	**5.4**
Benefits paid	**(2.8)**	**2.8**	**–**
At 31 December 2024	**49.0**	**(48.2)**	**0.8**

Note:

1. The net interest income/(cost) in the statement of profit or loss has been included under other operating expenses.

The table below details the history of the scheme for the current and prior years:

	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m
Present value of defined benefit scheme obligations	**(48.2)**	(54.4)	(51.8)	(96.1)	(98.7)
Fair value of defined benefit scheme assets	**49.0**	55.7	53.4	108.2	107.7
Net pension surplus	**0.8**	1.3	1.6	12.1	9.0
Experience gains/(losses) on scheme liabilities	**0.1**	(1.3)	0.3	(5.8)	2.4
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**(5.2)**	2.7	(53.3)	2.2	9.0

Sensitivity analysis

The sensitivity analysis has been calculated by valuing the pension scheme liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The pension cost has been determined allowing for the estimated impact on the scheme's assets. Following the purchase of the insurance policy to cover the benefits of the defined benefit section members, the scheme's asset and liabilities move by the same amount in respect of these members, hence has no impact on pension cost. The selection of these movements to illustrate the sensitivity of the defined benefit obligation to key assumptions should be viewed as illustrative, rather than providing a view on the likely size of any change.

	Impact on present value of defined benefit scheme obligations	
	2024	2023
	£m	£m
Discount rate		
1.0% increase in discount rate (2023: 1.0% increase in discount rate)	**(6.0)**	(7.4)
1.0% decrease in discount rate (2023: 1.0% decrease in discount rate)	**7.0**	8.7
Inflation rate		
1.0% increase in inflation rate (2023: 1.0% increase in inflation rate)	**2.4**	2.7
1.0% decrease in inflation rate (2023: 1.0% decrease in inflation rate)	**(2.3)**	(2.7)
Life expectancy		
1-year increase in life expectancy	**1.1**	2.4
1-year decrease in life expectancy	**(1.1)**	(2.4)

DL Insurance Services Limited, as the Principal Employer of the Direct Line Group Hybrid Scheme and the only Employer in relation to the Scheme, gave written notice to the Trustee of the Scheme that the Scheme is to commence winding-up with effect on and from 30 December 2024. This action has removed the requirement to obtain technical provisions funding valuations in relation to the Scheme.

Once the winding-up of the Scheme has been completed, it is expected that the Group will have no further defined benefit obligations.

At the date of signing these financial statements, no contributions are expected to be payable in 2025 (2024: £nil).

25. Cash and cash equivalents and borrowings

This note provides detail of the Group's cash position as disclosed in the consolidated cash flow statement.

	2024	2023
	£m	£m
Cash at bank and in hand	**101.3**	148.0
Short term deposits with credit institutions[1]	**1,054.7**	1,624.2
Cash and cash equivalents	**1,156.0**	1,772.2
Bank overdrafts[2]	**(66.8)**	(82.4)
Cash and cash equivalents and borrowings	**1,089.2**	1,689.8

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2024 was 5.26% (2023: 4.57%) and average maturity was 10 days (2023: 10 days).

Of the total amount of short-term deposits with credit institutions of £1,054.7 million (2023: £1,624.2 million), £298.1 million (2023: £241.8 million) is invested within money market funds under the 100% quota share reinsurance treaty for the Brokered commercial business, which is operated on a funds withheld basis and is retained as security against the reinsurer's obligations.

Notes to the financial statements continued

26. Assets held for sale

This note analyses the Group's assets held for sale.

	2024 £m	2023 £m
Property, plant and equipment	12.2	13.9
Total assets held for sale	**12.2**	13.9

The Group has been able to reduce the number of office sites it needs by changing the way it uses its premises so that they support collaboration, training and teamwork rather than being an everyday place of work for most people.

Assets held for sale at 31 December 2024 and 31 December 2023 relate to an office site in Leeds (including retail space within the property) that is no longer required.

A net impairment loss of £1.8 million (2023: £5.1 million) is included within operating expenses (as part of restructuring and one-off costs) for the write down of the carrying value of properties to their held for sale values.

27. Share capital

This note gives details of Direct Line Insurance Group plc's ordinary share capital.

Issued and fully paid: equity shares	2024			2023		
	Number of shares	Share capital	Capital redemption reserve	Number of shares	Share capital	Capital redemption reserve
Ordinary Shares of 10 10/11 pence each[1]	millions	£m	£m	millions	£m	£m
At 1 January and 31 December	**1,311.4**	**143.1**	**6.9**	1,311.4	143.1	6.9

Notes:

1. The shares have full voting, dividend and capital distribution rights (including on wind-up) attached to them; these do not confer any rights of redemption.

Additional information including the number of shares authorised for issue is available in the Directors' Report which starts on page 142.

Employee trust shares

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

At 31 December 2024, 10,431,842 Ordinary Shares (2023: 13,688,971 Ordinary Shares) were owned by the employee share trusts at a cost of £19.5 million (2023: £29.9 million). These Ordinary Shares are carried at cost and at 31 December 2024 had a market value of £26.6 million (2023: £24.9 million).

28. Other reserves

This note analyses the Group's other reserves.

Capital reserves

	2024 £m	2023 £m
Capital contribution reserve	100.0	100.0
Capital redemption reserve	1,356.9	1,356.9
Total	**1,456.9**	1,456.9

Capital contribution reserves arose on the cancellation of a debt payable to a shareholder.

Capital redemption reserves of £1,350.0 million arose on the reduction of nominal value of each share in issue with a corresponding transfer to capital redemption reserve with the remainder arising when shares repurchased through buybacks were cancelled. No further additions were made in 2024 (2023: nil).

29. Tier 1 notes

The carrying amount of Tier 1 notes at 31 December was:

	2024 £m	2023 £m
Tier 1 notes	346.5	346.5

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

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

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

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

Note:

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

30. Subordinated liabilities

The carrying amount of subordinated liabilities at 31 December was:

	2024 £m	2023 £m
Subordinated Tier 2 notes	259.1	258.8

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

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

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

31. Provisions

Movement in provisions during the year

	Restructuring £m	Other[1] £m	Total £m
At 1 January 2024	29.5	1.3	30.8
Additional provision	11.2	2.3	13.5
Utilisation of provision	(23.3)	–	(23.3)
Released to the Statement of Profit or Loss	(5.2)	(0.2)	(5.4)
At 31 December 2024	12.2	3.4	15.6

Note:

1. Other includes a number of individually immaterial provisions.

None of the above amounts are due to be settled outside of 12 months (2023: £nil).

Restructuring costs include several programmes across the Group, such as office site closures, staff restructuring and an impairment charge. There are no material uncertainties regarding the timings, amounts or assumptions used.

32. Trade and other payables

This note analyses the Group's trade and other payables at the end of the year:

	2024 £m	2023 £m
Accruals	161.6	141.6
Trade creditors	0.8	2.2
Other taxes	7.4	12.3
Other creditors	1.2	1.1
Deferred income	7.9	6.4
Total	178.9	163.6

Notes to the financial statements continued

33. Commitments and contingent liabilities

The Group did not have any material commitments and contingent liabilities at 31 December 2024 (2023: none).

The PRA has given notice of its intention to investigate the miscalculation identified within the Group's audited Solvency II own funds for the year ended 2023, as announced on 23 August 2024. The process is at an early stage and the outcome is uncertain. No provision has been recognised in the financial statements on grounds of likelihood and it is not practicable, at this time, to reliably estimate any financial penalty or other regulatory action. The Group is cooperating fully with the PRA.

Commitments to unconsolidated structured entities are detailed in note 23.

34. Notes to the consolidated cash flow statement

This note gives further detail behind the figures in the statement of cash flows

	Notes	2024 £m	2023 £m
Profit for the year		**162.5**	222.9
Adjustments for:			
Net Investment return excluding investment fees	4	**(281.1)**	(312.3)
Finance costs	8	**15.3**	14.5
Net defined benefit pension scheme expense	24	**0.4**	0.4
Equity-settled share-based payment charge		**14.6**	13.9
Tax Charge	10	**55.8**	54.5
Depreciation and amortisation charge		**139.5**	123.5
Impairment of intangible assets	15	**23.1**	5.4
Impairment on assets held for sale	26	**1.8**	5.1
Loss on disposal of property, plant and equipment and ROU assets		**0.6**	4.1
Transaction costs paid on disposal of business		**–**	(25.1)
Loss/(profit) on disposal of business	9	**4.7**	(443.9)
Operating cash flows before movements in working capital		**137.2**	(337.0)
Movements in working capital:			
Net increase in reinsurance contract assets[1]		**(456.2)**	(271.2)
Net (increase)/decrease in insurance contract assets[1]		**(0.3)**	11.9
Net increase in reinsurance contract liabilities		**432.9**	102.7
Net (decrease)/increase in insurance contract liabilities		**(151.9)**	613.0
Net increase/(decrease) in other receivables		**13.5**	(0.6)
Net (increase)/decrease in accrued income and other assets		**(2.2)**	3.2
Net (decrease)/increase in trade and other payables		**(4.0)**	10.0
Cash (used in)/generated from operations before investment of insurance assets		**(31.0)**	132.0
Interest received		**208.2**	176.7
Rental income received from investment property	4	**17.4**	16.1
Purchase of investment property	18	**(3.8)**	(0.5)
Proceeds on disposal/maturity of financial investments measured through profit or loss		**1,131.0**	1,062.4
Proceeds from maturity of debt securities measured at amortised cost		**15.2**	26.5
Advances made for commercial real estate loans		**(24.2)**	(5.4)
Repayments of infrastructure debt and commercial real estate loans		**60.5**	81.8
Proceeds from equity investments		**3.2**	–
Purchase of equity investments		**(2.5)**	(3.0)
Purchase of financial investments measured at fair value through profit or loss		**(1,749.6)**	(1,049.0)
Advances for other loans		**(2.5)**	(1.1)
Cash (used in)/generated from investment of insurance assets		**(347.1)**	304.4

Note:

1. 2023 cashflows have been re-presented to show Impairment provision movements on non-performance reinsurance contracts within Net increase in reinsurance contract assets.

The table below details changes in liabilities arising from the Group's financing activities:

	Leases		Subordinated liabilities	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
At 1 January	**106.1**	81.6	**258.8**	258.6
Interest paid on subordinated liabilities	**–**	–	**(10.4)**	(10.4)
Lease repayments	**(17.1)**	(14.6)	**–**	–
Financing cash flows	**(17.1)**	(14.6)	**(10.4)**	(10.4)
Additions from acquisition of business	**–**	0.8	**–**	–
Additions/disposals of leases	**20.1**	34.5	**–**	–
Interest on lease liabilities	**4.6**	3.8	**–**	–
Amortisation of arrangement costs and discount on issue of subordinated liabilities	**–**	–	**0.3**	0.2
Accrued interest expense on subordinated liabilities	**–**	–	**10.4**	10.4
Other changes	**24.7**	39.1	**10.7**	10.6
At 31 December	**113.7**	106.1	**259.1**	258.8

35. Related undertakings

The principal subsidiary undertakings of the Group, over which it exercises 100% voting power, are shown below. Their capital consists of Ordinary Shares which are unlisted. All subsidiaries (a full list of which is included in note 2 of the Parent Company's financial statements) are included in the Group's consolidated financial statements.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
DL Insurance Services Limited	3001989	United Kingdom	Management services
U K Insurance Limited	1179980	United Kingdom	General insurance

The Group did not acquire any subsidiaries in the year ended 31 December 2024, (31 December 2023: four subsidiary entities acquired: By Miles Group Limited, By Miles Limited, By Miles Payment Services Limited and By Miles Technology Services Limited). By Miles Payment Services Limited was dissolved on 1 October 2024, (31 December 2023: no subsidiaries disposed).

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

Subject to the preceding sentence, there were no sales or purchases of products and services to or from related parties in the year ended 31 December 2024 (2023: £nil).

Compensation of key management

	2024	2023
	£m	£m
Termination benefits	**1.5**	1.0
Short-term employee benefits	**8.5**	6.6
Post-employment benefits	**0.2**	0.2
Share-based payments	**6.4**	2.5
Total	**16.6**	10.3

For the purposes of IAS 24 'Related party disclosures', key management personnel comprise the Directors and Non-Executive Directors and the members of the Executive Committee.

36 Post balance sheet events

No events have occurred since the reporting date that materially impact these financial statements.

Parent Company Accounting Policies

(A) Basis of preparation

Direct Line Insurance Group plc, registered in England and Wales (company number 02280426), is the ultimate parent company of the Group. The principal activity of the Company is managing its investments in subsidiaries, providing loans to those subsidiaries, raising funds for the Group and the receipt and payment of dividends.

The address of the Company's registered office is Churchill Court, Westmoreland Road, Bromley, BR1 1DP.

The Company's financial statements are prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value.

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company's Statement of Profit or Loss and related notes have not been presented in these separate financial statements.

The Company's financial statements are prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

The Company has taken advantage of the following FRS 101 disclosure exemptions:

- FRS 101.8 (d): the requirements of IFRS 7 'Financial Instruments: Disclosures' to make disclosures about financial instruments;
- FRS 101.8 (e): the disclosure requirements of IFRS 13 'Fair Value Measurement';
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 111, and 134 to 136 of IAS 1 ‘Presentation of Financial Statements’ to produce a cash flow statement and to make an explicit and unreserved statement of compliance with IFRSs, additional comparative information and capital management information;
- FRS 101.8 (h): the requirements of IAS 7 'Statements of Cash Flows' to produce a cash flow statement and related notes;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to include a list of new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member.

Adoption of new and revised standards

Full details of the new and revised standards adopted by the Company are set out in note (A) to the consolidated financial statements.

(B) Investment in subsidiaries

Investments in subsidiaries are stated at cost less any impairment.

(C) Subsidiaries exemption from audit by parent guarantee

The following subsidiaries incorporated in the United Kingdom, are exempt from the requirements relating to the audit of individual accounts, under s479A-479C of the Companies Act 2006. The parental guarantee is provided by Direct Line Insurance Group plc.

- Direct Line Group Limited (Registered number: 02811437)
- Finsure Premium Finance Limited (Registered number: 01670887)
- Green Flag Holdings Limited (Registered number: 03577191)

Parent Company Statement of Financial Position

For the year ended 31 December 2024

	Notes	2024 £m	2023 Re-presented £m
Non-current assets			
Investment in subsidiary undertakings	2	**3,460.9**	3,445.2
Other receivables	3	**18.0**	16.9
Total non-current assets		**3,478.9**	3,462.1
Current assets			
Other receivables	3	**6.8**	6.5
Current tax assets	4	**11.4**	14.1
Derivative financial instruments	5	**–**	0.3
Cash and cash equivalents	6	**177.3**	118.8
Total current assets		**195.5**	139.7
Total assets		**3,674.4**	3,601.8
Equity			
Shareholders' equity		**2,810.5**	2,693.6
Tier 1 notes	8	**346.5**	346.5
Total equity		**3,157.0**	3,040.1
Non-current liabilities			
Subordinated liabilities	9	**259.1**	258.8
Total non-current liabilities		**259.1**	258.8
Current liabilities			
Borrowings	6	**257.5**	301.7
Derivative financial instruments	5	**–**	0.3
Deferred tax liabilities	4	**0.8**	0.9
Total current liabilities		**258.3**	302.9
Total liabilities		**517.4**	561.7
Total equity and liabilities		**3,674.4**	3,601.8

Prior period comparatives have been re-presented to be based on classification rather than on liquidity.

The attached notes on pages 233 to 235 form an integral part of these separate financial statements.

The profit for the year net of tax was £213.5 million (2023: £21.2 million). There were no other components of recognised income or expense in either period and, consequently, no statement of other comprehensive income has been presented.

The financial statements were approved by the Board of Directors and authorised for issue on 3 March 2025.

They were signed on its behalf by:

Jane Poole
Chief Financial Officer

Direct Line Insurance Group plc

Registration No. 02280426

Parent Company Statement of Changes in Equity

As at 31 December 2024

	Share capital (note 7) £m	Capital reserves (note 7) £m	Share-based payment reserve £m	Retained earnings £m	Shareholders equity £m	Tier 1 notes (note 8) £m	Total equity £m
Balance at 1 January 2023	143.1	1,456.9	1.1	1,094.6	2,695.7	346.5	3,042.2
Profit for the year	–	–	–	21.2	21.2	–	21.2
Total comprehensive income for the year	–	–	–	21.2	21.2	–	21.2
Dividends and appropriations paid (note 10)	–	–	–	(16.6)	(16.6)	–	(16.6)
Credit to equity for equity-settled share-based payments	–	–	12.6	–	12.6	–	12.6
Shares distributed by employee trusts	–	–	(19.3)	–	(19.3)	–	(19.3)
Total transactions with equity holders	–	–	(6.7)	(16.6)	(23.3)	–	(23.3)
Balance at 31 December 2023	143.1	1,456.9	(5.6)	1,099.2	2,693.6	346.5	3,040.1
Profit for the year	**–**	**–**	**–**	**213.5**	**213.5**	**–**	**213.5**
Total comprehensive income for the year	**–**	**–**	**–**	**213.5**	**213.5**	**–**	**213.5**
Dividends and appropriations paid (note 10)	**–**	**–**	**–**	**(94.8)**	**(94.8)**	**–**	**(94.8)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**15.8**	**–**	**15.8**	**–**	**15.8**
Shares distributed by employee trusts	**–**	**–**	**(17.6)**	**–**	**(17.6)**	**–**	**(17.6)**
Total transactions with equity holders	**–**	**–**	**(1.8)**	**(94.8)**	**(96.6)**	**–**	**(96.6)**
Balance at 31 December 2024	**143.1**	**1,456.9**	**(7.4)**	**1,217.9**	**2,810.5**	**346.5**	**3,157.0**

The attached notes on pages 233 to 235 form an integral part of these separate financial statements.

Notes to the Parent Company Financial Statements

1. Risk management

The risks faced by the Company, arising from its investment in subsidiaries, are considered to be the same as those in the operations of the Group. Details of the key risks and the steps taken to manage them are disclosed in note 1 to the consolidated financial statements. The Company also holds, on behalf of its subsidiaries, designated hedging instruments which relate to foreign currency supplier payments.

2. Investment in subsidiary undertakings

	2024 £m	2023 £m
At 1 January	**3,445.2**	3,332.6
Additional investment in subsidiary undertakings	**15.7**	112.6
At 31 December	**3,460.9**	3,445.2

The subsidiary undertakings of the Company are set out in the table below. Their capital consists of Ordinary Shares which are unlisted. In all cases, the Company owns 100% of the Ordinary Shares, either directly or through its ownership of other subsidiaries, and exercises full control over their decision making.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
Directly held by the Company:			
Direct Line Group Limited[1]	02811437	United Kingdom	Intermediate holding company[6]
DL Insurance Services Limited[1]	03001989	United Kingdom	Management services
Finsure Premium Finance Limited[1]	01670887	United Kingdom	Non-trading company[6]
Inter Group Insurance Services Limited[1]	02762848	United Kingdom	Dormant[5]
UK Assistance Accident Repair Centres Limited[1]	02568507	United Kingdom	Motor vehicle repair services
UK Assistance Limited[1]	02857232	United Kingdom	Dormant[5]
U K Insurance Business Solutions Limited[1]	05196274	United Kingdom	Insurance intermediary services
U K Insurance Limited[2,3]	01179980	United Kingdom	General insurance
Indirectly held by the Company:			
Brolly UK Technology Limited[1]	10134039	United Kingdom	Dormant[5]
By Miles Group Ltd[1]	12270837	United Kingdom	Intermediate holding company
By Miles Ltd[1]	09498559	United Kingdom	Business support services
By Miles Payment Services Ltd	12190473	United Kingdom	Dissolved[7]
By Miles Technology Services Ltd[1]	12189384	United Kingdom	Software development
Churchill Insurance Company Limited[1]	02258947	United Kingdom	General insurance
Direct Line Insurance Limited[1]	01810801	United Kingdom	Dormant[5]
DL Support Services India Private Limited[4]	See footnote 4	India	Support and operational services
DLG Legal Services Limited[2]	08302561	United Kingdom	Legal services
DLG Pension Trustee Limited[1]	08911044	United Kingdom	Dormant[5]
Farmweb Limited[1]	03207393	United Kingdom	Dormant[5]
Green Flag Group Limited[2]	02622895	United Kingdom	Intermediate holding company
Green Flag Holdings Limited[1]	03577191	United Kingdom	Intermediate holding company[6]
Green Flag Limited[2]	01003081	United Kingdom	Breakdown recovery services
Intergroup Assistance Services Limited[1]	03315786	United Kingdom	Dormant[5]
National Breakdown Recovery Club Limited[1]	02479300	United Kingdom	Dormant[5]
Nationwide Breakdown Recovery Services Limited[1]	01316805	United Kingdom	Dormant[5]
The National Insurance and Guarantee Corporation Limited[1]	00042133	United Kingdom	Dormant[5]
UKI Life Assurance Services Limited[1]	03034263	United Kingdom	Dormant[5]

Notes:

1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
3. U K Insurance Limited is registered as a foreign company in the Republic of South Africa and had a branch in Ireland (deauthorised February 2025).
4. Registered office at: Max House, Level 5, Okhla Industrial Estate Phase-III, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
5. These entities have not been audited, in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.
6. These entities have not been audited, in accordance with the exemptions available for subsidiaries under section 479A of the Companies Act 2006.
7. By Miles Payment Services Ltd was dissolved on 1 October 2024.

Notes to the Parent Company Financial Statements continued

At 31 December 2024, the carrying amount of the Company's net assets of £3,157.0 million (2023 £3,040.1 million) exceeded the Group's market capitalisation of £2,386.1 million (2023: £2,902.1million). The Group has performed an impairment test in line with the requirements of IAS 36 'Impairment of Assets' and concluded that no impairments were required to any of the Company's investments in its subsidiaries.

The recoverable amounts of each investment were based on the higher of the value-in-use test, using the strategic plan, and the fair value which was deemed to be equal to the subsidiaries' net asset values. For each investment in subsidiary the recoverable amount was greater than the carrying value of the cost of investment resulting in no impairment required for the year ended 31 December 2024 (2023: £nil).

3. Other receivables

	2024	2023
	£m	£m
Loans to subsidiary undertakings[1]	**18.0**	16.9
Trade receivables due from subsidiary undertakings	**5.7**	6.0
Other debtors	**1.1**	0.5
Total[2]	**24.8**	23.4

Notes:

1. Loans to subsidiary undertakings are not expected to be settled within 12 months and as such are classified as non-current. Loan balances are held at their recoverable amount
2. Trade receivables due from subsidiary undertakings and Other debtors are classified as current.

4. Tax assets and liabilities

	2024	2023
	£m	£m
Per Statement of Financial Position:		
Current tax assets	**11.4**	14.1
Deferred tax liabilities	**(0.8)**	(0.9)

The deferred tax liability is in respect of temporary differences in Tier 1 notes.

5. Financial instruments

This note shows the carrying values of the Company's derivative financial assets and liabilities[1].

	Notional amount	**Fair value**	Notional amount	Fair value
	2024	**2024**	2023	2023
	£m	**£m**	£m	£m
Derivative assets				
Designated as hedging instruments:				
Foreign exchange contracts (forwards)[2]	**24.0**	**–**	14.5	0.3
Total	**24.0**	**–**	14.5	0.3
Derivative liabilities				
Designated as hedging instruments:				
Foreign exchange contracts (forwards)[2]	**24.0**	**–**	14.5	0.3
Total	**24.0**	**–**	14.5	0.3

Notes:

1. The derivative assets and liabilities are both classified as level 2 within the Group's fair value hierarchy set out in note 23 of the consolidated financial statements.
2. The foreign exchange cash flow hedges have been entered into on behalf of the Group's subsidiary companies.

6. Cash and cash equivalents and borrowings

This note provides detail of the Company's cash position.

Cash and cash equivalents

	2024 £m	2023 £m
Cash at bank and in hand	–	0.3
Short-term deposits with credit institutions[1]	177.3	118.5
Total	**177.3**	118.8

Note:

1. This represents money market funds.

Borrowings

	2024 £m	2023 £m
Loans from fellow subsidiaries within the Group[1]	**257.5**	301.7

Note:

1. All loans from fellow Group subsidiaries are repayable by 31 December 2024 and automatically extend by a year on 1 January 2025. Interest is charged at the bank of England base rate plus 1%.

7. Share capital, capital reserves and distributable reserves

Full details of the share capital and capital reserves of the Company are set out in notes 27 and 28 to the consolidated financial statements.

Of the Company's total equity, £1,217.9 million (2023: £1,099.2 million), being the total of its retained earnings, is considered to be distributable reserves.

8. Tier 1 notes

Full details of the Tier 1 notes of the Company are set out in note 29 to the consolidated financial statements.

9. Subordinated liabilities

	2024 £m	2023 £m
Subordinated Tier 2 notes	**259.1**	258.8

Full details of the Company's subordinated Tier 2 notes are set out in note 30 to the consolidated financial statements.

The aggregate fair value of subordinated guaranteed dated notes at 31 December 2024 was £229.0 million (2023: £212.8 million).

10. Dividends

Full details of the dividends paid and proposed by the Company are set out in note 11 to the consolidated financial statements.

11. Share-based payments

Full details of share-based compensation plans are provided in note 6 to the consolidated financial statements. The Company is the sponsoring entity and the employees of a subsidiary are the participants of the schemes.

12. Employees, Directors and key management remuneration

The Company has no employees. The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in note 6 to the consolidated financial statements, the compensation for key management is set out in note 35 to the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest-paid Director are included in the Directors' Remuneration Report in the Governance section of the Annual Report and Accounts.