



Sustainability Report 2022



**Brilliant for
customers
every day**

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Please note that page references found within this document refer to our 2022 Annual Report and Accounts which can be found on <https://www.directlinegroup.co.uk/annual-report-2022.html>

Mission

To be brilliant for customers every day

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



> All reports can be found at <https://www.directlinegroup.co.uk/en/sustainability.html>

Acting CEO statement

“We believe these achievements demonstrate how we are meeting our purpose of helping people carry on with their lives, giving them peace of mind now and in the future.”

Jon Greenwood
Acting Chief Executive Officer



Building a sustainable future

As our sustainability strategy evolves we are clear about our priority areas of focus and why they matter to the future of the business. All of the actions you read about in the following pages aim to strengthen the Group so that we continue to be brilliant for customers every day.

The numerous colleagues who have contributed to this year's successes deserve a special mention. Their dedication across our five sustainability pillars showcase a range of innovative solutions demonstrating a clear sense of what we stand for. From delivering insurance excellence, attracting and retaining talented people, giving back to our communities, playing our part in tackling climate change and maintaining high standards of governance.

This year saw a number of highlights:

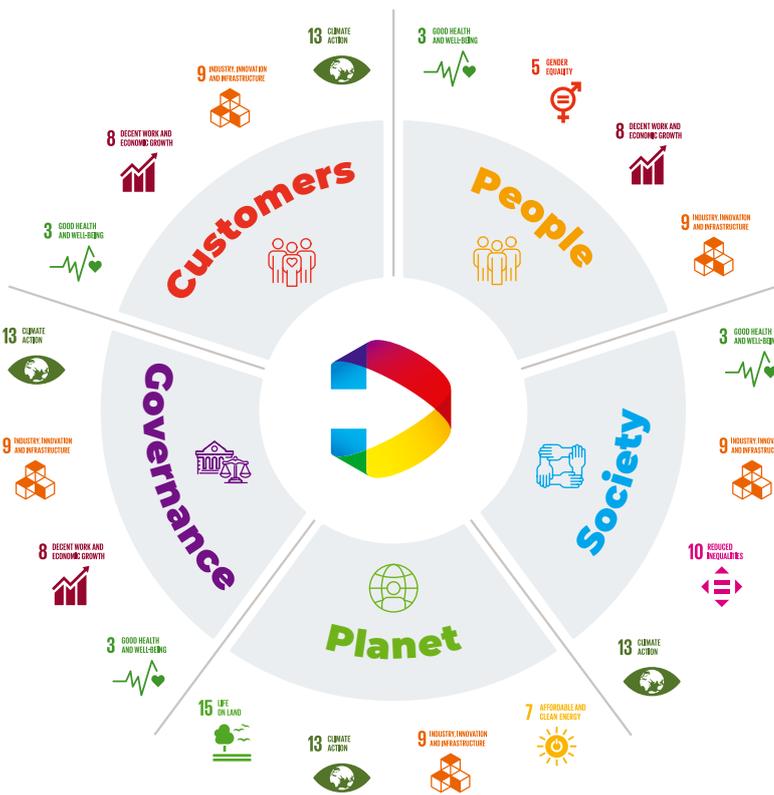
- Over 5,000 front-line colleagues received training to support vulnerable customers
- For the second year running the Group was ranked in the Inclusive Top 50 Employers List
- Our Community Fund has seen 150 colleagues sign up to help engage 500 young people with their careers
- Became one of the first personal lines general insurers in the UK to have our carbon reduction plans approved by the Science Based Targets initiative
- Extending our successful Direct Line electric vehicle bundle to support customers go green

We believe these achievements demonstrate how we are meeting our purpose of helping people carry on with their lives, giving them peace of mind now and in the future. There is much more to do in 2023, but by making further progress we can continue to create value for our customers, people, society and the planet.

A handwritten signature in black ink, appearing to read 'Jon Greenwood', written in a cursive style.

Jon Greenwood
Acting Chief Executive Officer

Building a sustainable future



We stand for insurance excellence because positive customer outcomes mean we can grow our business



We stand for being a diverse and inclusive employer because attracting and retaining talented people powers our business forward



We stand for being rooted in our communities because when they flourish so does our business



We stand for a greener planet because we're all in it together, it's our responsibility, and tackling climate change benefits our business, our people and society



We stand for a competitive and strong financial services sector because it's essential to being successful

In 2022, we continued to put in place sustainable initiatives to strengthen the business, whether it's being brilliant for customers, being an inclusive employer, giving back to our communities, protecting the planet or maintaining high standards of governance. The wheel on the previous page highlights how our five pillar Sustainability Strategy aligns to the United Nations Sustainable Development Goals ("SDGs") and the table below shows material issues which take into account our broad range of stakeholders.

Goals	Material issues	2022 outcomes
Earn our customers' trust by demonstrating how we are acting in their interests	<ul style="list-style-type: none"> – Deliver great service – Communicate clearly and openly – Protect customers' data – Harness data and technology – Innovate sustainable products and services 	<p>All of our front-line staff of more than 5,000 received vulnerable customer training which was nominated for a Learning and Performance Institute award</p> <p>More than 5,000</p>
Encourage a culture that celebrates difference and empowers people so that they can thrive	<ul style="list-style-type: none"> – Develop a diverse and inclusive workforce – Uphold good labour standards – Support employee wellbeing – Maximise employee engagement – Train and develop our people 	<p>Ranked 20th on the Inclusive Top 50 UK Employers List</p> 
Use our expertise to improve outcomes for society and the communities we serve	<ul style="list-style-type: none"> – Improve social mobility – Increase road safety – Drive financial inclusion – Contribute to local economic development 	<p>Through our Community Fund we engaged with 500 students to help younger people with their careers</p> <p>500</p>
Protect our business from the impact of climate change and give back more to the planet than we take out	<ul style="list-style-type: none"> – Reduce our climate change impact – Reduce waste and optimise resources – Advance the low-carbon transition – Adapt to climate change 	<p>The Science Based Targets initiative approved our carbon-reduction plans</p> 
Look to the long term for our stakeholders, build a reputation for high standards of business conduct and develop a sustainable business	<ul style="list-style-type: none"> – Control executive pay – Build strong Board governance – Manage our supply chain responsibly – Tax strategy and transparent disclosure – Invest responsibly 	<p>We were awarded a Fast Payer Accreditation Award by Good Business Pays, recognising our role in supporting our suppliers</p> 

Customers

Our mission is to earn our customers' trust by demonstrating how we are acting in their interests

This year we've seen customers realise the benefits of efficient digital-first journeys and, during a period where cost of living challenges have impacted so many, we introduced and implemented support mechanisms for those facing economic difficulty.



Net Promoter Score

We pride ourselves on our Direct Line brand NPS. While our 2022 performance experienced a dip on previous years due to economic headwinds creating parts, labour and hire car supply challenges, our score remains above the industry average.¹



Customer support

Helping our customers during the cost of living crisis

In line with our customer-first approach, we have introduced several measures to support those facing financial difficulty currently and for the foreseeable future.

We are asking customers to discuss with us their needs so we can look to offer the most appropriate support; this may include reviewing levels of cover or considering any alternative products.

Vulnerable customer training nomination

More than

5,000

All front-line staff have received enhanced vulnerable customer training in 2022

Building on our CONNECT training programme used by our consultants to support customers, we have developed enhanced training for colleagues to support vulnerable customers.

All 5,000 of our front-line staff have completed this training and this programme was nominated for a Learning and Performance Institute Award in 2023.

Notes:

1. Institute of Customer Services organisation ranking score.
2. Please see Net Promoter Score KPI on page 23 for further information.



Churchill Essentials product

This year we launched a new Essentials motor product using our Churchill brand. Available only on price comparison websites, the product has been designed to meet the needs of customers looking for a comprehensive product, but does not include certain elements such as new car replacement, loss of keys or personal belongings that are typically part of a standard comprehensive product. It's an alternative for customers who may be looking for great value in a stripped-back motor insurance policy.

“Working in our agile model, a number of teams worked collaboratively to launch our Churchill Essentials product.”

Bhanu Shekar Gutta, Software Engineer



Brilliant for customers every day

Improving the claims experience for customers

When customers make a claim that's when it matters most, because we step in and support people facing difficult moments.

That's why we're continuing to deliver easy digital-first journeys to give people peace of mind. Motor customers can now register 100% of claims types across the vast majority of our brands and partners online. In 2023, we will be looking to introduce the capability for motor customers to be able to track the status of their claim online from start to finish whether they are waiting for their car to be fixed or waiting for a cash settlement.

Delivering an excellent motor claims experience is good for customers and our business:

- Churchill is ranked as the leading insurance brand for digital service and claims¹.
- In Motor, over 85% of customers score us highly (8-10) on whether they would recommend Direct Line to friends and family².
- Nearly 90% of motor customers score us highly (8-10) for how easy it is to claim².

Helping our vulnerable customers

We have developed a suite of online tools to support our colleagues to identify and address a vulnerability when speaking to a customer. One of these tools encompasses a grid of vulnerabilities across headings such as life event, financial resilience, financial capability and health. When a customer mentions a key word, our agents can click on the specific tile and are prompted with a number of considerations and options on how best to interact with them and provide the required service adjustments.

Plain Numbers

Building on our successful partnership with Plain Numbers last year, in which we trialled their approach to reduce technical language and clarify numbers to simplify our communications with customers, we signed up to a cross-industry partnership led by the Association of British Insurers in February 2022, to further our activity and understanding in this area and to train more colleagues as practitioners in the Plain Numbers method.

Tackling fraud

We have a strong track record in identifying and dealing with fraudulent activity, helping us deliver better outcomes for customers. In the last five years our counter-fraud measures have avoided £650 million being paid out to fraudsters and we've been rated as the top industry performer for personal motor fraud savings, personal motor applications for fraud, and property application fraud savings by the Association of British Insurers³.

Supporting rescue customers

From 2021, Green Flag enhanced its policy for actively prioritising customers who might need immediate support, such as lone or vulnerable travellers on the roadside at night or families with young children. Over the course of the year over 40,000 priority incidents were reported, which included over 5,000 vulnerable customers. Our drivers attended these vulnerable customers incidents in under 49 minutes, with customers communicating with us through the phone and on our app, where they could track where the rescue vehicle was.



Notes:

1. Lumivo Q2 2022.
2. Research conducted by TLF based on customer perception at end of claim.
3. Source: 2021 ABI General Insurance Fraud Benchmarking.

People

Our mission is to encourage a culture that celebrates difference and empowers people so that they can thrive

Over 2022, our focus was on building future skills, continuing to push forward the promotion of diversity and inclusion in the business, and engaging with our people during the cost of living crisis.



Building future skills

Our commitment to training people for the jobs of the future was taken to a new level in 2022. We launched our Ignite academies which incorporate apprenticeship programmes to develop the vital skills needed to serve our increasingly tech-savvy customers. 170 new apprentices are already working across Data, Customer Service and Data, Software Engineering, and Pricing and Underwriting, joining the 224 we already had. We also launched our Data Academy so all colleagues can grow their data capability and learn new skills, with over 1,000 engaging in courses, lunch and learn sessions and using resources from the website.

Minimum salaries

While we seek to ensure a good pay proposition for all our people, we have shown a clear focus over a number of years on lifting the salaries for our lowest-paid colleagues. That focus meant in April 2022 our minimum salary rose by 6.7%, seeing pay for a 37.5 hour week rise to £20,800 from £19,500¹. During 2022, for Direct Line Group employees, our minimum salary was 7.7% above the Living Wage Foundation’s National Real Living Wage (as set in November 2021 for roles outside of London) and 12.3% above the Government’s statutory National Living Wage (effective 1 April 2022 figure for those aged 23 or over).

In August 2022, we announced a further pay increase of 5% to all our employees (excluding senior management) from January 2023, meaning our minimum salary rose to

£21,840 p.a. (based on a 37.5hr working week). This stands at 2.8% above the Living Wage Foundation’s National Real Living Wage (as set in September 2022 for roles outside of London) and will be 7.5% above the Government’s statutory National Living Wage (effective 1 April 2023 for those aged 23 or over).

Engaging with our people

Engaging with colleagues as the key stakeholders that they are is at the heart of how we run our business.

In addition to our Executive Committee participating in regular “Ask Anything” sessions, both in person and online, during which they address business performance and issues affecting it and where any colleague can ask a question or put forward their ideas, three of the most important ways we engage with our people are:

- 1. Employee Representative Body (“ERB”)** – The ERB, which comprises colleagues from across business areas and locations, meets regularly with the leadership of the Group, including the CEO, to discuss issues and proposals which have, or may have, an impact on colleagues.
- 2. DiaLoGue** – DiaLoGue is our employee engagement tool that we use to survey all colleagues three times a year. Findings provide both a snapshot and trends not only of all-colleague opinion but also findings for specific teams, allowing solutions to be tailored to specific needs. Response to these surveys is consistently high (over 80%).

Note:

1. Subject to satisfactory performance and excluding apprentices in DLG Auto Services who receive different rates of pay.

Examples of engagement with our people having resulted in business action include:

	Issue raised	Action Taken
Cost of living	We talked with our ERB to get their insight on how our people are being affected and how best to make a meaningful difference.	<p>Boosting the pay of lowest paid: In April we boosted the pay of our lowest-paid colleagues, increasing the minimum salary by 6.7% to £20,800.</p> <p>Earlier pay increase and one off payment In the summer we announced a 5% pay increase for all our people with effect from 1 January 2023, meaning colleagues received the increase three months earlier than usual and in January 2023 a one-off cost of living payment of £1,000 was announced for colleagues in salary bands 1 and 2 and those in other bands earning less than £40,000.</p> <p>Increased visibility of help available We promoted the broader financial support available to our people including emergency support, everyday budgeting, and planning.</p>
Menopause	Our Diversity Network Alliance (“DNA”) strands raised the challenges that women can face having open conversations and accessing support when perimenopausal or menopausal.	<p>New guidance, training and internal awareness building Our DNA strands worked with HR and The Menopause Charity to launch new guidance on perimenopause, menopause and andropause. It provides people managers with help on how to have good conversations and practical information on effective workplace adjustments. This has been embedded with training for people leaders and our HR Advisory team, alongside internal communications activity to broaden knowledge and end stigma.</p>
New London hub	We discussed the proposed 2023 move from our site in Bromley to a new location near London Bridge with our ERB, DNA strands and with individual colleagues via their people leaders to identify both the broad implications and the issues for specific colleagues.	<p>Travel assistance policy We agreed a revised Travel Assistance Policy to help colleagues with any increased travel costs for a period of one year.</p> <p>Inclusive spaces The different needs of colleagues have been incorporated into the design of the new office, for example a quiet room, multi-faith prayer room and nursing room.</p>

3. Diversity Network Alliance (DNA) – Our seven employee networks are a key driver of diversity and inclusion across our business. They focus on the following areas: Belief, Life (families and carers), LGBTQ+, Neurodiversity & Disability, REACH (race, ethnicity and cultural heritage), Social Mobility and Thrive (gender).

Strength in diversity & inclusion

We believe that improving diversity and inclusion needs enhanced policies and practices, along with changing mindsets and culture. Across 2022, we have continued to address both.

Our focus on culture and behaviours builds deeper understanding of issues, together with the commitment to drive change, at all levels of our business.

Recruitment and promotion

Our approach to inclusive hiring aims to attract the widest possible range of people and protect against bias. Amongst the measures we follow, we:

- Use inclusive language analytics tools
- Remove unnecessary qualification or experience requirements
- Use anonymised CVs for senior roles¹
- Train recruiting managers on inclusive hiring

Policies and support

We want our policies and guidance to support people to be the best they can, recognising life impacts work and work impacts life. This year, we have updated or introduced additional support on:

- Flexible working
- Menopause
- Anti-bullying & harassment
- Pregnancy loss
- Workplace adjustments

Reverse mentoring

This year, we concluded a year-long reverse mentoring programme which provided senior leaders with deep insights into the barriers faced by marginalised communities and in turn enabled them to offer valuable career advice and guidance.

Accelerating inclusion

In 2022, we developed a new Accelerating Inclusion programme to grow the capability and skills of all our people to be more inclusive. Over 1,000 colleagues have already participated in the programme, which will continue over 2023.



“The Neurodiversity and Disability network has gone from strength to strength this year, supporting our 350+ members with insight sessions and a new parents network.”

Molly Welsh, Counter Fraud Intelligence Handler and Neurodiversity & Disability Network Co-lead



Increasing the representation of women in senior leadership

Improving the representation of women at the senior levels of our business is ongoing but we are proud of the progress we have made.

Note:

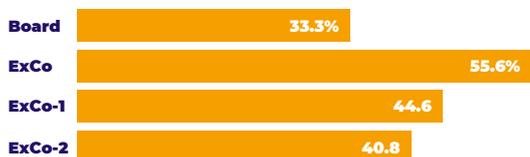
1. Anonymised CVs do not apply to Executive Committee and Board Roles.

Women in Finance

Having achieved our Women in Finance target of 30% women in senior management¹ back in 2019 we chose to adopt an ambitious stretch target of 35% by the end of 2022. On 31 December 2022, 31.3% of our senior leadership were women. While we missed our stretch target we believe the process of target setting has had value and driven our internal work to improve gender representation.

Senior women in leadership representation %

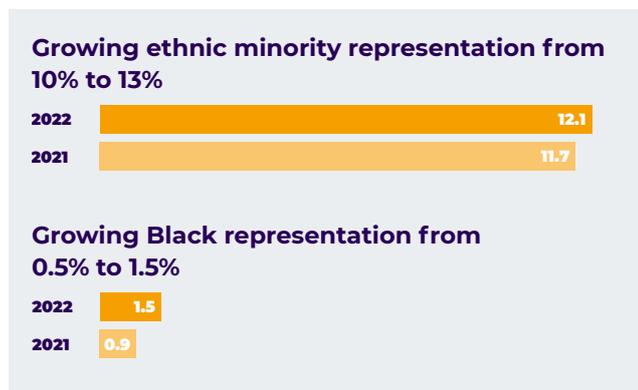
Penny James agreed with the Board to step down as Direct Line Group CEO in January 2023. The numbers below reflect the representation of women in senior leadership following this change.



Our long-term focus on investing in women means we have strengthened representation at the most senior levels of our business. In 2023, we will be setting our next set of targets and our focus is on building the pipeline at the mid-levels as we work towards gender parity.

Growing ethnic minority and Black representation in leadership

At the end of 2020, we set ourselves a challenging deadline of 31 December 2022 to meet our first ever set of targets to increase ethnic minority and Black representation in leadership. Although we missed our ethnic minority goal, we achieved our Black representation target and we believe the process of target setting has had value and driven our internal work to improve representation, which is why we will be setting new targets for this in 2023.



Activity we are undertaking to shift the dial includes:

- Building a stronger pipeline of ethnic minority and Black talent, especially in areas where the jobs of the future are, because we want to future-proof our activity. This includes work experience, mentoring and skills building programmes that target these communities for our Ignite academy apprenticeship programmes.
- Investing in a new development programme focused on supporting high-potential Black women, with diverse role models from across sectors and a specific focus on navigating through some of the challenges that can be faced by Black female leaders.

Gender pay gap

Last year our mean gap widened by 3.2 percentage points and our median gap by 6.1 percentage points. Our pay gap continues to be low compared with the broader financial services sector, but we want to see that gap close. We are comfortable that we don't pay people differently because of their gender and believe that the way to reduce the gap in the medium- to long-term is to continue with our work to address the disproportionate representation of women at certain levels and in certain areas of our business.

Our 2022 gender pay gap showed:

Pay Gap²

	Mean	Median
2022	19.3%	20.3%
2021	16.1%	14.2%
2020	17.2%	15.4%

Bonus Gap

	Mean	Median
2022	46.7%	45.4%
2021	45.9%	34.0%
2020	47.9%	36.3%

% of employees receiving bonus

	Men	Women
2022	83.1%	82.6%
2021	72.7%	60.6%
2020	73.5%	62.4%

Notes:

1. Our Women in Finance Charter definition of senior management is based on our internal grading structure and represents approximately the 1.2% most senior colleagues in our business.
2. The Gender Pay Gap shows the difference in average pay between women and men. This is different to equal pay, which is women and men receiving the same pay for work of equal value. Our reporting is based on a snapshot date of 5 April 2022.

Ethnicity pay gap

This year, we are publishing our ethnicity pay gap for the second time. We are voluntarily disclosing this data. We have chosen to do so to hold ourselves to account and to inform diversity and inclusion initiatives across the business. Comparing the data of 2022 and 2021, our mean gap decreased by 0.5 percentage points and our median gap increased by 1.8 percentage points, with both remaining low.

As with the gender pay gap, we are comfortable that we don't pay people differently because of their ethnicity and believe that the way to reduce the gap in the medium-to long-term is to continue with our work to address the disproportionate representation of ethnic minority and black colleagues at certain levels and in certain areas of our business.

Pay Gap³

	Mean	Median
2022	2.6%	9.7%
2021	3.1%	7.9%

Bonus Gap

	Mean	Median
2022	40.9%	19.1%
2021	32.9%	11.8%

% of employees receiving bonus

	White	Ethnic minority
2022	84.6%	74.6%
2021	68.2%	58.6%

Our mean and median pay gaps by ethnicity

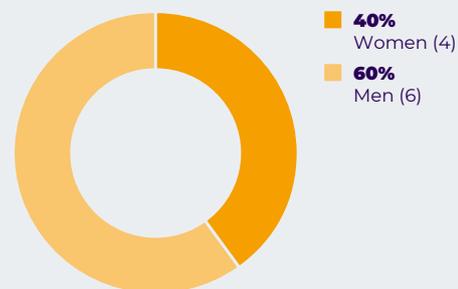
We recognise that different communities can have different experiences, so we have further broken down the data to understand pay gaps for our Black, Asian, Mixed and other ethnicity colleagues versus White colleagues. It's important to note that when pay gap data is based on a smaller number of individuals, it can vary significantly over time due to colleague changes during the year.

	2022	
	Mean	Median
Black	11.2%	11.0%
Asian	0.7%	16.1%
Mixed race	0.4%	4.9%
Other	2.3%	(6.1%)

3. The Ethnicity Pay Gap shows the difference in average pay between ethnic minority, Black and White colleagues. This is different to equal pay that is ethnic minority and White colleagues receiving the same pay for work of equal value. Our reporting is based on a snapshot date of 5 April 2022 and 87% of colleagues that have shared their ethnicity with us. As we continue to encourage colleagues to share their ethnicity with us, changes to disclosure will impact the numbers we report.

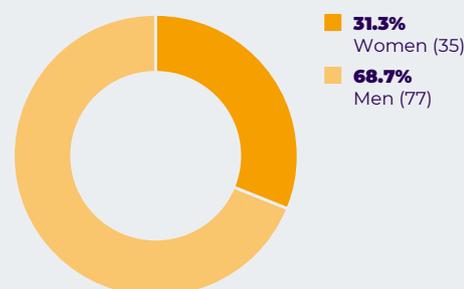
Gender diversity of our Board

As of 31 December 2022



Gender diversity of senior leadership

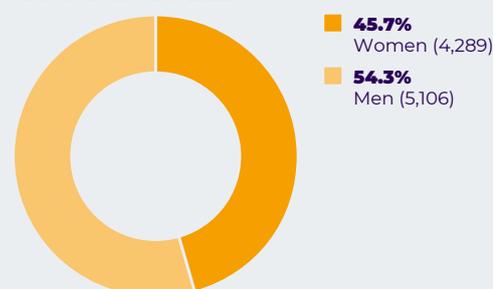
As of 31 December 2022



Gender diversity of senior leadership figures based on 2022 Women in Finance Charter reporting

Gender diversity of all employees

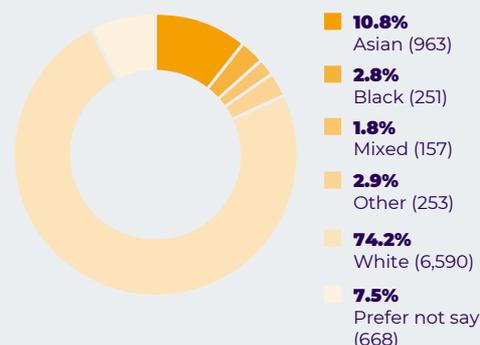
As of 31 December 2022



Excludes an estimated 0.5% colleagues who identify as non-binary, gender-fluid or other gender due to data reporting constraints

Ethnicity of all employees

As of 31 December 2022



Excludes 5.9% of colleagues who have not submitted an option for ethnicity

For more information on leadership gender diversity, including gender diversity of the Board see pages 99 and 100.

Society

Our mission is to use our expertise to improve outcomes for society and the communities we serve

This year, we were excited to take the next step in our social mobility journey, focusing our Community Fund on the aim of building a more inclusive and equitable Britain. We additionally looked to provide support to those in need at home and abroad, with our colleague-led donations for charitable causes around the UK, and contributions made to the Disasters Emergency Committee efforts in Ukraine and Pakistan.



Giving back

Over the course of the year, we supported a variety of charitable causes. This included:

- Donating £150,000 in total to the Disasters Emergency Committee campaigns in Ukraine and Pakistan
- Our colleague-led Community and Social Committees (“**CASCs**”) distributing £100,000 to local causes
- Sponsoring the NSPCC’s Great Chefs dinner, which raised almost £300,000 to help children around the UK
- Our Diversity Network Alliance giving £90,000 to organisations aligned with their diversity and inclusion goals

Road safety

Our campaigning for improved road safety continued, working in partnership with the Parliamentary Advisory Council on Transport Safety (“**FACTS**”). An updated report¹ was published in 2022 which set out actions to increase seat belt wearing rates in the UK and save preventable loss of life on roads. The report highlighted that wearing a seat belt reduced the risk of death for drivers in a road collision by some 50%.

Prompt payment code

As a responsible business, we are a longstanding signatory of the Department for Business, Energy and Industrial Strategy’s Prompt Payment Code, a voluntary code of practice for businesses to ensure payments are made to suppliers on time. During the last year, when cost of living challenges were significant and the importance of swift payments were even more recognised, we were awarded a Fast Payer Accreditation Award by Good Business Pays, recognising our role in supporting our suppliers, big and small.

Human rights

Our aim is to be a force for good and we want to build a reputation for being an ethical business which drives our commitment to have employment practices and policies that exceed the Universal Declaration of Human Rights. We are committed to ensuring modern slavery is not present in our supply chain. Our risk profiling, including specific requirements within our due diligence and assurance processes, incorporates the Modern Slavery Act 2015.

Our 2022 tax contribution

We act in accordance with all applicable tax laws and regulations and meet our responsibilities both as a contributor of corporate taxes and as a collector of taxes on behalf of HMRC. In 2022, the Group’s net tax contribution was £803.9 million, which includes the Group’s direct and indirect taxation.

Our customers	IPT	£389.4m
Our suppliers	VAT	£14.8m
Our people	PAYE NIC	£102.4m
Our operations	Other taxes including business rates	£5.9m
	Irrecoverable VAT	£256.4m
	Employers NIC	£44.8m
Our performance²	Corporation Tax	£(9.8)m

HM Treasury

£803.9m³

Net tax contribution

Society

- Public services
- Healthcare
- Infrastructure
- Welfare
- Education
- Defence

Notes:

1. Source: <https://www.pacts.org.uk/pacts-briefing-seat-belts-time-for-action/>The Group made a loss before tax of £45.1 million, resulting in a corporation tax credit of £5.6 million.
2. The Group’s total tax contribution in 2022, including direct and indirect tax contributions.

Community Fund 2022

Since the start of 2020, our Community Fund has helped over 300 charitable causes, supporting over 200,000 families and individuals facing adversity, mental health challenges and food poverty. Building on these achievements, and with so many of our colleagues feeling passionately about social mobility, we were delighted to focus our Community Fund in 2022 with a new ambition: to build a more inclusive and equitable Britain.

Partnering with three organisations, Envision, Springpod and Young Professionals, we have launched a programme of engagement, to use our expertise across the business to help equip younger people with key career skills.

“It was fantastic to mentor students with our Community Fund and give back to younger people starting on their career journeys.”

Timon Pryce, Principal Pricing Analyst Developer



Work experience

In-person and virtual events focusing on employability skills and workshops on data and technology were held, giving participants the opportunity to learn about important career skills



Mentoring

Highlighting the variety of roles on offer at Direct Line Group, colleagues from Finance to Technology to Marketing gave students an insight into what their day to day job entailed



Reach

of the programme

500

students engaged to improve employment skills

100%

were eligible for free school meals

85%

were from an ethnic minority background

58%

identified having a parent/parents from a working-class occupation

150+

colleagues signed up to be a mentor, participate in work experience or attend an insight event

Insight events

Hosted across several office sites across the country, sessions on topics such as how an insurance company works, building a sustainable business, and how to run a marketing campaign took place





Impact

after taking part in the programme

93%

felt they understood how an insurance company operates

83%

felt more able to ask someone for a connection to build their professional network

74%

felt more confident to apply for jobs

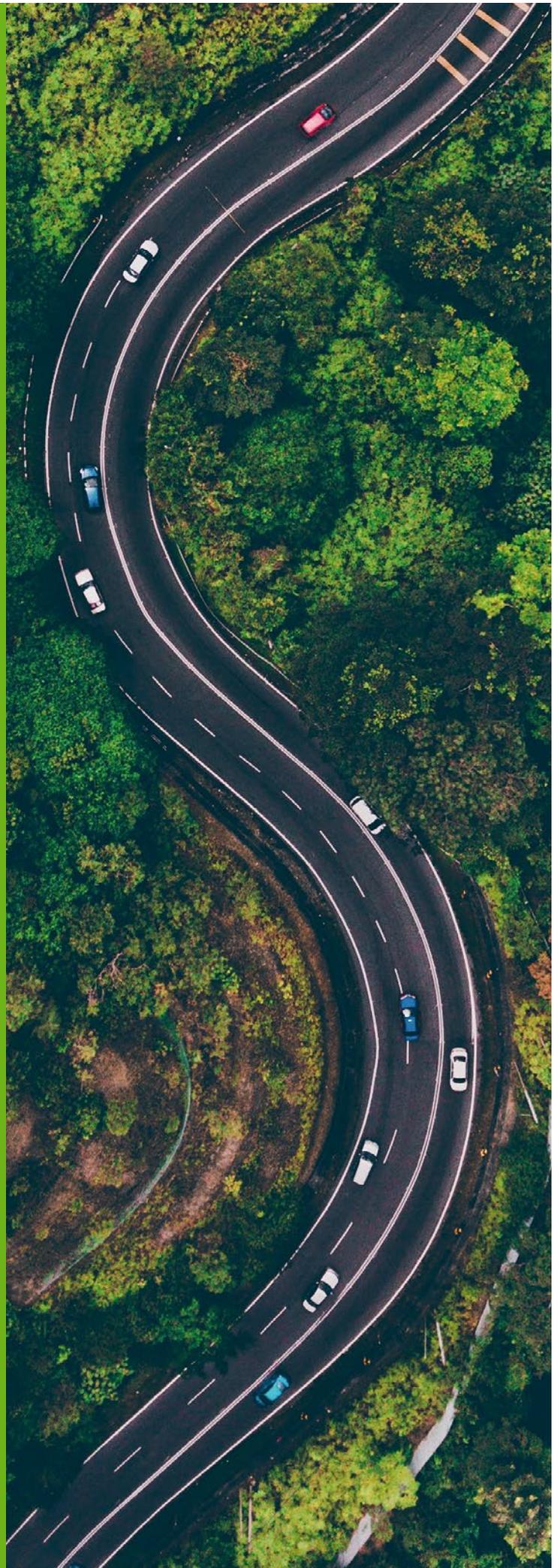
To measure the impact of the programme, students were asked to complete a survey prior to, and after, participating in a Community Fund activity. A few of the key stats are highlighted above.

In 2023, the programme will continue with the aim of engaging with more students to help build a more inclusive and equitable Britain.

Planet

Our mission is to protect our business from the impact of climate change and give back more to the planet than we take out

We believe in supporting customers to make the transition to a low carbon world, climate risk mitigation, and in playing our part in reducing our carbon footprint.



There are three steps which guide our approach:

Step 1

Disclose to track progress

We disclose our carbon emissions because it's how we hold ourselves to account and helps us to find practical solutions to reduce our footprint.

We have measured and disclosed our Scope 1 and 2 emissions since 2013 and in recent years made it clear how these emissions are split between our office sites and accident repair centres. We have also expanded the categories we report under Scope 3, including our Supply Chain, and for the second year running, our Homeworking emissions, recognising that more colleagues are working from home.

Step 2

Commit to tangible actions

We signed up to Race to Zero where companies set emission reduction targets in line with limiting global warming to 1.5 degrees.

We have set ambitious Science-Based Targets, approved by the Science Based Targets initiative ("SBTi"), as we aim to become a Net Zero business by 2050. The most carbon intensive areas of our business – our accident repair centres, supply chain and investments – all have plans in place.

Step 3

Offset while we reduce

While we transition to Net Zero, we currently offset emissions under our direct control by investing in three carbon reduction projects around the world.

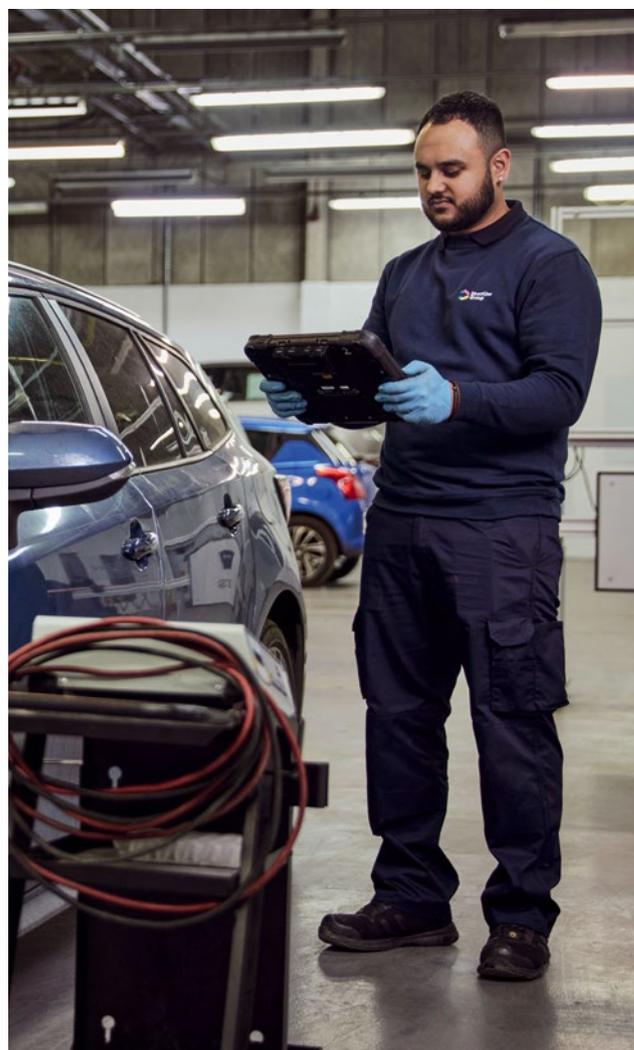
While we transition to Net Zero, we currently offset our Scope 1 and 2 emissions as well as elements of our Scope 3 emissions under our direct control by partnering with Climate Impact Partners¹, an organisation that is dedicated to tackling climate change and improving lives by financing, developing and managing carbon reduction projects.

What does Net Zero mean for us?

We aim to become a Net Zero business by 2050. Our plan covers operational emissions (Scope 1 and 2) and our investments.

The business also prioritises the following Strategic Management Actions:

- **Electric vehicles** – improving our capability to support the transition to EVs.
- **Supply Chain** – implementing a Supply Chain Sustainability Programme to engage and influence suppliers.
- **Flood resilience** – engaging with policymakers on the importance of flood defences and helping to shape thinking around resilient repairs.
- **Underwriting footprint** – evaluating the impact of climate change on our underwriting footprint so that we can manage risks to our business and help inform strategic decision making.



Note:

1. Previously known as ClimateCare.



Our approved SBTi plans

We have now stepped up our ambitions. In November 2022, we were delighted to become one of the first personal lines general insurers in the UK to have our Science-Based Targets approved by the SBTi, meaning we now have ambitious carbon reduction plans on which we will publicly report our progress each year.

We have greater understanding of our carbon footprint. A proportion of our Scope 1 and 2 carbon emissions comes from our offices and accident repair centres, where we have the largest insurer-owned garage network in the UK supporting motor customers.

We have five Science-Based Targets – one target covers our operational emissions and a further four targets cover our investment portfolio. The five Science-Based Targets approved by the SBTi and which we are targeting are:

Our Science-Based Targets

	 Covering	 Target	 How we do it
Operational emissions (Scope 1 and 2)	Our buildings and garage network Including our 22 accident repair centres, the largest insurer-owned network in the UK.	1. Reduce emissions 46% across our office estate and accident repair centres by 2030 ¹	<ul style="list-style-type: none"> – Electrifying heating and cooling systems using renewable energy. – Replacing diesel with hydrogenated vegetable oil in recovery trucks. – Removing gas consumption in spray paint booths by moving to renewable electricity.
Investment portfolio (Scope 3)²	Corporate Bonds The largest asset class in our investment portfolio and typically short duration holdings.	2. Align our scope 1 + 2 portfolio temperature rating to 2.08°C by 2027 ^{3,4} 3. Align our scope 1, 2 + 3 portfolio temperature rating to 2.31°C by 2027 ^{3,4}	<ul style="list-style-type: none"> – Tilt reinvestment towards companies taking serious action to reduce emissions. – Work with our external investment managers to engage with investees to encourage ambitious emission reduction target setting.
	Commercial Property A relatively small allocation within the investment portfolio consisting of prime UK commercial properties.	4. Reduce emissions from our commercial property portfolio 58% per square metre by 2030 ^{1,5}	<ul style="list-style-type: none"> – For commercial property, our external asset manager aims to improve the energy efficiency of buildings, engage with tenants to disclose energy use data (implementing green lease clauses where possible), encourage tenants to set emissions reduction targets, including Science-Based Targets.
	Real Estate Loans A small allocation within the investment portfolio consisting of short dated loans backed by UK commercial properties.	5. Reduce emissions from our real estate loans portfolio 58% per square metre by 2030 ^{1,5}	<ul style="list-style-type: none"> – For real estate loans, our external managers will encourage borrowers to improve the energy efficiency of buildings, and to take energy efficiency of buildings into account when originating loans, and the ability of the borrower to share tenant energy use data.

For more information on the five Science-Based Targets approved by the SBTi which we are targeting, see pages 84 and 85.

Taking action with our supply chain

In 2021, we launched our Supply Chain Sustainability Programme, outlining our plan between now and 2030 to engage and influence suppliers so we can make the transition to a pathway consistent with a 1.5°C scenario. This programme includes our Sustainable Sourcing Approach, encouraging our principal suppliers within our direct control to sign up to SBTi targets or an equivalent. We are also requesting information on what efforts firms have made to measure their carbon footprint across scopes 1, 2 and 3 and their plans to reduce emissions, including targets, so we can evaluate whether it is viable to change our sourcing approach on appropriate contracts.

We have also chosen to set an internal emissions reduction target while we wait for the publication of the Science-Based Net Zero Targets for Financial Institutions from the SBTi, which is expected later in 2023.

Notes:

1. Compared to a 2019 baseline.
2. Covering 75% of our investment and lending activities by monetary value as of 2019.
3. Using a Temperature rating method, we've targeted to align our scope 1 + 2 portfolio temperature score from 2.44°C in 2019 to 2.08°C by 2027 and our scope 1 + 2 + 3 portfolio temperature score from 2.80°C in 2019 to 2.31°C by 2027.
4. The temperature score for corporate bonds is the implied level of warming above pre-industrial levels to which our corporate bond portfolio is aligned based on the CDP's temperature rating methodology.
5. Commercial real estate targets were set using the SBTi sectoral decarbonisation approach for real estate which uses the IEA ETP 2017 Beyond 2°C scenario.

Our climate journey so far



2013

Began measuring our carbon footprint



2014

Electricity for all our offices and repair centres purchased from renewable sources



2016

Our first electric vehicle charging points installed



2018

New energy efficient office opened in Bristol



2020

Offset all our direct emissions



2021

Direct Line launches its first EV bundle for customers



2022



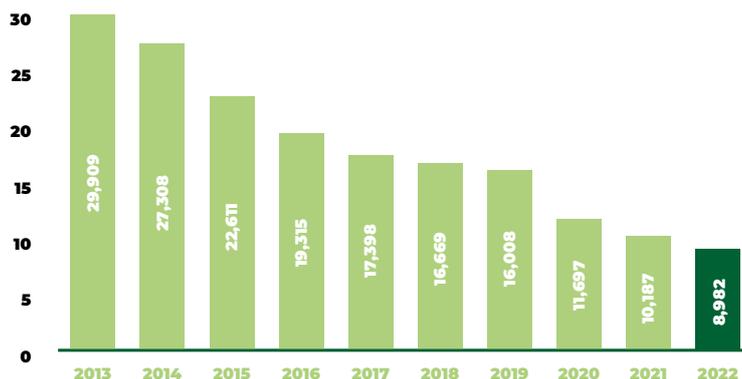
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

One of the first personal lines insurers in the UK to have its Science-Based Targets approved by the SBTi

Since 2013, we have made progress to reduce our carbon footprint:

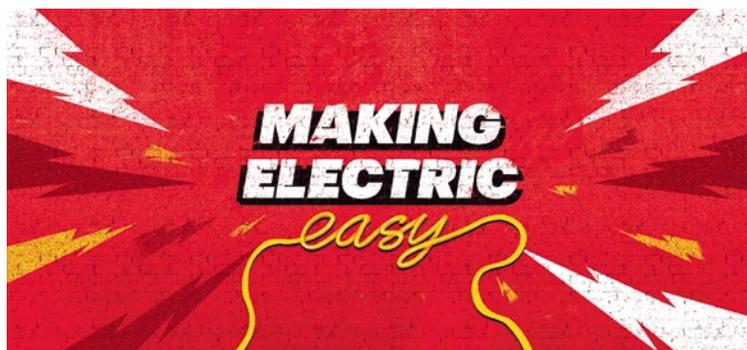
- Reduced our energy consumption by 56% since 2013¹
- Procured 100% renewable electricity for our operations since 2014
- Diverted 100% of our office waste from landfill

Greenhouse gas emissions (tCO₂e)^{2,3,4}



Energy consumption (kWh)^{3,4}

	2022	2021
Electricity	12,686,882	14,856,315
Gas	21,485,898	24,286,023
Total	34,172,780	39,142,338



Supporting electric vehicle customers

Last year, our Direct Line brand launched a 'Making electric easy' campaign which included a bundle of electric vehicle charging benefits and discounts (in partnership with Zoom EV), alongside insurance cover for batteries and charging cables for all new business customers. Due to successful uptake, the bundle was extended for another year and made available to all Direct Line Motor customers, as well as broadened to include a discounted home charger by Zaptec and wider access to an EV help and guidance line (run by Zoom EV).

Notes:

1. Reduction in energy consumption is reported on a like-for-like basis.
2. Total Scope 1 and 2 emissions. The 2021 and 2019 figures differ from previously reported figures, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
3. 100% of GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.
4. Data is reported in compliance with the Streamlined Energy and Carbon Reporting ("SECR") requirements (see page 85).

Biodiversity

This year, we funded tree planting on a flood prevention scheme in Yorkshire to replace the trees we remove when home insurance policyholders make subsidence claims¹. Working in partnership with nature recovery charity Heal, we also provided a loan to acquire a 460 acre site near Bruton in Somerset to support rewilding of the land.

Energy efficiency measures²

In 2022, we continued to invest in energy efficiency measures and focus on the most carbon-intensive areas of the business which will help us work towards meeting our Science-Based Targets.

Building on last year's activity, we have:

- Rolled out our hydrogenated vegetable oil ("HVO") trial in our recovery trucks to 90% of our Auto Services sites. This has saved 543 tCO₂e in 2022.
- Fitted energy-saving LED lighting to a further six repair centres meaning nearly 70% of our Auto Services sites have now received these upgrades.
- Installed a Power Factor Corrector in our Birmingham Auto Services site to maximise the efficiency of our electrical supply on-site. In 2021, installation at our Crawley repair centre delivered a 13% improvement in energy efficiency.

"I'm proud to be part of a team that helped us to receive validated Science-Based Targets. Part of our plan involves replacing diesel in our trucks with sustainable, hydrogenated vegetable oil."

Carrie Loftus,
Sustainability
Programme Manager



Our investments

All external investment managers are signatories of the United Nations Principles for Responsible Investment ("UN PRI"), which ensures that Environmental, Social, and Governance criteria are integrated into the investment process. For investment-grade corporate bond portfolios, as an added measure, we require that managers maintain an average MSCI ESG rating equivalent to or higher than that of the ESG-weighted reference index each portfolio is managed against.

We have set ourselves the target of achieving net zero emissions from the investment portfolio by 2050 as part of our alignment with the Race to Zero campaign on climate change. During 2022, we achieved an important milestone on this journey by having our Science-Based Targets approved.

In addition, we are keeping our target of reducing the GHG emissions intensity of our corporate bond portfolio by 50% by 2030 versus a 2020 baseline as a backward-looking indicator, to make sure emissions are reducing at the required pace over time to achieve our long term net zero goal.

We also require the below exclusions and preferences:

- The exclusion of any companies with a MSCI low-carbon transition score, indicating assets could be economically stranded.
- The exclusion of companies involved in thermal coal activity, either mining or power generation, at greater than 5% of revenues.
- Managers instructed to prefer investments in green bonds where the risk return characteristics are similar to conventional bonds.

Group emissions

We believe accurate measurement and transparency can guide the business in making targeted interventions as part of our carbon reduction strategy. We implemented a number of test and learn activities, and continue to innovate and explore a range of solutions. We have provided a comparison of emissions data for Scope 1, 2 and 3 with greater clarity of the activities under our direct control, as well as our supply chain emissions.

100% of the emissions reported in the table on page 69 relate to our operations, all of which are based in the UK. The data is reported in compliance with the SECR requirement to disclose annual global GHG emissions (see page 85 for more information).

Notes:

1. Yorkshire Flood Alleviation Scheme at Broughton Hall Estate as part of a rewilding project to help grow the White Rose Forest.
2. Data is reported in compliance with the SECR requirements (see page 85).

Definitions

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

Scope 2: These are indirect emissions. They are emissions associated with the production and transmission of energy

we eventually use as a company across our office and Auto Services sites. For example, the production of the electricity we buy to heat and cool our buildings generates emissions.

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

Scope 1	2022	2021	2020	2019 baseline
Office sites ¹	1,023	1,220	1,339	1,418
Auto Services ^{1,2}	5,506	5,812	6,472	7,981
Total (tCO₂e)^{1,2}	6,529	7,032	7,811	9,399
Scope 2				
	Location-Based ³	Market-Based ³	Location-Based ³	Market-Based ³
Office sites	1,089	0	1,372	0
Auto Services	1,364	0	1,783	0
Total (tCO₂e)	2,453	0	3,155	0
Total Scope 1&2 (tCO₂e)^{1,2}	8,982	0	10,187	11,697
Of which: office sites (tCO ₂ e) ¹	2,112	0	2,592	3,515
Of which: Auto Services (tCO ₂ e) ^{1,2}	6,870	0	7,595	8,182
Scope 3 emissions under our direct control				
Fuel and energy-related activities ¹	1,518		2,586	2,332
Waste generated in operations ^{1,2}	2,523		1,990	413
Business travel – air travel	195		28	198
Business travel – hotel night stays	120		34	75
Business travel – rail	160		29	63
Employee commuting ^{1,4,5}	7,227		5,962	1,450
Of which: homeworking emissions ⁵	5,583		5,501	–
Upstream leased assets ^{1,6}	189		110	63
Upstream transportation and distribution of auctioned vehicles ¹	1,890		655	625
Downstream leased assets ⁷	1,552		964	–
Total (tCO₂e)^{1,2}	15,374		12,358	5,219
Total emissions under our direct control (tCO₂e)^{1,2,8}	24,356		22,545	16,916
Scope 3 – supply chain				
Total procured goods and services (tCO₂e)^{1,2,9}	244,316		268,696	144,114
Direct Line Group carbon footprint (operational control)				
Total (tCO₂e)^{1,2,8}	268,672		291,241	161,030
Of which: under our direct control ^{1,2,8}	24,356		22,545	16,916

Notes:

- The 2019 reported baseline differs from our previously reported baseline, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
- The 2021 reported figures differ from our previously reported figures, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
- 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 results are nil.
- Employee commuting is based on estimated UK national averages, not actual individual methods of transport of Direct Line Group employees commuting.
- Homeworking emissions are reported under the Employee Category in line with GHG Protocol.
- Upstream leased assets refer to (1) leased office space locations where Direct Line Group does not directly control the energy provision as it is included in the service agreement, (2) Auto Services pods in retail car park locations and (3) Auto Services courtesy cars emissions.
- Includes Auto Services' courtesy cars emissions which were previously reported under Scope 1. 2021 data represented accordingly.
- Total of Scope 1 and 2 emissions and Scope 3 emissions under our direct control.
- In accordance with the GHG Protocol under which we report, the following are excluded from the total: operational control activities already detailed under 'Scope 3 emissions under our direct control'; cash payments to customers or other insurance companies/legal firms as compensation; 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 reinsurance costs to third-party reinsurers as this is a financing transaction.

Reporting methodology

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

Our carbon emissions are calculated by an external third party and reviewed internally. The calculation method used for our 2022 emissions reporting remains consistent with prior periods and with the reporting standards stated above. For the year ended 31 December 2022, we received independent assurance for our Scope 1 and 2 emissions reporting.

Intensity metric

We monitor and report the intensity metric of emissions¹ per £ million annually of net earned premium and in 2022 we expanded our reporting to include a measure of emissions¹ per average number of employees². These measure how efficiently we provide our insurance products and allow us to compare our performance year-on-year and against other insurance companies.

Year	GHG emissions (tCO ₂ e) per £ million of net earned premium	GHG emissions (tCO ₂ e) per average number of employees for the year ²
2022	3.0	0.9
2021 ³	3.4	1.0
2020	4.0	1.1
2019 ^{3,4}	5.4	1.4
2018	5.4	1.5
2017	5.5	1.6
2016	6.4	1.8
2015	7.7	2.1
2014	9.1	2.4
2013	9.5	2.4

Offsetting projects

From 2020 to 2023, we pledged support to three projects which deliver high social impact benefits to communities, families and the environment. During the last year, progress has been made in all these initiatives with our support contributing to:

- The manufacturing and distribution of water filters, helping to provide safe drinking water to communities and schools across Kenya. 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.
- The production and distribution of 'Bondhu Chula', a clean cookstove designed for an efficient burn to reduce fuel use, helping to support higher air quality.
- The creation and protection of a 120,000-hectare conservation reserve in Brazil, aiming to reduce deforestation and assisting with employment opportunities for local communities in forest conservation and monitoring.

Notes:

1. Scope 1 and 2 emissions.
2. 2022 and 2021 average number of employees for the year available on page 217.
3. The 2021 result of 3.4 and the 2019 result of 5.4 differ from the previously reported results on page 73 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets (also see footnote 1 and 2 on page 69).
4. Prior to 2019, the emissions used in the calculation of the intensity metric excluded emissions from additional vehicles used during repairs, courtesy car fuel usage and vehicles that are Company funded, as these were not previously tracked.

External ratings, memberships and benchmarks

We actively support a variety of membership organisations, and disclose information to ratings and benchmarking authorities, as well as receive ESG performance ratings.

	MSCI We maintained an 'AA' rating for activity in 2022
	Sustainalytics As of October 2022, we received an ESG Risk Rating ¹ of 18.2 and were assessed by Sustainalytics ² to be at a low level of risk
	Ecovadis We were awarded a Silver medal in 2022
	Carbon Disclosure Project We achieved a C rating, ahead of our Science-Based Targets being approved
	Science-Based Targets We became one of the first personal lines insurers in the UK to have carbon reduction plans approved by the SBTi
	Race to Zero As a Race to Zero pledge, we've signed the Business Ambition for 1.5°C future aligning with our Science-Based Targets being approved this year
	Get Nature Positive We are a supporter of the Get Nature Positive campaign, focused on restoring nature and biodiversity
	Social Mobility Pledge We support the Social Mobility Pledge and have focused on helping students with their careers through our Community Fund
	Women in Finance We are a signatory to HM Treasury's Women in Finance Charter
	Race at Work Charter We support the Race at Work charter to take positive action towards supporting ethnic minority representation and inclusion
	The Faith & Belief Forum We are a signatory of the Charter for Faith & Belief Inclusion which aims to help create understanding between people of different faiths and beliefs and a society which is fair to people of all backgrounds – religious and non-religious

Notes:

1. Assessed to be at a low level of risk of experiencing material financial impacts from ESG factors.
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Governance

Our mission is to look to the long term for our stakeholders, build a reputation for high standards of business conduct and a sustainable business.

Running a successful, sustainable business depends on high standards of governance.



Specialist Environmental, Social and Governance (“ESG”) analysts have noted our strong corporate governance performance and this has been reflected in the progress we have made this year. Most notably, we became one of the first personal lines insurers in the UK to have carbon reduction plans approved by the Science-Based Targets initiative.

In 2022, we have retained our MSCI rating of ‘AA’, placing the Group in the top third of MSCI’s Global Property and Casualty Insurers. In addition, we have maintained our ‘low risk’ rating with Sustainalytics, along with our position in first place in their Property and Casualty Insurance Category for the fourth year in a row. Further, we were awarded a silver medal by Ecovadis in 2022.

We remain focused on good sustainable governance underpinned by our Vision and Purpose and a clear commitment from the Board to align sustainability goals across the Group. As a result, we believe colleagues are empowered to consider and implement sustainable solutions.

The Board is committed to growing and fostering a strong culture and tracks progress across the Group in a number of ways; the Sustainability Committee continues to challenge the Group’s progress in order to help us fulfil our sustainability strategy. Please see page 103 of our 2022 Annual Report and Accounts for more information on the role of the Board in the Company’s culture.



ESG LTIP metric

In 2022, we further embedded ESG into our culture by introducing a new emissions metric into our Long-Term Incentive Plan for Executives. For more detail on this metric, please see page 141 of the Remuneration Committee report in our 2022 Annual Report and Accounts.

Consumer Duty Champion

Our independent Non-Executive Director, Tracy Corrigan, has been appointed as our Consumer Duty Champion. Tracy is working with the Chair of the Board of Directors and our CEO to ensure that the Consumer Duty is raised in all relevant discussions and is helping the Board to assess whether the Group is delivering good outcomes for customers.

Externally facilitated Board effectiveness review

During the year, the annual evaluation of the effectiveness of the performance of the Board, its Committees, the Chair and individual Directors was supported externally by board evaluation consultants, Independent Audit Limited. The results of the review have been used to form the basis of an action plan for 2023, details of which can be found on page 114 of our 2022 Annual Report and Accounts.

Second ethnicity pay gap report

In 2022, the Group published its second ethnicity pay gap report and we recognise this as an important step towards further improving inclusivity in the Group.

Ethical Code for Suppliers

The Group's Ethical Code for Suppliers, reviewed by the Sustainability Committee, sets out our commitments to our suppliers and the expectations we have of them. We pay our suppliers on time and, during the year, we were awarded a Fast Payer Accreditation Award by Good Business Pays.

Prudent Person Principle

The Investment Committee reviewed a detailed analysis setting out how the Group's investment governance framework and key related controls ensure investment activities and key decisions meet the PRA's expectations under the Prudent Person Principle.

Russia/Ukraine conflict

New sanctions on Russia are continuously coming into effect and the Group continues to monitor the sanctions situation and screen against the most up-to-date key sanctions lists on a daily basis.

Ongoing commitments

Responsible investment

As Direct Line Group's investment strategy evolves, the company is regularly looking for ways to align its investment practices with ESG issues. To date, it has already reflected a number of initiatives which, we list on our corporate website.

Board diversity policy

The Board sets the tone for inclusivity in the management of DLG's business. It recognises the need to have leaders who live the Group's culture and values and believes that an effective board with a broad strategic perspective should embrace a range of gender, ethnicity, skills, experience and cognitive diversity, as well as diversity of regional, socio-economic, educational and professional background.

Workforce disclosure initiative

We continue to participate in the Workforce Disclosure Initiative ("WDI"), which aims to improve corporate transparency and accountability on workforce issues by providing companies and investors with comprehensive and comparable data.

Modern Slavery Statement

Each year, we review and publish our Modern Slavery Statement, with actions identified to ensure continuous improvement in how we identify, manage and mitigate modern slavery risks within our supply chain.

Code of Business Conduct

The Board remains committed to the highest possible standards of professional and ethical conduct of itself and from all employees. Each business unit within the Group operates with policies and minimum standards and, as such, we adhere to a code of business conduct which sets out the basic ethical standards that are required across the Group and takes into account the following:

Business Practices

We are committed to engaging in honest, professional and ethical conduct and maintaining effective procedures to prevent confidential information being misused.

Dealing with Customers

We are committed to treating customers fairly, openly and honestly and operate an effective complaints process to deal with situations where these standards may be challenged.

Dealing with Shareholders and other Stakeholders

We shall seek to maximise shareholder value over time, recognising that wealth generated also benefits customers and employees as well as the communities within which we operate.

Dealing with Employees

We maintain a working environment that attracts, motivates and retains employees and will be intolerant of any type of discrimination, harassment or victimisation.

Dealing with Suppliers of Goods and Services and Business Partnerships

We maintain the highest possible standards of integrity in business relationships with suppliers and partners by treating them honestly and with respect and avoiding compromising offers of gifts and hospitality.

Dealing with Communities and the Environment

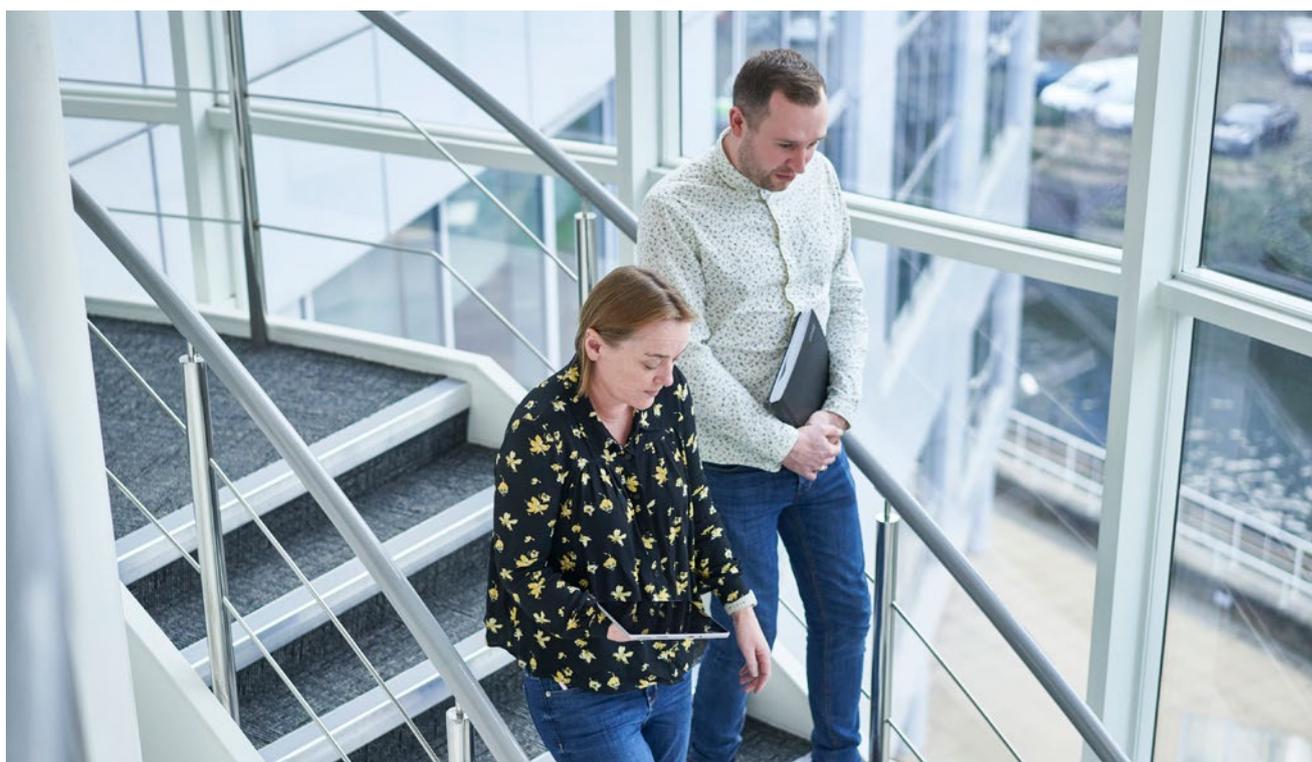
We are committed to contributing to the social and economic well-being of those communities where we are an employer and encourage employees to participate in projects and initiatives to strengthen those communities.

Dealing with Competitors

We are committed to ensure we compete with competitors honestly and in accordance with the relevant Competition Law.

Dealing with Regulators

We maintain a constructive and open relationship with our regulators to foster mutual trust, respect and understanding and will not offer anything to officials in return for favourable treatment in any way.





Direct Line Insurance Group plc©

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