TCFD Report 2020

Task Force on Climate-related Financial Disclosures

Direct Line Group

Direct Line Group ("the Group") is one of the UK's leading insurers. We provide general insurance products to customers through a number of our own well-known brands, including Direct Line, Churchill, Privilege and Green Flag, and via our partnerships. Formerly the insurance division of the then Royal Bank of Scotland Group ("RBSG"), the Group separated from RBSG and floated on the London Stock Exchange in 2012. It is now a constituent of the FTSE 250.

We are one of Britain's leading personal lines insurers and protect millions of customers through our Motor and Home insurance lines and our breakdown recovery service, Green Flag. We support commercial businesses through our NIG brand and small businesses with our successful Direct Line for Business and Churchill brands. We are also one of the largest travel and pet insurers.

Our strength lies in the diversity of our propositions, offering a range of products, powerful brands and multiple routes to market, underpinned by a determination to aim higher for our customers, people, shareholders and wider stakeholders.

Climate-related risks and opportunities have grown in importance for us as a business. As an insurance company understanding and managing risk is at the heart of what we do, and we recognise that climate change poses material long-term impacts to the business.

These include:

- physical risks and opportunities resulting from the physical effects of climate change;
- transition risks and opportunities arising from the transition to a lower-carbon economy; and
- liability risks arising when parties who have suffered losses from climate change seek to recover them from those they believe may have been responsible.

These risks manifest themselves through several existing risks already included within our material risk register, including insurance, market, operational, strategic and reputational risks.

We recognise that there is strong empirical evidence and scientific consensus that human activities are causing an increase in global temperatures which, if left unchecked, will have a significant detrimental global impact. That is why we have put sustainability at the heart of how we think about our business, through our Vision and Purpose. We are working to build on our success to date, be more ambitious and fully embed the principles of sustainability into our business strategy.

Direct Line

churchill

Privilege

Darwin

GREEN FLAG

direct line for business

NIG

DLG PARTNERSHIPS

DLG AUTO SERVICES

For more information please visit
www.directlinegroup.co.uk

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Leadership statement

Penny James
Chief Executive Officer

Tim Harris
Chief Financial Officer

At the heart of our strategy is our Vision to create a world where insurance is personal, inclusive and a force for good. We are aiming for a triple win: a win for Direct Line Group and those invested in its success; a win for the customer by sharing real value with them; and a win for society and the planet, because we know that our long-term success is intrinsically linked to the success of the community and the environment around us.

The past months have reminded us of the importance of the community and world around us and how the actions we take can have a deep impact. We are determined to do our bit to help the UK to become a sustainable economy and we outline in the pages that follow the way we think about governance, strategy, risk management and the metrics and targets which guide our approach. We recognise that climate change cuts two ways – inbound risks on the Group which could affect revenue and costs and our outbound role in minimising our environmental footprint and playing our part in the transition to a low-carbon economy.

It's important that we understand and manage the risks that could affect a business of our size. Setting energy reduction targets for our office estate, while investing in energy efficient methods for our offices and our accident repair centres have had an impact. As an insurer, enhancing risk modelling in relation to climate change and its impact on claims matters, but we also need to think about our role in the transition to a low-carbon economy. We can use our investment portfolio to support companies that decarbonise; shape the debate on resilient repairs for flood-hit properties; and as a large motor insurer, play an active role in the adoption of electric vehicles, recognising our position in the motor eco-system which contributes to emissions .

It's equally important we take advantage of climate change opportunities to minimise our environmental footprint. As one of the UK's leading general insurers, with customers holding over 14 million of our policies, we have always sought to understand customer needs. Belief-driven buyers are increasingly choosing, switching,

avoiding, or boycotting brands based on where businesses stand on the issues they care about, with climate change rising up the agenda. As a major UK employer with well-known brands and extensive operations, we understand that our products and services can help to accelerate the transition to a low-carbon future. Developing new propositions and changing how we run our operations means that we can become more flexible and responsive to customer needs and thereby more efficient and embed sustainable practices.

We want to gain a deeper understanding of how climate change might affect the business and we outline at the end of the document future Group activity that we expect to guide future disclosures. A key focus is gaining a deeper understanding of transition and liability risks, so we can better describe and quantify specific impacts across these areas by looking at different time horizons and climate scenarios.

We're pleased that this year we announced our intention to establish Science-Based Targets which will strengthen our disclosures across Scope 1[1], Scope 2[1] and Scope 3[1] greenhouse gas emissions. We are determined to build on this and look forward to explaining how our approach is evolving. We welcome the establishment of a reporting framework by the Task Force on Climate-related Financial Disclosures ("**TCFD**"). It has enhanced our reporting and we are confident it will continue to do so as we strengthen our strategic response to one of the biggest challenges facing the world today.

Penny James
Chief Executive Officer

Tim Harris
Chief Financial Officer

Note:
1. See glossary on page 34 for definitions.

Governance

Our approach

The Group prides itself on good sustainability governance underpinned by our Vision and Purpose (see page 8) and a clear commitment from the top to align sustainability goals and ensure relevant accountability across the business.

In recent years we have started to embed sustainability explicitly throughout the business by developing an overarching framework to communicate our objectives clearly via our established five pillar sustainability strategy. The strategy outlines our goals and commitments across a range of sustainability issues that are integral to our business and important to our stakeholders.

The Sustainability Steering Group, led by our Chief Executive Officer ("**CEO**"), drives the sustainability agenda through the five individual pillars, each of which is sponsored by a member of our senior management team. Our five-pillar sustainability strategy, endorsed by the Board, aims to foster the highest standard of Environmental, Social and Governance ("**ESG**") practice and deliver long-term sustainability for all of our stakeholders. The Planet pillar takes the lead on climate-related issues and is sponsored by our Chief Risk Officer ("**CRO**").

Boards and Committees

The potential impact of climate change on the business ("**inbound**"), as well as the Group's impact on the environment ("**outbound**"), are issues that have grown in importance and sit firmly within the Group's governance approach.

This requires robust governance to empower business areas in the management of climate-related risks and opportunities. A diagram of the Group's overall governance arrangements can be found on pages 8 and 9.

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

- the Board considers and approves the Group's strategic and financial plan ("**the Plan**") annually and monitors progress at each of its meetings during the year. In approving the Plan, the Board reviews and approves the Group's Own Risk and Solvency Assessment ("**ORSA**"), which includes an analysis of the climate change-related risks to the business; and
- the Board oversees the Group's sustainability activity through its Committees which scrutinise and provide appropriate challenge on the Group's five pillar sustainability strategy. The Chair of each Committee reports to the Board after each Committee meeting.

The Board sets and monitors the Group's performance against its risk strategy, risk appetite and risk framework and has also established a risk management model that separates responsibilities into 'Three Lines of Defence'.

- The First Line of Defence is the Group's management roles with responsibility for owning and managing risks to achieve business objectives on a day-to-day basis.
- The Second Line of Defence is the Risk function which is responsible for the design and implementation of the Enterprise Risk Management Strategy and Framework, and provides proportionate oversight of, and challenge to, the business's handling of risks, events and management actions.
- The Third Line of Defence is Group Audit, providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. The Group Audit Plan includes sustainability and climate change-specific reviews.

To enhance the Group's understanding and management of issues related to climate change, we plan to establish further measures in 2021 to strengthen its capability in meeting and reporting against TCFD guidelines. The planned measures are:

- continuing to work towards establishing Science-Based Targets within the business to be approved by the Science Based Targets Initiative ("**SBTi**");
- ongoing participation in the Carbon Disclosure Project;
- setting the Board's strategic debates in a climate change context;
- integrating periodic debates on climate-related risks and opportunities into the Board's agenda; and
- inviting thought leaders on climate change to engage with the Board.

Management's role

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

- the CEO has overall responsibility for climate change and environmental matters;
- the CRO is responsible for overseeing the management of climate change-related financial risk and sponsors the Planet pillar of the Group's sustainability framework. The CRO is also the senior manager with responsibility for assessing and monitoring climate change-related risk. In that capacity, the CRO oversees the work of the Risk function in analysing and stress testing the potential future impact of climate change on the business. The results of these stress tests are submitted to the Risk Management Committee, the Board Risk Committee and the Board, including as part of the ORSA; and
- the Chief Financial Officer ("**CFO**") is responsible for setting the Group's investment strategy and is advised by the Investment Committee on the application of ESG weightings, including those related to climate change, to the relevant portfolios. The CFO is a member of the Committee and the CEO, CRO and the Director of Investment Management & Treasury are attendees.

In addition, the **Climate Change Working Group** has been established to help assess the potential impacts of climate change on the Group. Members of this working group represent various teams from across the business with the aim of ensuring risks are identified and managed effectively.

Committees

- The **Audit Committee** meets a minimum of four times a year and is responsible for overseeing the Group's financial statements and non-financial disclosures, including any climate-related financial disclosures.
- The **Board Risk Committee** oversees all aspects of financial, regulatory and operational risk, including the long-term risk to the Group from climate change. It meets a minimum of four times a year and receives reports on stress testing of long-term climate change scenarios, discusses strategies for managing the associated risks and considers emerging risks twice a year, recently involving a review of climate change.
- The **Sustainability Committee** supports the strategy by scrutinising progress against the plan to ensure that our Planet, People and Society pillars' activity continues moving forward. It meets a minimum of four times a year.
- The **Investment Committee** meets a minimum of four times a year and considers the strategy for incorporating ESG factors into the Group's investment management which has seen our credit portfolios tilted to issuers with higher sustainability weightings.
- The **Nomination and Governance Committee** meets a minimum of five times a year, monitoring the Board's overall structure, size, composition, and balance of skills. This Committee also works to understand and integrate investors' ESG expectations.

Group governance arrangements

Vision

We want to create a world where insurance is personal, inclusive and a force for good

Purpose

We help people carry on with their lives, giving them peace of mind now and in the future

Our Sustainability pillars

CEO-led steering group

Customers
Earn our customers' trust by demonstrating how we are acting in their best interests.

People
Encourage a culture that celebrates difference and empowers people so that they can thrive.

Society
Use our expertise to improve outcomes for society and the communities we serve.

Planet
Protect our business from the impact of climate change and give back more to the planet than we take out.

Governance
Look to the long term for our stakeholders, build a reputation for high standards of business conduct and a sustainable business.

Board

The Board considers the Strategic Plan and approves the Group's Own Risk and Solvency Assessment (ORSA)

Board Committees

Audit Committee

Board Risk Committee

Sustainability Committee

Investment Committee

Remuneration Committee

Nomination and Governance Committee

2021 initiatives

1. Continuing to work towards establishing Science-Based Targets within the business to be approved by the SBTi.
2. Ongoing participation in the Carbon Disclosure Project.
3. Setting the Board's strategic debates in a climate change context.
4. Integrating periodic debates on climate-related risks and opportunities into the Board's agenda.
5. Inviting thought leaders on climate change to engage with the Board.

Climate Change Working Group

Risk Management Committee

Strategy

The impact of climate change has far-reaching implications for economies and societies around the world. If left unchecked, it will have significant detrimental global impacts. The insurance industry is not immune and for general insurers there are specific risks and opportunities at play, compared to those for life insurers. We want to contribute to a long-term sustainable future and know that through our actions as a business we can contribute to climate risk mitigation.

In November 2019, we announced our Vision: we want to create a world where insurance is personal, inclusive and a force for good. Sustainability is critical to the long-term success of our business, and central to this approach is our five-pillar sustainability framework, as set out on page 8. This focuses on the areas that matter most to our stakeholders.

We are committed to playing our part in helping the UK to become a sustainable economy, and our Planet pillar drives our response to and action on climate change. Our strategy is to drive change across our underwriting activity, our operations and our investments.

Climate change risks and opportunities

There is strong empirical evidence and scientific consensus that human activity is causing an increase in global temperature. As is recognised, the physical and economic impacts that will result from a temperature rise may be significant, with the extent of these impacts dependent on the level of warming. We recognise that the scale of our operations brings a responsibility to act decisively on climate change, and we support the overall aim of the Paris Agreement of limiting global temperature rise to well below 2 degrees celsius above pre-industrial levels.

The specific impacts of climate change on our business are diverse, and fall into three broad categories.

- **Physical risks and opportunities** resulting from the physical effects of climate change such as weather-related events. This is important to our business as it includes the potential for increased insurance claims, driven by both the frequency and severity of natural catastrophes and other weather-related events in the UK.
- **Transition risks and opportunities** arising from efforts to mitigate climate change, which are driving the transition to a lower-carbon economy. This is significant as we navigate this transition, ensuring our insurance products and operations continue to meet our customers' needs as a result of any changes in market dynamics and customer behaviour, for example a shift towards electric vehicle usage.
- **Liability risks** arising when parties who have suffered losses from climate change seek to recover them from those they believe may have been responsible. This is important to our business, because this includes exposure to liability risk through commercial liability insurance.

We have defined the following time horizons for the above risks: Short (1-5 years), Medium (5-10 years), and Long (10+ years). In general, transition risks are likely to materialise more rapidly than physical risks, which are likely to be gradual and materialise in the longer term. The timing of liability risks is less certain due to the nature of the exposure.

Whilst transition, physical, and liability risks create uncertainty across our underwriting, operational and investment activity, they also create opportunities to develop solutions which best meet customer needs and accelerate the transition to a low-carbon future.

The climate-related risks and opportunities the Group is exposed to vary in materiality and time horizon depending on product, business area or investment. Specific issues alongside the associated time horizons are discussed throughout this disclosure. We consider the following diagram to be a general view of the risks and opportunities impacting the Group over the stated time horizons.

Increasing frequency and severity of natural catastrophes and other weather-related events in the UK. As a general insurer we have the ability to re-price annually and transfer risk through reinsurance arrangements. This is likely to limit insurance liability impact in the short term.

Strategic and operational response to the transition towards a lower-carbon economy. Including changes to risk nature, opportunities and risks within our supply chain and repair processes and changes to, and opportunities in, our product offerings.

The impacts of risks and opportunities that need to be considered over the longer term include significant adjustments to weather-related modelling, a shift in dynamics within the markets we operate in and continued efforts towards net carbon neutrality in our investment portfolio.

Stress test

We participated in the Prudential Regulation Authority's ("**PRA**") 2019 insurance stress test which considered the impact of climate change on our business, based on three hypothetical climate change scenarios.

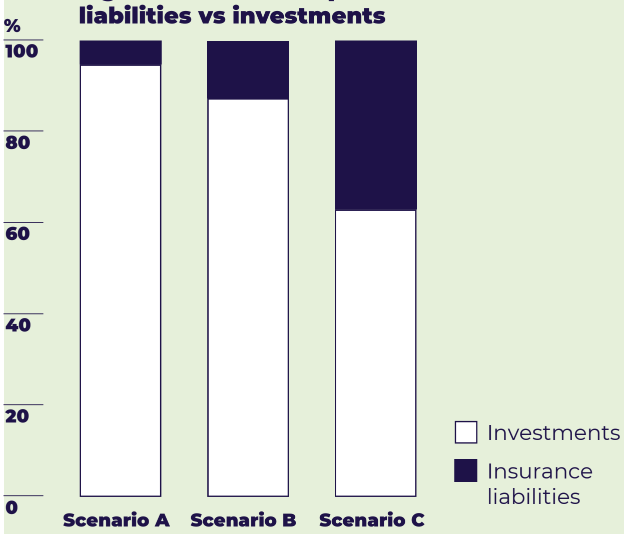
- **Scenario A**, a rapid, disorderly transition to a low-carbon economy.
- **Scenario B**, a slow, more orderly transition that keeps global temperatures well within the Paris Agreement target of 2°C of warming.
- **Scenario C**, a scenario with failed future improvements in climate policy, reaching a temperature increase in excess of 4°C (relative to pre-industrial levels) by 2100 assuming no transition and a continuation of current policy trends.

The PRA stress test was based on the Group's principal underwriter U K Insurance Limited (**"UKI"**), hence only investments associated with this entity were considered as part of the analysis. However, UKI made up approximately 94% of the value of the Group's investment portfolio at the time of the assessment.

The PRA-specified high-level assumptions for each scenario included the consideration of impacts both to liabilities (physical risk only) and investments (physical and transition risk). In all scenarios the impact on insurance liabilities was more limited than on investments.

In practice, the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements are likely to limit the impact on general insurance liabilities. However, over time the increased physical effects of climate change are likely to result in more risks and perils becoming either uninsurable or unaffordable.

Figure 1: Share of impact in insurance liabilities vs investments



Whilst the transition scenarios saw material impacts on the investment portfolio, the most notable impacts on both investments and insurance liabilities arose from the physical effects of no transition, that is no additional actions beyond those already announced. Based on the PRA specifications, Scenario C, in which physical risk dominates, resulted in the most significant impact on the Group but did not breach risk appetite despite not allowing for reinsurance. This demonstrates the resilience of the Group's strategy to such a scenario. Furthermore, the projected time frame (2100) for this scenario is likely to allow the business to adapt. The share of transition versus physical risks by scenario is shown below.

Figure 2: Share of transition vs physical risk of overall scenario impact

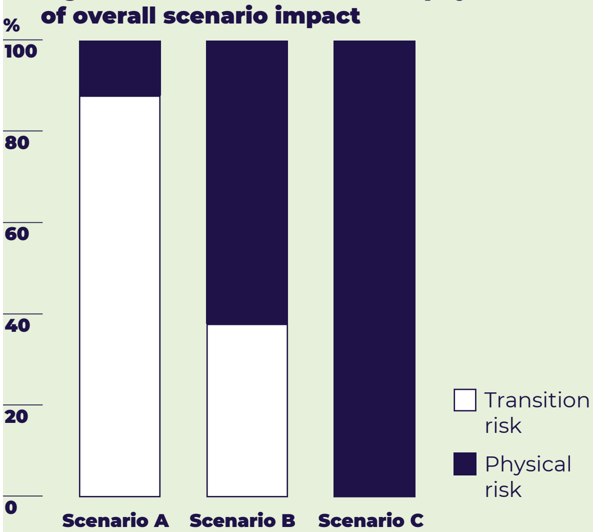
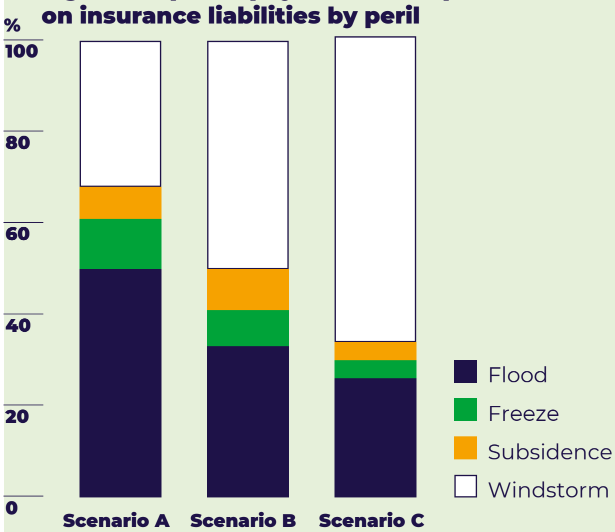


Figure 3: Split of physical risk impacts on insurance liabilities by peril

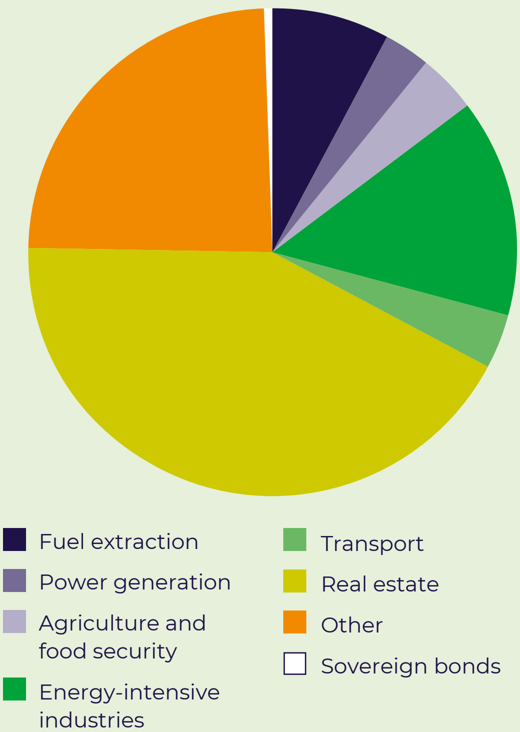


As highlighted by the graph to the right, on a gross basis, the physical risk to insurance liabilities across all three scenarios was largely driven by flood and windstorm including storm surge due to a rise in sea levels.

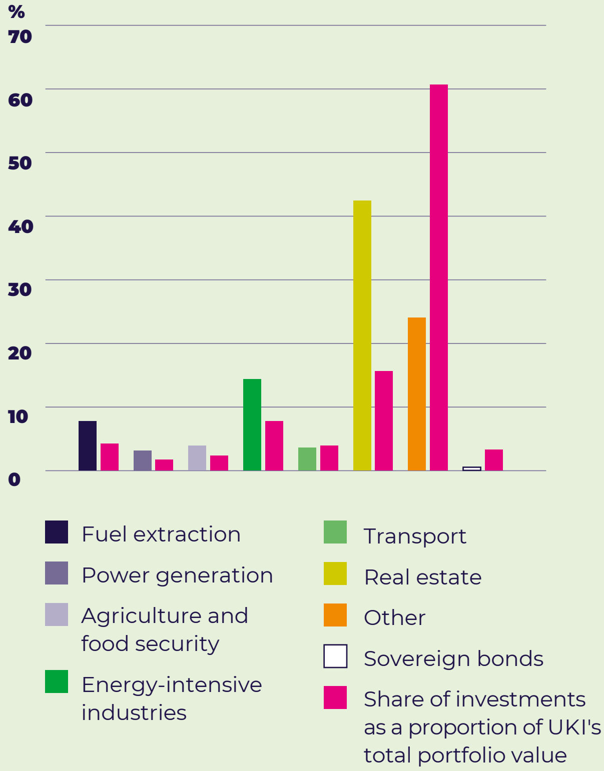
Figure 4: Split of physical risk impacts on investments by specified sectors and their share of the portfolio

Physical risks under Scenario C, whereby no additional actions beyond those already announced are taken, also drove the largest impact on investments results in absolute terms. However, the time frame will allow the business to adapt, particularly as the majority of the investment portfolio is made up of corporate bonds, with an average duration of less than three years. The following graphs show how the physical risk impacts for investments are split across the PRA-specified sectors in Scenario C. Note that all industries that were not explicitly included in the high-risk sectors specified by the PRA were categorised under "Other". This includes investments such as financial services, healthcare, water utilities and telecommunications.

Scenario C – physical risk by sector (investments)

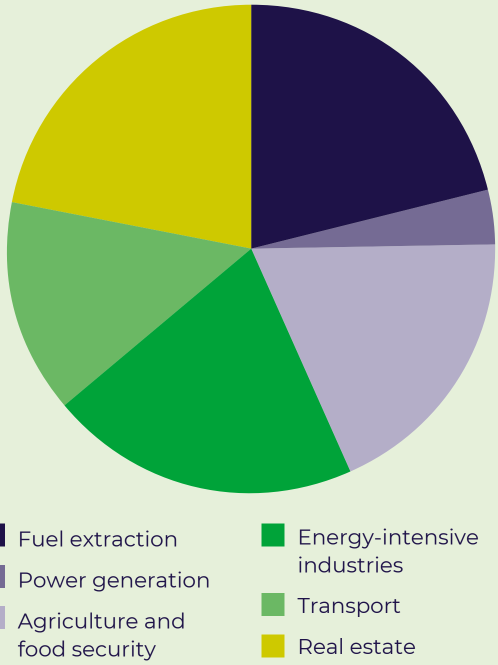


Scenario C – physical risk by sector vs share of assets (investments)



Approximately a third of UKI's investments fell into the categories classified by the PRA as having the highest exposure to climate change transition risk. The chart below highlights the share of each of those sectors in the impact for Scenario A, which maximised transition risk.

Figure 5: Share of transition risk by "high-risk" sector in Scenario A



Going forward, we intend to work towards developing scenarios specific to our own risk profile, that focus on the most material aspects of our business. This will enable us to more effectively make use of scenario-testing output to inform our strategic approach to mitigating these impacts.

Financial planning

We acknowledge that there are risks posed by climate change that could potentially have impacts on revenue and costs, and we intend to integrate further climate-related considerations into our financial planning processes from 2021 onwards. As an underwriter, we actively measure climate-related risk through climate risk modelling due to the nature of the Group's products (see page 25). We recognise our prices, products and operations will evolve as climate change influences manifest themselves through changing loss patterns.

We are beginning to experience increased climate-related operating costs, seen, for example, through our target of becoming a carbon neutral business by offsetting our Scope 1 and Scope 2 emissions, as well as the elements of Scope 3 emissions which are under our direct control. We could also face costs related to evolving regulatory changes; we identify and monitor these risks closely, as seen in the risk identification process on page 24. We continue to seek to optimise our business and its operations to reduce overall operating expenditure and any associated climate-related risk.

Our approach to capital expenditure has already been influenced by climate-related issues, for example through the investments we have made to reduce the overall greenhouse gas ("**GHG**") emissions in our estate (see page 19). The Group is aware of the long-term benefits these investments can bring, and we intend to begin developing climate-related processes and considerations into our investment appraisal approach during 2021.

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

In our approach to acquisitions and divestments the Group will take into consideration any climate-related risks and opportunities to form part of our usual due diligence process.

Underwriting

Climate change is a key risk facing the insurance industry. It has the potential to affect both the frequency and severity of natural catastrophes and other weather-related events in the UK which are key drivers in the Group's solvency capital requirements. The move to low-carbon vehicles, particularly electric-powered cars, also presents new challenges from which the Group could benefit, for example by creating innovative products for consumers. We summarise the specific risks and opportunities in the table below and an explanation follows.

Inbound Impact of climate change on the Group	**Outbound** Group's impact on the environment
Risks & Opportunities	**Risks & Opportunities**
– Climate change is a key risk facing the insurance industry. It has the potential to affect both the frequency and severity of natural catastrophes and other weather-related events and impact insurance liabilities, particularly property insurance products, for example as a result of flood, subsidence or windstorms. – Climate change can also impact the way the Group prices property underwriting risk due to changes in building codes and standards. – Liability risks can arise as people suffer losses from climate change. – Climate change therefore creates the opportunity to enhance our risk-modelling expertise that can strengthen our pricing decisions.	– Remaining active participants in developing solutions to influence the debate on weather-related events gives the Group an opportunity to enhance risk modelling and ensure commercial impacts are understood, particularly how claims and fulfilment operations function, for example flooding and resilient repairs.
– The transition to electric-powered vehicles could affect strategic and operational considerations, including changes to the profile of accidents and changes to the nature of risks, supply chain and repair processes. Understanding this transition provides an opportunity to ensure optimum risk assessments influence pricing decisions and seek to ensure an efficient repair process in our accident repair centres.	– Developing further insight into electric-powered vehicles for pricing considerations, the nature of the risks involved, developing efficient repair practices and strengthening technical expertise in our accident repair centres are commercial opportunities. Failing to do this could have an adverse impact on market share if the Group fails to grasp the scale of the transition in the medium term. – Exploring the potential for a full electric vehicle proposition could strengthen the Group's profile when showcasing its green expertise as the transition to electric-powered vehicles takes place.
– Consumers and existing customers could gravitate in greater numbers to competitors as part of a desire for environmentally friendly products. This is a risk and opportunity in equal measure.	– Developing products that could encourage a reduction in emissions would highlight the Group's capability to customers, opening up a potential commercial opportunity, for example mileage refund propositions. – Integrating electric vehicles into our fleet of courtesy cars to support customer awareness of electric vehicle capability. – Issuing communications on preventative measures customers can take could reduce claims numbers. – Conducting market research on consumer attitudes to green products in the insurance industry could give the Group greater insight into the commercial viability of green products.

Climate change is most likely to manifest itself as an insurance risk on property insurance products, but it can also have an impact on other insurance products.

Weather events that the Group responds to highlight the importance and need for insurance products, and climate change may have an impact on the frequency and severity of such events. Recent weather events we have supported our customers through include:

- the 'Beast from the East' freeze event in Q1 2018, which contributed to household losses from frozen and burst pipes, a higher volume of Green Flag call-outs, and ice-related motor accident claims;
- the prolonged period of dry, warm weather in Q2/3 2018, which contributed to additional subsidence claims on household policies, an increase in vehicle journeys with a subsequent increase in motor accidents, and an increase in the average cost of Green Flag call-outs due to more catastrophic failures; and
- the storms Ciara and Dennis in Q1 2020 which saw Home and Commercial customers experience flood and property damage with claims costs in the region of £30 million, net of Flood Re recoveries.

In addition, efforts to mitigate climate change are driving a transition towards a lower-carbon economy, creating both risks and opportunities for our business. Specifically, we believe the following key issues could have a material impact on our business:

- strategic and operational risks from the transition towards electric-powered vehicles, including changes to the profile of accidents, changes to the nature of risk (for example, fire risks from batteries), changes in supply chains and repair processes, changes to the skill set required within our accident repair centres, changes in the nature of Green Flag call-outs, and changes in personal car ownership due to increased cost and regulatory action to reduce car usage in urban areas; and
- impacts on property underwriting risk due to changes in building codes and standards.

There is also a remote exposure where parties who have suffered losses from climate change seek to recover them from those whom they believe may have been responsible. In this event the Group may have an exposure through commercial liability insurance, with two types of coverage having an elevated exposure to climate liability risk: pollution covers on agricultural insurance; and professional indemnity covers. Both of these risks are heavily reinsured, with the Group retaining the first £5,000 of each pollution claim and professional exposures are reinsured 100%.

Whilst these risks create uncertainty which we must manage, we also recognise that climate change creates opportunities to develop insurance solutions which best meet our customers' evolving needs and accelerate the transition to a low-carbon future. Our strategy is to embed environmental factors such as climate change into our underwriting practices.

Motor

We have recently undertaken a strategic review of the impact of changing car ownership models, including the electrification of vehicles. We believe this shift in ownership will be gradual and is not likely to have material financial impacts in the short or medium term. Nevertheless, our channel-focused strategy will help us to develop core capabilities to mitigate the impacts from this shift. In particular, we see partnerships, commercial insurance, and incentivising green behaviours as key areas of opportunity. We have therefore developed, and continue to develop, our partnership capabilities, which are supported by strong brands and compelling products.

The future of mobility

We are currently investing in a number of key strategic partnerships, to help us and our partners to develop the new processes, skills and technical knowledge required to keep pace with these changes. These include:

- an 'introducer' relationship with Tesla which is helping us to understand the implications of electric vehicles on claims, and what our customers who own electric vehicles need from an insurance product; and
- various research initiatives and partnerships in the mobility space such as StreetWise and Move_UK, to understand how autonomous vehicles and shared mobility solutions could reduce the number of vehicles on UK roads and lower emissions.

StreetWise

Through the StreetWise consortium the Group has been working with FiveAI and the Transport Research Laboratory ("**TRL**") to trial autonomous vehicles on the streets of Bromley and Croydon. By testing the technology, analysing its performance in a complex environment with other road users and assessing passenger feedback we are gaining unique insight that will help to develop insurance solutions for new tech-enabled mobility services.

The trials which took place throughout Autumn 2019 demonstrated how technology can be used to build a compelling, automated, shared mobility solution that offers an alternative for the urban commuter and helps to reduce accident rates and lowers emissions.

Developing products and services

We know there is an increasing customer demand for green products, so we continue to explore the opportunities that exist for sustainable products in our business to ensure we are well placed to meet these changing needs.

- We have invested significantly in telematics – the use of technology to record vehicle and driver performance – to reduce insurance risk, improve driving standards and increase fuel efficiency. Currently, this investment centres on DrivePlus, a device retro-fitted to vehicles, and our Shotgun app, which monitors driver behaviour and offers rewards to customers for good driving behaviour.
- We have launched Mileage Moneyback so Direct Line customers can register to receive a refund if they do not drive the number of miles they estimated when taking out a policy. It is one way we are exploring how we can use product innovation to benefit customers who don't use their vehicle as frequently.
- We are exploring the potential of a full electric vehicle proposition, as we learn more about the needs of our customers who own electric vehicles, the nature of the risks involved in insuring those vehicles and how we can play our part in supporting the transition from combustion engines to electric.

Understanding customer needs

As one of the UK's leading general insurers, we have always sought to understand customer needs. With increasing public awareness of environmental issues, we want to understand how this could affect the Group's products and the services it offers, as it could mean consumers and existing customers gravitate in greater numbers to green brands as part of a desire for environmentally friendly products. Early research suggests consumer awareness varies in relation to climate change and can fall into the following categories:

- actively engaged; more strongly felt attitudes, more likely to make lifestyle changes that include personal sacrifices;
- moderately engaged; do recognise the need to acknowledge climate change, but much less likely to make real changes to lifestyle, and even less so changes that inconvenience them; and
- disengaged/not engaged; unlikely to make changes based on climate change concerns.

We will therefore conduct market research to gain insight on customer and broader consumer attitudes by exploring questions such as the relationship between insurance and the environment, the carbon footprint of insurance, as well as interest in potential activities and propositions we could offer.

Home

When it comes to our Home insurance business, an increasing frequency and severity of natural catastrophes and other weather-related events in the UK, including flooding, is a risk. Our strategic response is to better understand the nature of these risks to our business, using our risk-modelling expertise, and to be very active participants in developing solutions and influencing the debate on the issues that impact these risks.

Flood Re

We are an active member of, and a key financial contributor to, the Flood Re scheme. This is a collaborative initiative between the UK Government and insurers, which helps customers whose property may currently be at high risk of flooding to obtain affordable insurance, whilst the UK improves its flood defences and property resilience to flooding events. Our approach to flood modelling supports strong risk assessment of properties in flood-prone areas, helping customers to access insurance and benefit from this important initiative.

Flood resilience

We are starting to explore how flood resilient repairs can work for our customers. This is an emerging area in the response to flood risk, and one which we believe has significant potential. The concept is to incorporate enhanced features and make changes to a property that has been affected by flooding, alongside the insurance-related repairs through the claims process, thereby reducing damage levels should flooding recur.

We have been engaged in the debate on flood-resilient repairs with both Flood Re and the Government for some time. Towards the end of last year, we saw the opportunity to develop a pilot scheme for our customers who were worst hit by the floods in Doncaster in November 2019. This followed the Government's announcement that it was making funding available for flood-hit homes and businesses. Through the scheme we offered the option of additional flood-resilient repairs to be completed alongside the insurance-related repairs, building this into our handling approach and taking responsibility for initially funding these works and claiming back any costs from the scheme.

This has provided important insights into the challenges and opportunities of integrating more proactive measures such as flood-resilient repairs into the claims process, as well as into how we can increase awareness and take-up of these options at what can be a very distressing time for our customers. We will incorporate these learnings into our future plans and our ongoing engagement with Government and the industry, as well as contributing to the consultation this year following the Government's recent policy statement regarding its flood strategy and specifically the role insurers can play in driving take-up of resilient repair schemes. We also welcome the Environment Agency's new national strategy relating to flooding and coastal erosion, which indicates its willingness and ambitions to work with the sector to increase the use of resilient repairs in post-event recovery as part of its overall aims to mitigate flood risk.

In broader terms, we will continue to engage, both directly and through our active involvement with the Association of British Insurers ("**ABI**"), to add our voice and expertise to the ongoing policy debate around key industry issues such as building on flood plains and the significant enhancement of new and existing flood defences, to which the Government recently recommitted.

Operations

Our operations are exposed to physical and transition risks. Climate change has the potential to affect both the frequency and severity of natural catastrophes and other weather-related events in the UK, potentially disrupting our direct operations and offices. We could face increased operating costs due to potential carbon cost increases and regulatory requirements designed to limit carbon emissions. In seeking to mitigate such potential challenges the Group is setting reduction targets, improving the way individual business areas operate and the way we leverage our relationship with suppliers. We summarise the specific risks and opportunities in the table below and an explanation follows.

Inbound Impact of climate change on the Group	**Outbound** Group's impact on the environment
Risks & Opportunities	**Risks & Opportunities**
– Operating costs could increase due to carbon costs, therefore driving the need for more aggressive energy reduction measures across the Group. – Frequency and severity of natural catastrophes and other weather-related events could impact direct operations leading to business interruption.	– A failure to set long-term emission reduction targets for business operations could see energy consumption and costs increase. Targets, however, allow the Group to focus on energy reduction across its estate. – Investing in energy-efficient features and equipment across our office estate and accident repair centres provides the opportunity to reduce energy costs, which could otherwise increase. – Improving operational efficiencies can save on energy costs, particularly in our roadside rescue and recovery business where driving miles are reduced. – Encouraging employees to make environmentally conscious decisions can enhance education, increase recycling rates and save on costs over the long term.
– Total Scope 3 emissions could either increase or reduce as a result of how we manage our supply chain, particularly the goods and services we purchase.	– Once approved, our new Science-Based Targets will enable the Group to monitor its progress and the effectiveness by reducing emissions in our supply chain.

As a major outcome of assessing the climate-related risks and opportunities on our business, we have committed to setting long-term emission reduction targets for our business operations that are aligned with science. With a long history of taking active steps to reduce our environmental impacts, we are well placed to drive down our operational carbon footprint further and we continue to take steps to drive emission reductions. We currently monitor our performance against two key reduction targets, which run until 2020[1]:

- reduce energy use across our office estate by 30% against a 2013 like-for-like baseline by the end of December 2020. We expect to meet this target by the end of this year; and
- reduce Scope 1 & Scope 2 CO_2 emissions by 57% against a 2013 like-for-like baseline by the end of December 2020. As of 30 June 2020, the Group had achieved a 67%[2] reduction.

With these targets coming to an end this year, we began our partnership with environmental consultancy the Carbon Trust towards the end of 2019. The Carbon Trust is an expert partner for businesses and other organisations around the world, supporting them in realising ambitious plans for a sustainable, low-carbon future. To date they have supported us by verifying the carbon footprint of our extended operations, including our principal supply chain. They have also supported us as we are committing to set new science-based reduction targets for our Scope 1, Scope 2, and total Scope 3 emissions under the SBTi. These targets will be submitted for approval within the two-year time frame set out by the SBTi, therefore we expect to have them approved around August 2022. These targets are designed to ensure we play our part in holding off some of the worst climate impacts by keeping a global temperature rise to no more than 1.5°C above pre-industrial levels.

We recognise the urgency of the current situation. This is why we have committed to becoming a carbon neutral business by offsetting our Scope 1 and 2 emissions, as well as the elements of Scope 3 emissions which are under our direct control such as employee commuting, business travel and waste. We have worked with ClimateCare, a UK-based non-government organisation, to develop a customised carbon offsetting programme focused on high-impact social and community initiatives. This programme is intended to enable us to offset our emissions whilst at the same time supporting local communities and economies.

Note:
1. Please refer to page 29 within Metrics & Targets for further details on our emissions and energy reduction targets.
2. This reduction against target is the year-to-date position as of 30 June 2020 comparing like-for-like emissions against the same period in 2013.

However, we also recognise that this is not a long-term solution, and our long-term aim is to achieve carbon neutrality without offsetting. Through our robust carbon reduction strategy, which focuses on our four biggest impact areas: investing in our estate and people, optimising our repair network, Green Flag rescue and working with our supply chain, each year we aim to become less reliant on carbon offsetting.

Through this strategy we aim to mitigate our impact on climate change, reduce our, and our suppliers', exposure to future regulation and punitive costs around carbon, and reassure our customers of our determination to address one of the big issues of our day.

Investing in our estate and people
The energy we use to power our estate also has a significant impact on our carbon footprint and the expertise of our people is an asset in managing climate-change issues because we recognise that colleagues making environmentally conscious decisions plays a part in our risk mitigation efforts. We continually invest in our estate, updating and integrating new energy-efficient features and equipment across our sites.

- Our environmental management system provides a framework to help us oversee our environmental responsibilities effectively and meet our targets. Our offices are accredited to ISO 14001:2015 – an international standard.
- The recent purchase of our Bristol office, The Core, saw environmental considerations central to the design. LED lighting, new chillers, heating, ventilation and an air conditioning system have made the site more energy efficient. As a result, running costs for our estate in Bristol are now 55% lower than they were in 2016.
- We procure a 100% renewable electricity tariff through our partners at Engie and have done since 2014. We are in the process of applying for membership to RE100, a global initiative dedicated to accelerating a global shift in clean energy, under which we will continue our objective of sourcing 100% renewable electricity. In addition, we are increasingly enabling and encouraging flexible working and reduced business travel, leading to further reductions in Scope 3 emissions under our direct control.
- Approximately 200 of our people do have jobs that require a car, and a number of others have an optional car lease benefit as part of their compensation. In August 2020, we announced an improved car scheme policy to encourage our people to make better decisions for the environment, including more hybrid and pure electric vehicle options. For cars that are company funded, the Group will also cover the costs of the installation of a charge point where an electric vehicle is chosen.
- We have invested in a network of Environmental Champions across all our office sites and a growing network across our repair centres, all of whom have received accredited sustainability training. Our Environmental Champions work to engage colleagues and promote local awareness campaigns, as well as working with the local property teams to deliver local initiatives designed to reduce our environmental footprint. These initiatives are particularly focused on energy efficiency and waste. In addition to the reductions in energy usage across our estate, we also recycled 98% of our total waste in 2019 along with 100% of office waste being diverted from landfill.

Optimising our repair network
Direct Line Group Auto Services has been operating since 1995 and has grown to 21 sites covering most major UK cities, repairing around 90,000 accident-damaged cars each year. We are investing significant resources in our accident repair centre network aimed at continually improving energy efficiency and reducing its carbon footprint.

In 2018, we completed energy surveys across Direct Line Group Auto Services. The results are shaping initiatives to upgrade our accident repair centre network and the equipment we use, focusing on the most energy-intensive parts of our operations. For example, we have a programme to upgrade the compressors across our network to a model which is 25% more efficient and to install new LED lighting in our workshops.

When it comes to managing our waste (and the associated carbon impacts) we work with external partners to analyse the breakdown of waste across all of our accident repair centres on an ongoing basis, and to maximise the amount of waste that is diverted from landfill. In 2019 this figure stood at 97% with an equivalent carbon saving of over 3,000 tonnes[1]. We are also now exploring working with a third party who will accept and repurpose the parts from cars that are no longer needed. Our aim is to reduce the negative environmental impact of an increase in the replacement – as opposed to repair – of parts on a damaged vehicle.

Energy-efficient repair centres
In a recent pilot, we fitted new energy-efficient paint spray booths in three of our accident repair centres, something which is already leading to operational energy efficiencies. Digital controls are allowing for more accuracy when painters are managing paint and bake cycles. We also have better capability in controlling how much power is driving air into the booths, meaning we can reduce how much gas is used when jobs are not taking place, and because we now use automatic air recirculation, we are using less power to draw in outside air. We believe this could lead to savings in energy of up to 40% and we are now looking to replicate this across the network.

Note:
1. SWR newstar 2019 Recycling Report for Direct Line Group Auto Services.

This trend is driven by the manufacturers and the increased sophistication of Advanced Driver Assistance Systems that require more sensors.

Further plans to build resilience and operational efficiencies into our accident repair centre network are focused around four key areas:

- electrifying our remaining gas appliances where there are suitable options;
- exploring the feasibility of using alternative fuels for our fleet of trucks, including biofuels, hydrogen and electric options;
- integrating electric vehicles into our fleet of courtesy cars (we are about to start rolling out charging points across our accident repair centre network); and
- ongoing upgrades to each of our accident repair centres to increase the energy efficiency of the buildings, including exploring the possibility of installing the capacity to generate renewable energy.

Green Flag Rescue

Within Green Flag we are focused on lessening our impacts by: reducing our mileage through attendance efficiency; proactively preventing customer breakdowns; and supporting sustainable transport.

We have worked hard to build ongoing efficiencies, flexibility and resilience into Green Flag's operating model.

We employ advanced technology and systems to reduce our mileage by better understanding our customers' needs and sending them the right resource first time. This approach has led to a reduction in the average ratio of resources required per job and therefore resulted in a reduction of miles driven. These processes are ongoing and are designed to continue to reduce our carbon footprint.

We are also pursuing proactive prevention of breakdowns as part of our overall solution to reducing our mileage and minimising the environmental impacts of our service. Our customer communications are increasingly focused around car health, helping them to keep their vehicle in good working order and prevent breakdowns. This year, for example, we have developed a multi-channel campaign to promote our ten simple tips for our customers to look after their cars and prevent them breaking down, and a free car health check through local garages.

Today, Green Flag services customers who drive vehicles of all fuel types, including all hybrid and electric vehicles as we recognise that the sector is undergoing a major transition to more sustainable transport options. For example, in the UK, hybrid and electric vehicles made up around 25%[1] of new car registrations as of September 2020, up from 10%[1] in September 2019. As we expect a shift to non-traditional fuel types we will refresh our consumer facing communications to provide clarity on our capability to service owners of these vehicles because we want to give people confidence for the future. In another exciting development for our own fleet, we are also trialling our first fully electric recovery vehicle. We will be monitoring this pilot closely to better understand the potential implications of integrating this new technology into the Green Flag fleet.

Working with our supply chain

Our responsibilities extend far beyond our direct operations. Therefore, another key area of focus for us is to continually enhance our understanding of the risks and impacts in our supply chain and continue to drive improvements that are designed to minimise carbon and waste.

The Group's Ethical Code sets out our expectations of suppliers in this area, specifically that they should support a precautionary approach to environmental challenges, they should undertake initiatives to promote greater environmental responsibility, and they should encourage the development and diffusion of environmentally friendly technologies.

We know that the majority of our total Scope 3 emissions are a result of the goods and services we purchase. Our ongoing work with the Carbon Trust to measure our total Scope 3 emissions will help us to further understand where we need to focus our efforts.

We will use our established relationships and purchasing power through procurement to mitigate our risks by seeking to reduce the emissions in our supply chain, while we support our supply chain partners to adapt to a low-carbon world. Once approved, our new Science-Based Targets will enable us to monitor our progress and the effectiveness of this approach.

Improving operational efficiency

Our teams are dedicated to monitoring and optimising our roadside fix rate – one of our key performance metrics – which is not only better for our customers, but also means we reduce our mileage and only tow vehicles (the most carbon-intensive part of our service) where absolutely necessary. Taking this a stage further, we are also now operating Phone Fix, an initiative aimed at understanding customer requirements and fixing jobs over the phone. We are currently fixing approximately 1.3% of jobs over the phone, saving approximately 100,000 miles driven in the first half of 2020.

Note:
1. The Society of Motor Manufacturers and Traders UK new car registration data.

Carbon offsetting

We know that we cannot make change happen overnight and that it will take time to reduce our emissions. That is why this year we announced our long-term goal of being a 100% carbon neutral business by offsetting Scope 1 and 2 emissions as well as the elements of our Scope 3 emissions which are under our direct control.

Our ambition is to significantly reduce our emissions in the future and this year we achieved carbon neutrality by working with ClimateCare, which has over 22 years of experience in project development, carbon asset development, and the delivery of corporate carbon-offsetting programmes. Over the next three years, we will offset those emission we can't yet avoid through projects that cut carbon emissions whilst also delivering tangible benefits to local communities and environments in three countries. Three such projects include:

Rainforest protection, Brazil
Deforestation continues to affect the Amazon, which produces more than 20% of the world's oxygen and contains 44,000 plant and animal species. Our funding will support efforts to prevent unplanned deforestation across 350,000 hectares of the Portel micro region, through training and educating local communities in alternative agroforestry methods. By opening up new economic opportunities, the project is reducing slash and burn agriculture, which has been one of the largest contributors to deforestation. The project is also providing access to official land titles for native families and is protecting more than 30 vulnerable species.

Water filters, Kenya
Fewer than half of Kenyans have access to safe drinking water, collecting it from open rivers, streams and other unsafe sources, leaving families vulnerable to disease. Our funding will support the distribution of safe water filters for families. As well as delivering health impacts, the project also reduces the need for people to boil water to make it safe to drink, which requires the burning of unsustainable energy sources such as wood or charcoal. This reduced reliance on fuel reduces family expenditure and reduces pressure on forests, as well as cutting carbon emissions. The team at Aqua Clara provides education and maintenance services to ensure that the filters are used correctly and remain operational.

Clean cookstoves, Bangladesh
Less than 20% of Bangladeshi households have access to clean cooking, instead using traditional "three-stone" fires, contributing to approximately 49,000 premature deaths a year. Our funding will support entrepreneurs to produce, manufacture and distribute the Bondhu Chula, a clean cookstove designed for an efficient burn to reduce fuel use. The initiative removes harmful pollutants, particularly for women who are predominantly affected in the home, bringing numerous benefits for health, wealth, gender equality, as well as forest protection.

Investments

In recent years we have started to integrate more ESG considerations into our investment strategy, recognising this is a long-term process which will require assessment and challenge to inform future decision making. We know that the impacts of potential physical and transition risks arising in the wider economy can have an impact on our investment portfolio, through their influence on the value of assets. For example, our portfolio is exposed to physical risks through our investment in companies that are exposed to disruption from adverse weather events across their supply chain. It is also exposed to transition risks, where companies that we are invested in are not adapting their strategy to a low-carbon future. However, the transition to a low-carbon economy also creates significant investment opportunities. We summarise the specific risks and opportunities in the table below and an explanation follows.

Inbound Impact of climate change on the Group	**Outbound** Group's impact on the environment
Risks & Opportunities	**Risks & Opportunities**
– The impacts of physical and transition risks arising in the wider economy can have an impact on our investment portfolio, through their influence on the value of assets and the potential for certain categories to become stranded.	– The transition to a low-carbon economy creates investment opportunities. – Developing a more focused, climate-related investment approach with a long-term goal of ensuring our entire investment portfolio is net carbon neutral by 2050. – The Group's investment grade portfolios, representing the bulk of our fixed income investments, now include a new investment objective: to achieve a minimum MSCI ESG rating of 'A' for the portfolio. – Actively encouraging our investment managers to invest in green bonds.
– Meeting the aims of the Paris Agreement will mean that energy generation from fossil fuels will have to be drastically reduced in the coming decade.	– Working to increase allocations to those companies providing the solutions and demonstrating a serious intent to decarbonise. – From 2021, asset managers will not be authorised to buy bonds in mining companies that generate more than 5% of revenues from thermal coal production, and electricity generators that derive more than 5% of revenues from thermal coal power generation. – We also plan to exclude companies that are developing new thermal coal plants or mines, in a time frame consistent with our application to the global corporate renewable energy initiative, RE100. – We will review the above exclusions annually and may, in the future, divest completely from companies with any involvement in coal or expand the list to include other types of fossil fuels.

In the Group, we recognise the benefit of integrating ESG factors into our investment strategy, and in recent years we have taken active steps towards increasing the role that ESG considerations play in determining our investment strategy. Looking ahead, we are accelerating action with a long-term goal of ensuring our entire investment portfolio is net carbon neutral by 2050.

Integrating ESG considerations into our investment strategy

Our largest asset portfolios are focused on corporate bonds, and in early 2019 we introduced a significant new initiative. The Group's investment-grade portfolios, representing the bulk of its fixed income investments, now include a new investment objective: to achieve a minimum MSCI ESG rating of 'A' for the portfolio. Companies with higher ESG credentials have more sustainable practices, so this new objective has enabled us to better align our investment goals with our environmental and social goals.

We are proud to have achieved the objective, and by the end of 2019 100% of the investment-grade corporate bond portfolios had an average ESG rating of 'A'.

We are also actively encouraging our investment managers to invest in green bonds. Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other environmental projects. All our relevant bond mandate guidelines direct the portfolio manager to purchase a green bond where the risk return characteristics are similar to those of a non-green bond.

We hold an investment property portfolio, and all assets in this portfolio must have an Energy Performance Certificate of 'D' or better, or a plan and funds in place for achieving that level. This is one level above the Government-mandated efficiency level of 'E'. The property portfolio also has a tailored set of 2022 ESG targets covering, inter alia, carbon, energy, water and waste.

Our climate long-term goal

Looking ahead, we intend to increase our efforts to develop a more focused climate-related investment approach with a long-term goal of ensuring our entire investment portfolio is net carbon neutral by 2050.

Our first steps on this path relate to our corporate bonds portfolio, the largest part of our investment portfolio. Across these portfolios we have committed to a 50% reduction in weighted-average GHG emissions intensity by 2030, benchmarked against 2020 levels.

We recognise the importance of avoiding investing in the companies least prepared for the transition to a low-carbon economy due to the risk of stranded assets. In response, we are working to increase allocations to those companies providing the solutions and those demonstrating a serious intent to decarbonise.

We also know that to meet the aims of the Paris Agreement, energy generation from fossil fuels will have to be drastically reduced in the coming decade. From 2021, asset managers will not be authorised to buy bonds in mining companies that generate more than 5% of revenues from thermal coal production, and electricity generators that derive more than 5% of revenues from thermal coal power generation. To encourage positive climate action, an exception will be made for companies which have either made commitments for emission reduction targets through the SBTi or assigned a '2 degree' or better Carbon Performance Alignment from the Transition Pathway Initiative. We also plan to exclude companies that are developing new thermal coal plants or mines, in a time frame consistent with our application to the global corporate renewable energy initiative, RE100. We will review the above exclusions annually and may, in the future, divest completely from companies with any involvement in coal or expand the list to include other types of fossil fuels.

Alongside these actions against our investment-grade bonds, we are committed to a wider framework which encompasses all asset classes to deliver our net carbon neutral long-term goal (see page 31).

Using our influence

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

Risk Management

Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework sets out the Group's approach to setting risk strategy and for managing risks to the strategic objectives and day-to-day operations of the business.

Within this, the risk management process is a key element in the development and ongoing maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage and monitor the risks that the business area is exposed to.

Directorates are expected to follow the requirements set out in all applicable risk policies and minimum standards and report any notable control weaknesses in the Internal Risk and Control Assessment process.

Each business area is required to have a clear understanding of Group risk appetite and how it cascades to their area, the risks that they are exposed to and the potential impacts of these risks.

Risk taxonomy

Risks are mapped to the Group Risk Taxonomy to support effective risk management and reporting across the business.

The effects of climate change are wide-ranging, affecting many risks across the risk universe. For this reason, the Group reflects the effects of climate change in the drivers of those risks which are defined in the Group Risk Taxonomy rather than adding climate change as a separate risk category. For example, the effects of climate change would be a driver of meteorology risk, which is a subset of underwriting risk.

Risk impact

The impacts of all risks, events and action plans are rated using the Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation of risk across the Group. This includes those risks relating to climate change, and allows the Group to determine the relative significance of climate-related risks in relation to other risks.

Risk identification process

Annual risk identification process

Each year, the business is required to review all current and developing risks which could impact on the achievement of strategic objectives. This process includes assessing risk drivers, such as those due to climate change, and their potential impact and likelihood of risk crystallisation on both an inherent and residual basis, in addition to identifying the position which aligns with risk appetite.

Regulatory scanning

The Group monitors and reviews relevant outputs from the Financial Conduct Authority ("**FCA**"), the PRA, European supervisory authorities (including the European Insurance and Occupational Pensions Authority ("**EIOPA**")), the European Commission and Her Majesty's Treasury, to consider existing and emerging regulatory requirements.

During 2019/20, this activity included reviewing:

- the PRA's Policy Statement and Supervisory Statement on 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change';
- the PRA framework for assessing financial impacts of physical climate change on the general insurance sector;
- the PRA's 'Dear CEO' letter outlining observations from the thematic review of firms' plans to implement requirements set out in the supervisory statement; and
- the Climate Financial Risk Forum's (co-chaired by the FCA and PRA) guide to help the financial services industry address climate-related financial risks.

At a European level, we have reviewed several documents that seek to implement TCFD in Europe, most notably a communication from the European Commission which issues guidelines on non-financial reporting in respect of climate-related information, and Taxonomy Regulation which came into force on 12 July 2020 and introduces criteria for environmentally sustainable economic activities.

Such reviews are summarised and distributed to relevant stakeholders, and where necessary, responses are co-ordinated and overseen by members of Second Line of Defence.

Emerging risk process

In addition to the annual risk review process, the Group has in place an emerging risks process which facilitates the identification, management and monitoring of new or developing risks which are difficult to quantify or are highly uncertain. The Group records emerging risks within an Emerging Risk Register. An update on emerging risk is presented to the Risk Management Committee twice a year, and the Board Risk Committee annually, and is supplemented by deep dives on selected emerging risks.

Climate change is one of the Group's most prominent emerging risks and is owned by the Executive Committee with regular oversight provided by the Climate Change Working Group, consisting of First Line of Defence subject matter experts from around the business where the impact of climate change is the highest, in addition to Second Line of Defence subject matter experts who provide oversight and challenge of risk management activity relating to this.

Each emerging risk is owned by an Executive sponsor to help ensure alignment of how it is managed to the strategic objectives and priorities.

Climate risk modelling

The predominant direct physical drivers of risk to the Group's capital position are major UK windstorms, followed by UK floods. Whilst additional risks such as freeze and subsidence are less material to capital requirements, these are modelled within the Group's Internal Economic Capital Model and reviewed at least biennially.

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

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

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

Increases in frequency and severity of large catastrophe weather events are mitigated by the Group's use of catastrophe excess of loss reinsurance. This reinsurance covers property (Personal Lines and Commercial) and Motor physical damage losses; in addition to significant capital benefits, it transfers the volatility of low-frequency, high-severity natural perils events away from the Group. The reinsurance purchase decision is a combination of catastrophe modelling, capital analysis, the Group's risk appetite, cost of cover and the overall income statement impact. Cover is purchased with an upper limit equivalent to a 200-year modelled loss and the retention will be based upon the amount that the Group is willing to sustain from such a loss. This cover has benefited from two substantial improvements in recent years that provide additional climate change mitigation against multiple events:

- an increase in the number of reinstatement provisions. The reinsurance limit is purchased with a reinstatement provision where, in the event of a catastrophe loss, the limit of cover available is automatically reinstated to provide cover for the next event loss. Up until recently the cover was purchased with just a single reinstatement provision across the whole programme but this was increased to two in 2017 for a significant proportion of the reinsurance. This has resulted in more overall reinsurance cover being available for catastrophe losses; and
- an extension to the 'hours clause'. Catastrophe reinsurance covers are generally subject to an hours clause that defines a loss event by a number of hours. In practice, the Group can accumulate all losses within a number of hours to determine the reinsurance event for recovery purposes. In recent years, the amount of time available has been extended which means that the Group can capture more claims and longer duration events and have a greater level of protection for these losses.

In addition, we purchase risk covers to protect against large individual commercial losses.

External memberships and benchmarks

Direct Line Group actively supports various initiatives related to climate change, ESG and sustainability. These supplement our identification and management of climate-related risks, and include:

CDP: The Carbon Disclosure Project is a globally recognised platform measuring reporting performance and for 2018 activity the Group received a CDP rating of B. The ratings for 2019 activity will be available later this year.

Sustainalytics: In July 2020, the Group was rated as an ESG leader within insurance, ranking seventh out of 264 companies.

MSCI: In June 2020, the Group received an 'A' rating highlighting our Corporate Governance and Human Capital Development as a stretch in the Group's performance.

RE100: We are in the process of applying for membership to RE100, a global initiative dedicated to accelerating a global shift in clean energy. Under this initiative, we will continue our objective of sourcing 100% renewable electricity.

PRI: The UN Principles for Responsible Investment, launched in 2006, is a major collective initiative that seeks to promote responsible investment among investors and asset managers. We expect all of our external portfolio managers to be signatories.

SBTi: The Science Based Targets Initiative helps companies to determine emission reduction targets in line with climate science. In 2020 we have begun the process of setting new science-based reduction targets for our Scope 1, Scope 2 and total Scope 3 emissions. These targets will be submitted for approval within the two-year time frame set out by the SBTi (August 2022).

Metrics and Targets

We use a variety of indicators across the different lines of our business to assess, monitor and manage our climate-related risks and opportunities.

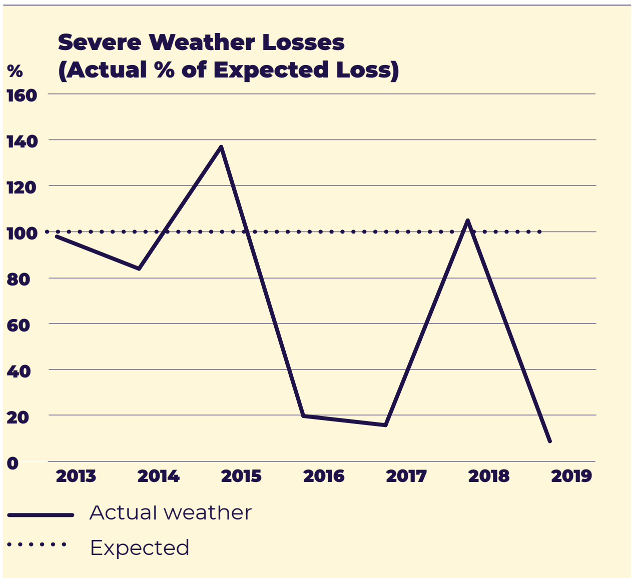
Underwriting

Weather-related loss impact

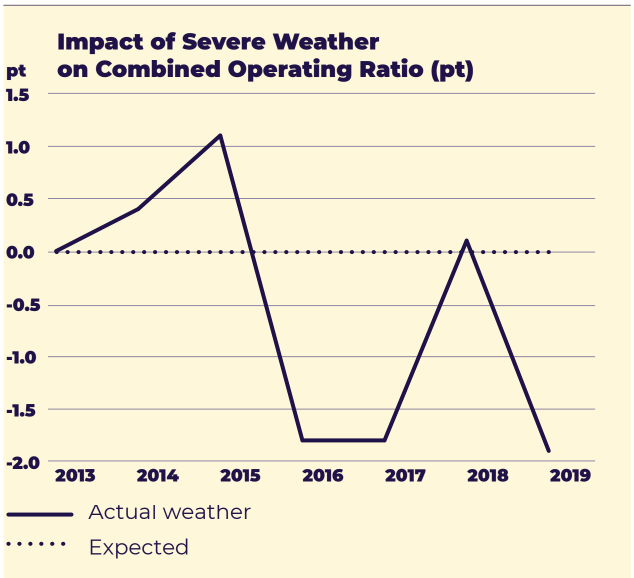
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK windstorms, followed by UK floods. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison, by contrast, flood has seen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

Catastrophe reinsurance is purchased annually to protect against event losses that have an accumulated loss cost of greater than £130 million. Additional reinsurance cover protects against large individual commercial losses and the Flood Re scheme mitigates against the highest individual residential flood risks.

The Group uses sophisticated modelling techniques to determine the expected losses from severe weather events and uses these to set a weather load for budgeting purposes. The plot below shows the impact of severe weather events relative to the weather load; the trend is downwards reflecting recent benign activity, although there is significant variability. The 2018 peak is driven by the 'Beast from the East' freeze event.



These results can be translated to impacts on the Group's combined operating ratio[1]; the relatively benign 2019 year for example improved the Group's combined operating ratio by nearly two percentage points against plan.



The frequency and severity of extreme weather events will be affected by climate change, which in turn will affect our view of risk, the type and level of reinsurance we purchase to protect our balance sheet, and the weather load we use to price severe weather risk.

Note:
1. See glossary on page 34 for definition.

Home

Key risk indicators are produced by Underwriting and reviewed quarterly through relevant business forums. The key climate change-related activities are flood and subsidence weather incidents. For these perils, we monitor the Group's market share for risks deemed to be in the high- or very high-risk segments. We also monitor and review the proportion of policies ceded to Flood Re.

Each peril is monitored against set tolerances, with movements in amber or red ratings generating investigation and action as required. We maintain a view of trends and look to take action where a trend is likely to result in a breach of tolerance.

Subsidence

Subsidence as a peril is a relatively low overall cost, however a subsidence event can be very costly. We monitor these risks via our subsidence market share by geo risk classification. This risk classification aims to give a market view of geographic risk for subsidence perils. This enables us to understand the amount of subsidence risk that we write compared to the market.

The classifications take the geographic factors in the subsidence buildings models. This market share view does not include severity as we do not have property or customer data for all UK properties, only our own policies.

Flooding

The Government has been working with insurers since 2000 to help make flood risk insurance more affordable. In 2016, a previous solution was replaced with a longer-term plan, called Flood Re. Every insurer that offers home insurance in the UK, the Group included, must pay into the Flood Re scheme. This levy raises £180 million every year which is used to cover the flood risks in home insurance policies.

To ensure the Group and its customers benefit from the levy and guard against the highest of flood risks, we monitor the volume and proportion of policies we are ceding to Flood Re. Properties are eligible to be ceded to Flood Re when they meet certain criteria. Since early 2019, the cost to cede policies to Flood Re has dropped, driving an increase in ceded volumes.

Motor

The Group's motor market is diversified throughout the UK, and weather-related claims make up a very small part of total motor claims. As such we do not currently consider there to be any valuable climate-related risk indicators that can be tracked for this portfolio.

In order to track the transition towards electric and alternatively fuelled vehicles (such as hybrids), we monitor both the number and proportion of policies we underwrite for these types of vehicles as well as electric vehicle and alternatively fuelled vehicle registration data from The Society of Motor Manufacturers and Traders.

Operations

We take our environmental impact responsibilities seriously and recognise the value of target-setting and reporting in driving our emission reductions. We comply with the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 and apply the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) which includes emissions associated with electricity consumption using both the Scope 2 location-based and Scope 2 market-based calculation methodologies. These are reported in the table below.

In addition, we have two Group-wide environmental impact targets:

- a 57% reduction in emissions (Scope 1 and 2) on a like-for-like basis by the end of 2020 against a 2013 baseline, and
- a 30% reduction in energy consumption on a like-for-like basis by the end of 2020 against a 2013 baseline.

The tables below outline our historical performance against these targets.

Emissions

Year	GHG Emissions Tonnes CO_2e			Target 57% reduction in emissions on a like-for-like basis by the end of 2020 against a 2013 baseline
	Scope 1[1]	Scope 2 Location-based[2]	Total	
30 June 2020	**2,084**	**2,229**	**4,313**	**67%[3]**
2019[4,5]	7,365	6,609	13,974	53%
2018	8,754	7,915	16,669	44%
2017	8,027	9,371	17,398	42%
2016	7,383	11,932	19,315	35%
2015	7,643	14,968	22,611	24%
2014	7,784	19,524	27,308	9%
2013	8,429	21,480	29,909	Baseline

Notes:
1. Scope 1 emissions are reported here on a like-for-like basis against the 2013 baseline and exclude emissions from additional vehicles used during repairs, courtesy car fuel usage and from vehicles that are company funded, as these were not tracked prior to 2019.
2. Figures for Scope 2 use standard location-based methodology. We follow GHG Protocol to disclose both location- and market-based figures; and as we have secured our energy from 100% renewable sources since 2014, our Scope 2 market-based figures is nil each year.
3. This reduction against target is the year-to-date position as of 30 June 2020 comparing like-for-like emissions against the same period in 2013 (30 June 2013: 13,178 total CO_2e).
4. Scope 1 emissions for 2019 are as reported in the 2019 Annual Report and Accounts, Scope 2 emissions have been restated following verification by the Carbon Trust.
5. The Scope 1 total for 2019 of 7,365 CO_2e differs from the Scope 1 total of 9,399 CO_2e as seen in the 2019 baseline table on page 30 as this includes the now-tracked emissions mentioned in note 1 above.

Energy use

Year	Target 30% reduction in energy consumption on a like-for-like basis by the end of 2020 against a 2013 baseline
2019	**29%**
2018	20%
2017	18%
2016	15%
2015	7%
2014	3%
2013	Baseline

In addition, we monitor the intensity metric of emissions per £ million annually of net earned premium. This is a measure of how efficiently we provide our insurance products and allows us to compare our performance year-on-year and against other insurance companies.

Intensity metric

Year	Emissions per £ million of net earned premium[1]
2019	**4.7**
2018	5.4
2017	5.5
2016	6.4
2015	7.7
2014	9.1
2013	9.5

1. The emissions used in the calculation of the intensity metric are the total Scope 1 and Scope 2 emissions seen in the above table 'Emissions'. The Scope 1 total excludes emissions from additional vehicles used during repairs, courtesy car fuel usage and from vehicles that are company funded, as these were not tracked prior to 2019.

With these targets coming to an end in 2020, we began our partnership with environmental consultancy, the Carbon Trust, towards the end of 2019. In January 2020, the Carbon Trust started to analyse our procurement and supplier usage data to calculate our carbon footprint and establish a baseline set of criteria for future emissions reduction targets.

We tasked the Carbon Trust with the following to establish our 2019 baseline:

- verification of 2019 Scope 1 and Scope 2 emissions;
- break out the carbon footprint of our office sites and auto services;
- calculation of the category breakdown of our total Scope 3 emissions, excluding investments; and
- establishment of a 2019 baseline to include Scope 3 emissions considered under our direct control.

Our 2019 baseline, below, exhibits our most transparent emissions reporting to date. This is enhanced by the verification of our Scope 1 and Scope 2 emission figures by the Carbon Trust, breaking out for the first time the separate performance figures of our office sites and our accident repair centres, and a Scope 3 footprint with greater clarity of the activities under our direct control.

Looking forward, we are working with the Carbon Trust to set Science-Based Targets across the full Scope 1, 2 and 3 of our operations. These targets will be submitted for approval and subject to the two-year time frame set out by the SBTi. Please see page 18 for further details.

2019 baseline

	Office sites	Auto services	Total tonnes CO_2e
Scope 1	**1,881**	**7,518**	**9,399**[1]

	Office sites		Auto services		Total tonnes CO_2e	
	Location-based	Market-based	Location-based	Market-based	Location-based	Market-based
Scope 2	4,516	0	2,093	0	6,609	0
Total Scope 2	**4,516**		**2,093**		**6,609**	

	Office sites	Auto services	Total tonnes CO_2e
Total Scope 1&2	**6,397**	**9,611**	**16,008**

	Total tonnes CO_2e
Scope 3 under our direct control	
Fuel and energy related activities	2,465
Waste generated in operations	1,245
Business travel – air travel	928
Business travel – hotel night stays	469
Business travel – rail	410
Employee commuting[2]	4,599
Upstream leased assets[3]	513
Upstream transportation and distribution of auctioned vehicles	912
Total Scope 3 under our direct control	**11,541**

Direct Line Group (Operational Control) Carbon Footprint - CO_2e

Scope 1 and 2	16,008[4]
Scope 3 under our direct control	11,541[5]
2019 baseline total	27,549
Total Scope 3	249,929[5,6]

Notes:
1. The 2019 Scope 1 total of 9,399 CO_2e differs from our previously reported figure of 7,365 CO_2e in the 2019 Annual Report and Accounts as it now includes emissions from additional vehicles used during repairs, courtesy car fuel usage and vehicles that are company funded, which had not previously been tracked.
2. Employee commuting is based on UK national averages, not actual individual methods of transport of Direct Line Group employees commuting. This data is not currently tracked.
3. Upstream leased assets refer to leased office space locations where Direct Line Group does not directly control the energy provision as it is included in the service agreement.
4. Scope 1 and 2 emissions verified by the Carbon Trust.
5. Scope 3 emissions calculated by the Carbon Trust.
6. In accordance with the GHG Protocol under which we report, the following are excluded from the Scope 3 total:
   a. operational control activities already detailed in the main table ‘Scope 3 under our direct control’;
   b. cash payments to customers or other insurance companies / legal firms as compensation;
   c. intragroup transfers between our operating companies for financial accounting purposes as the actual purchase of goods and services to our third party suppliers is already captured; and
   d. reinsurance costs to third party reinsurers as this is a financing transaction; and investments.

Investments

More than 55 financial institutions have publicly committed to set emissions reduction targets through the SBTi. In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambitions of the Paris Agreement. The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

We recently announced a long-term goal of ensuring our entire investment portfolio is net carbon neutral by 2050 in line with the aims of the Paris Agreement. To support this aim we have now set an interim target of a 50% reduction in weighted average GHG emissions intensity by 2030 within our corporate bonds portfolio, the largest part of our investment portfolio.

We will use GHG Emissions Intensity[1] as the key metric of measurement as follows:

$$\text{GHG Emissions Intensity} = \frac{\text{Metric tonnes } CO_2\text{e } (CO_2 \text{ equivalent) GHG emissions}}{\text{Million \$ Sales}}$$

Normalising by sales as the denominator allows the investor to compare carbon efficiency of different sized firms within the same industry and has become the standard metric used in the investment industry.

Our aim in 2021 is to be able to report the weighted average carbon intensity of our corporate bonds portfolio. Furthermore, in order to improve monitoring, management and future reporting in this area, we are working towards an improved picture of the emissions intensity of other significant portions of our investment portfolio, where appropriate data and methodologies exist.

Note:
1. GHG emissions intensity is used to account for greenhouse gases other than just carbon dioxide which contribute to global warming (such as methane and nitrous oxide). These other gases are converted into a CO_2 equivalent measure based on their warming potential.

Future Group Activity

Our priorities set against the TCFD recommendations.

TCFD recommendation		Future Group activity
Governance	Describe the Board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities.	The Group plans to maintain strong Board oversight, ensuring the Planet pillar, as part of its sustainability strategy, continues to take a strategic lead. Setting the Board's strategic debates in a climate change context will be supported by periodic debates on climate-related risks and opportunities, as well as inviting thought leaders to engage with Board meetings.
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	The Group intends to conduct more analysis in order to present more detailed impact assessments of climate-related risks across different time horizons.
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	The Group intends to strengthen how it systematically considers climate-related issues from a risk and opportunity perspective across business areas, strategic decision making and financial planning in order to be better able to describe impacts.
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Quantifying the impact of climate-related scenarios, including a 2°C or lower scenario, will strengthen the Group's ability to describe how resilient its strategy is, particularly placing monetary values on climate-related impacts.
Risk management	Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The Group will continue its robust approach towards the management of physical risk and intends examining in more depth inbound and outbound impacts in order to be able to better describe transition and liability risks. The ambition is for risk management processes to support the Group in conducting detailed analysis on each risk and applying monetary values to support the Group's overall strategy.
Metrics & Targets	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The Group plans to work towards establishing Science-Based Targets within the business to be approved by the SBTi which will strengthen our disclosures across Scope 1, Scope 2 and total Scope 3 GHG emissions.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include targets and guidance which are contained in this document. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control. Forward-looking statements are not guaranteeing future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

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

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

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

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

Glossary

Association of British Insurers ("ABI")
The trade body that represents the insurance and long-term savings industry in the UK.

Carbon emissions

- **Scope 1** covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles.
- **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling for office buildings and accident repair centres.
- **Scope 3 under our direct control** includes indirect emissions that occur in the Group's value chain, under its direct control, such as waste disposal and business travel.
- **Total Scope 3** includes all other indirect emissions that occur in the Group's value chain, excluding investments.

Combined operating ratio
The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting.

European Insurance and Occupational Pensions Authority ("EIOPA")
An independent advisory body to the European Commission, the European Parliament and the Council of the European Union. It is one of the EU Agencies carrying out specific legal, technical or scientific tasks and giving evidence-based advice to help shape informed policies and laws at the EU and national level. Its mission is to protect the public interest by contributing to the stability and effectiveness of the financial system for the Union economy, its citizens and businesses and pursues this by promoting a sound regulatory framework and consistent supervisory practices across the Union.

Financial Conduct Authority ("FCA")
The independent body responsible for regulating the UK's financial services industry.

Group
Direct Line Insurance Group plc and its subsidiaries ("**Direct Line Group**" or the "**Group**").

Own Risk and Solvency Assessment ("ORSA")
A forward-looking assessment of the Group's risks and associated capital requirements, over the business planning period.

Paris Agreement
The Paris Agreement sets out a global framework which intends to limit global warming to well below 2°C above pre-industrial levels.

Prudential Regulation Authority ("PRA")
The PRA is part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.

Reinsurance
Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.

Scope 1, Scope 2, Scope 3
Please refer to the glossary definition for carbon emissions.

Direct Line Insurance Group plc®

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