Our Governance

DANUTA GRAY
CHAIR OF THE REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of the Remuneration Committee (**"The Committee"**), I am pleased to introduce this year's report, including our updated Directors' Remuneration Policy.

The Group has had a good year and achieved significant progress against our key strategic aims despite the challenges we have faced in the broader external market. Our strategic objective is to turn the Group's potential into growth through combining our customer-focused philosophy, strong brands and technology transformation and by becoming a simpler, leaner and more agile organisation, all with the aim of establishing the Group as the most successful business in our chosen markets. Therefore, we are committed to being a home for capable people who celebrate difference and challenge the status quo to deliver for our customers. We can only do this by empowering and developing the best people.

This has been a busy year for the Group with the progression of our change agenda. In the context of remuneration, the Committee considered the following items:

- In line with the changes to the UK Corporate Governance Code 2018 (the **"Code"**), the Committee received more information and regular updates on all-employee reward and engaged directly with the wider employee population. This put the Committee in a good position to take all-employee reward into account when considering the Directors' Remuneration Policy (the **"Policy"**).
- This year we are proposing a new Remuneration Policy. Following a review which included considering all-employee remuneration and other stakeholder interests, the Committee was satisfied that the Policy remains 'fit for purpose', therefore only relatively small changes are proposed to refine the Policy. We have also refreshed the incentive scheme rules.
- Penny James was appointed CEO on 9 May 2019 and the process for the recruitment of a new CFO was completed with Tim Harris taking up the position on 1 October 2019. For both appointments the Committee considered the appropriate remuneration that would motivate and retain the candidates. In addition, the Committee considered their remuneration in the context of wider workforce remuneration and I am pleased to report that their pension contribution level is in line with the workforce. This means that we are fully compliant with the new Code in this regard.
- The Committee also considered arrangements for departing Directors and the mitigation of the costs of their departures. More information on the departing Directors appears in the Annual Report on Remuneration.
- The Committee considered the Annual Incentive Plan (**"AIP"**) outturn noting the change agenda and the establishment of Penny's leadership team and was satisfied that good progress has been made. The Committee considered the overall outcomes of both the AIP and the Long-Term Incentive Plan (**"LTIP"**) schemes and was satisfied that those outturns were appropriate and so did not apply discretion to adjust the outturns.

I hope that, once you have read the documents, you will vote in favour of the resolutions at the forthcoming AGM.

I see the Committee's objectives as:

- Rewarding Directors for results that are generated within the risk appetite set by the Board.
- Setting an appropriate framework for remuneration for the Executive Directors, Executive Committee and other senior management with enough flexibility so that the Group can attract and retain the best people for the organisation.
- Having oversight of remuneration policies throughout the Group and ensuring all our employees are paid fairly.

The report is set out in the following sections:

The Remuneration Committee is committed to aligning Executive Directors' pay to the Group's business strategy and demonstrable success and the interests of our shareholders.

Remuneration Policy

We will be proposing a new Policy to shareholders for approval at the AGM in May 2020. The Policy covers how decisions on Directors' remuneration will be made, and the remuneration philosophy and strategy which underpin these decisions.

The requirements of the revised Code have provided the Committee with an opportunity to consider whether our existing Policy on executive pay remains appropriate for our business and in line with regulatory requirements and key stakeholder expectations. The current policy was well supported by shareholders on adoption (receiving over 98% of votes in favour when it was approved at the AGM in May 2017) and, we believe, continues to support the delivery of our long-term strategy.

As part of the comprehensive policy review process, a range of remuneration structures were explored fully. The Committee decided to retain the key features of the current policy, enhance some components to achieve further simplicity and increase shareholder alignment whilst reinforcing our strategic priorities. The revised Policy ensures continued regulatory compliance relating to remuneration and reflects evolving good governance practice in many areas. The Committee considers it essential that the policy for Executive Director remuneration reflects the interests of the wider workforce.

The key features of the new policy are:

- For all current and future Executive Directors, the pension contribution will be set in line with the pension contribution rate for all Group employees in the UK (currently 9% of salary). Any new Executive Committee members will also have their pension contributions aligned with the Executive Directors and the wider workforce.
- Simplification of the non-financial AIP performance measures to emphasise our short-term strategic areas of focus and the use of a straight-line vesting between AIP threshold and maximum performance.
- Significantly increased shareholding requirements to 250% of salary for the CEO.
- A new post-employment shareholding requirement equal to the shareholding requirement in office (or actual shareholding on departure, if lower) for a period of two years following cessation of employment.
- Consistent malus and clawback trigger events to reflect the guidance set out by the FRC.
- To enable the Committee (in line with the new Code requirements) to apply discretion and override formulaic outcomes where those outcomes do not reflect overall Group performance.

Details on how the Policy will be implemented for 2020 are set out on page 111

To coincide with the review of the Policy we have also carried out a timely review of the executive share incentive scheme rules. There are two schemes which shareholders have been asked to vote on: The LTIP and the Deferred Annual Incentive Plan (**"DAIP"**). The main changes being proposed to the plans are to update legislative references and simplify leaver provision wording, (although no substantial changes are proposed).

We have consulted with our largest shareholders, Institutional Shareholder Services, the Investment Association and Glass Lewis as part of reviewing our Policy and its implementation for 2020. In light of the positive feedback received, we did not make any changes to our initial proposals. I would like to take this opportunity to thank them for their time and valuable input.

Performance and incentive outcomes for the year

During 2019, I believe our management team has worked extremely hard to deliver and be prepared to launch a new strategy and can take pride in the growth the Group has experienced in the past year.

The Group delivered good results in a challenging market, growing our capital return and we consider our successful customer-focused strategy and our investment in future capabilities to have helped sustain this robust performance. The results are reflected in the incentive outcomes for our Executive Directors.

For the 2019 AIP, the Group's diversified product and channel portfolio, disciplined underwriting and our engaged employees have helped us to achieve a commendable profit before tax result of £509.7 million. The outturn was ahead of the target leading to a pay-out of 69% of maximum for this element. Performance across the Customer measures was particularly strong for the year and the Committee awarded a maximum outturn for this element. The People measures were assessed as being around maximum. The Committee is pleased to report this year that management have made significant progress on the technology transformation and cost reduction agenda on which the Shared objective was measured and awarded an outturn of 70% for this element. Full details on the outcomes for the year are included on pages 114-117. We therefore awarded bonuses of 76% of the maximum to the Executive Directors. In line with the Remuneration Policy, 40% of any AIP award will be deferred for three years under the DAIP.

The 2016 LTIP (awards granted in March and August 2016) vested during 2019 and merited a pay out at 100% of maximum based on strong performance against our RoTE targets over the three-year performance period (2016, 2017 & 2018). In calculating the RoTE achievement, the reported RoTE for 2018 was adjusted downwards to exclude the favourable impact of the capital management exercises executed in the 2017 financial year on the outcome for these awards.

The TSR performance for the 2016 LTIP awards run from the date of award to the third anniversary of award (as opposed to across the three financial years commencing with the year in which the award was granted as for the RoTE measure). TSR performance for both the March and August awards did not achieve threshold performance reflecting the challenging external environment, therefore no shares vested under this measure. Subsequently the overall vesting outcome for the 2016 LTIP awards was 60%.

The 2017 LTIP (awards granted in March and August 2017) are due to vest during 2020, subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

The RoTE performance period for these awards ended on 31 December 2019. The three-year average RoTE performance for 2017, 2018 and 2019 was 20.4% against a maximum target of 18.0%. Awards under the RoTE element are therefore due to vest at 100% of the maximum potential.

In calculating this outcome the same downward adjustments have been made to the reported RoTE for 2018 per the 2016 RoTE achievement.

Consistent with the regulations, as the performance period of the TSR elements run for three years from grant (whereas the RoTE performance period is aligned with the financial year-end), the TSR element of the 2017 awards, due to vest during 2020, will be reported separately next year. Accordingly, we have included an estimated value of the RoTE vesting outcomes for the 2017's awards plus the TSR vestings from the 2016 awards in the single figure remuneration table for 2019 for the Executive Directors.

> The Committee believes that the 2019 remuneration outcomes appropriately reflect the Group's good performance.

Committee decisions on outcomes

As mentioned, this year has been a good one and the overall outcomes for the annual bonus resulted in a payout of £1,004,747 for the CEO and £177,888 for the CFO which the Committee believes is appropriate in the context of the Group's performance in 2019.

The level of vesting of the LTIP was considered appropriate in the light of the Group's performance over the three-year performance period. The Committee believes the Policy has delivered an appropriate quantum of reward for the corporate performance achieved. The Committee were therefore satisfied that the Group's Remuneration Policy had operated as intended.

Wider workforce engagement and pay considerations for 2019

The Committee has consistently considered wider employee pay as context for the decisions it makes. Every year, we review and act upon the outcome of our DiaLoGue People Survey. As Chair of the Committee, I have attended meetings of the Group's Employee Representative Body (**"ERB"**) since 2018 at appropriate times during the year. These meetings are an opportunity to discuss any concerns raised in relation to employee pay and that of our Executive Directors and senior leadership. Our existing workforce engagement is strengthened through internal social networking, "town halls" and other forums. To supplement this, the Committee receives papers setting out details of all-employee pay and workforce policies across the Group at each meeting. We found that this standing agenda item gave us further valuable insight for framing executive pay and policies.

The Committee considers it important to monitor and assess internal pay relativities and takes these into account when determining Executive Director remuneration.

Early adoption of the CEO pay ratio disclosure in 2018 emphasised the Committee's intention to do so. The employee pay ratio has been refined further for 2019 by adopting Option A to better reflect the diverse range of job roles across the business see page 120.

During 2019, the Group further built on its commitment to ensure that all of our people are rewarded fairly and have an interest in the success of the Group, with a minimum increase of £650 in 2019, bringing the minimum salary across the Group to £19,000 (depending on contractual hours).

We are also delighted that, through our continued focus on building an inclusive organisation, we have improved our female representation in senior jobs to exceed the Women in Finance Charter target of 30% during 2019, and we will continue with the programmes underway to further reduce our gender pay gap. See our 2019 Gender Pay Gap Report for more details at www.directlinegroup.co.uk/2019GenderPayGapReport.

Executive Director changes

During the year the Group completed the appointment of Penny James as CEO and the search was completed for a new CFO culminating in Tim Harris's appointment on 1 October 2019. Details of the remuneration arrangements for Penny on appointment to CEO were disclosed in last year's report. Full details of Tim's remuneration can be found on page 124. When assessing the appropriate remuneration for both Penny and Tim, the positions were benchmarked externally as well as with consideration to the remuneration arrangements of the whole workforce. Broadly speaking the elements of the all-employee reward and Director reward are similar and in particular, both Directors' pension contributions are in line with the wider workforce. The Committee determined that it was appropriate to grant awards to Tim Harris as compensation for awards forfeited from his previous employer. Further details are set out on page 127.

Paul Geddes stood down as CEO and a member of the Board on 9 May 2019 and left the Group at the end of July 2019. Paul worked through his notice and was paid a pro-rated AIP bonus for the period to 31 July 2019. Following a review of Paul's contribution and performance through his notice period, the Committee exercised its discretion and decided that Paul was a 'good' leaver for the purposes of the incentive schemes. Accordingly, his LTIP awards will be pro-rated until 31 July 2019. The continuing LTIP and DAIP awards will vest on their usual vesting dates. For LTIP awards issued after the AGM in 2017 any shares that vest will be subject to a further post vesting holding period of two years.

Following a reassessment of the Executive Committee and Board it was agreed the position of Managing Director Personal lines was no longer required and consequently this role was made redundant on 30 June 2019. Mike Holliday-Williams served his notice commencing on 1 July 2019, and found a new external role, which the Committee considered not to be in competition with the Group. Consequently, a redundancy date was agreed and he was by definition a 'good' leaver as of 30 September 2019. The Committee did not exercise any discretion with regard to Mike's share incentive scheme awards.

His LTIP awards will be pro-rated to this date and for any awards granted after the AGM in 2017 will be subject to a two-year post-vesting holding period. In addition, in anticipation of the new Policy, as part of Mike's redundancy arrangements it was agreed that he will maintain his shareholding requirement for a period of two years from 30 September 2019.

Approach to pay in 2020

No change to the overall approach to pay is anticipated for 2020. The CEO will be awarded a salary increase of 2.13%. This is in line with the average increase for the wider workforce (2.25%) but calculated based on the weighted average salary before and after her promotion to CEO. The CFO's salary remains appropriate given his joining date in the latter quarter of the year.

No change will be made to the weightings of the metrics under the AIP. The approach to assessment will focus on performance measures agreed at the start of the year.

We are not proposing any changes to the performance conditions for the 2020 awards under the LTIP. Likewise, the target RoTE scale of 17.5% to 20.5% will remain at the same level as in 2019 and reflects an appropriate performance range in the context of the Group's planned underlying RoTE performance.

As part of the wider Committee oversight on all-employee pay matters, the Committee (following a detailed review) is delighted to confirm that the Group will apply an increase to the minimum salary level that is above the living wage foundation rate and a minimum salary increase of £500 to around 5,200 colleagues from April 2020 bringing the Group's company-wide minimum salary to £19,500 for full-time colleagues on 37.5 hours. This is 8% above the Living Wage Foundation rate outside London, and 15% higher than the Government's national minimum wage. We continue to want our employees to have ownership of the Group, as such, the Committee approved a grant of Free Shares to all employees in 2020 to recognise their invaluable contribution to the business and the desire to strengthen shareholder alignment across the Group.

Your AGM vote

The Committee welcomes investor feedback on an ongoing basis and this report seeks to describe and explain our remuneration decisions clearly, and I hope to receive your support for it at the AGM. At this years' AGM you are being asked to vote on four remuneration-related resolutions: the Directors' Remuneration Policy, updates to the share incentive schemes (LTIP and DAIP) and the Directors' Remuneration Report.

Should you have any questions about my Committees' report or our Remuneration Policy proposals please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or my team will respond to you.

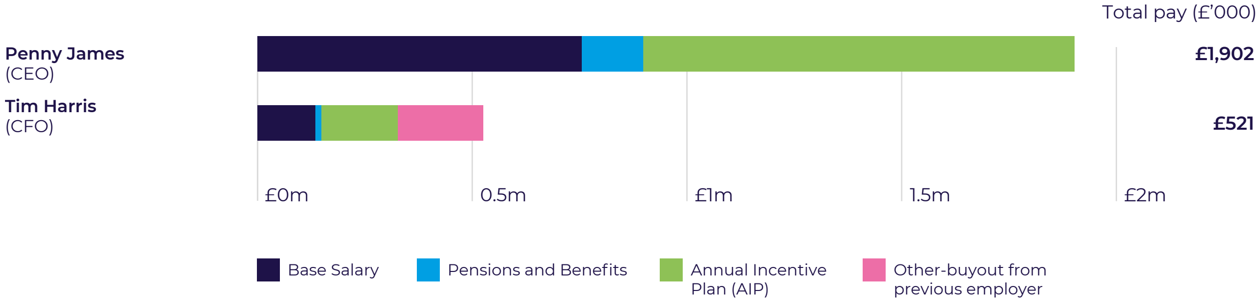
Yours sincerely,

DANUTA GRAY
CHAIR OF THE
REMUNERATION
COMMITTEE

Remuneration at a glance

Remuneration outcomes for 2019

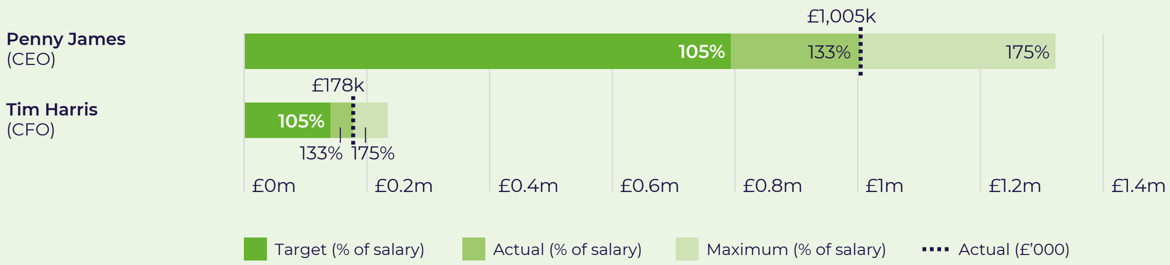
Executive Director's total pay



Find out more on page 113

AIP achievement

This chart illustrates the actual amounts earned from the AIP and reflecting performance in 2019. 60% of the amount is payable in March 2020 and 40% will be deferred into shares for three years.

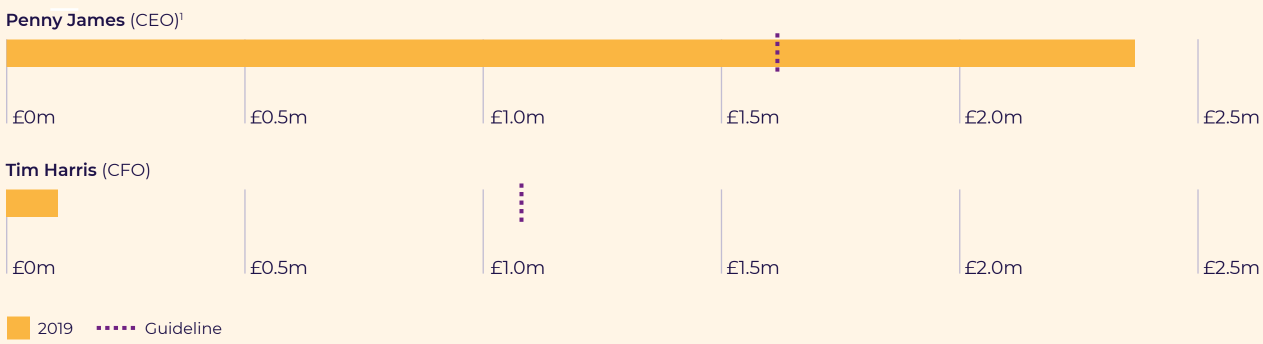


Find out more on pages 114-117

LTIP

Shareholding at year-end

This chart illustrates the number of shares held at the end of 2019 by the Executive Directors against the share ownership guidelines of 200% of salary.



Note:
1. From 2020 AGM this will increase to 250% for the CEO, she currently exceeds the increased level.

Find out more on pages 119 and 125

Implementing the policy in 2020

Key feature	Implementation in 2020
Base salary	
– Reviewed annually with any increases taking effect on 1 April – The Committee considers a range of factors when determining salaries, including pay increases throughout the Group, individual performance and market data	– 2.13% increase for the CEO to £817,000 – The CFO's salary remains appropriate (at £535,000) given his joining date in the latter quarter of the year
Pensions	
– Pension contributions are paid only in respect of base salary – The Executive Directors' pension is set in line with the pension level received by the majority of the employee population	– CEO and CFO pension contribution is 9%
Annual Incentive Plan	
– Maximum opportunity of 175% of salary for the CEO and the CFO – At least 50% of the AIP is based on financial measures. The Committee considers various non-financial performance measures such as strategic measures – It bases its judgement for the payment outcome at the end of the performance period on its assessment of the level of performance achieved with reference to performance targets agreed at the start of the year – Any payment is subject to an additional gateway assessment, including assessing risk factors – Clawback provisions apply	– No change to the maximum opportunity – No change from the weightings or measures used for 2019 – There will be a straight-line vesting between AIP threshold and maximum performance – Financial measures (55%): Profit before tax – Non-financial measures (45%): People, Customer & Shared – The performance targets are commercially sensitive and will be disclosed in next year's report
Deferred Annual Incentive Plan	
– 40% of the AIP is deferred into shares – Typically vesting after three years subject to continued employment – Malus and clawback provisions apply	– No further performance conditions apply
Long Term Incentive Plan	
– Awards typically granted as nil-cost options – Awards typically granted twice a year – The Plan allows for awards with a maximum value of 200% of base salary per financial year – Performance is measured over three years – Awards vest subject to financial underpin and payment gateway – Malus and clawback provisions apply – Awards are subject to an additional two-year holding period following the end of the three-year performance period	– No change to the maximum annual award levels – Nil-cost options will continue to be used for the grants – The current 60% RoTE and 40% TSR mix will continue to apply for 2020 – A RoTE target range of 17.5% (threshold) to 20.5% (maximum) is required for the 2020 awards to vest – Vesting at threshold is 20% and maximum is 100% with straight-line vesting in between – Relative TSR will be measured against the FTSE 350 (excluding investment trusts) peer group. Vesting for median TSR performance (threshold) is 20% and for upper quintile TSR performance (maximum) is 100% with straight-line vesting in between these points

Annual Report on Remuneration

Introduction

We have prepared this report in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "**Regulations**"). The report also meets the relevant requirements of the Listing Rules of the FCA and describes how the Board has complied with the principles and provisions of the Code relating to remuneration matters. Remuneration tables subject to audit in accordance with the relevant statutory requirements are contained in this report and stated to be audited. Unless otherwise stated, the information within the Directors' Remuneration Report is unaudited.

Remuneration Committee members and governance

The following list details members of the Committee during 2019. You can find information about each member's attendance at meetings on page 82. You can find their biographies on pages 76 to 78.

Committee Chair
Danuta Gray
Non-Executive Directors
Mike Biggs
Mark Gregory[1]
Sebastian James
Clare Thompson[2]

Notes:
1. Mark Gregory was appointed to the Remuneration Committee with effect from 9 May 2019.
2. Clare Thompson stepped down from the Board with effect from 9 May 2019.

Advisers to the Committee

The Committee consults with the Chief Executive Officer, the Group Human Resources Director, and senior representatives of the HR, Risk and Finance functions on matters relating to the appropriateness of all remuneration elements for Executive Directors and Executive Committee members. The Chairman, Chief Executive Officer and the Group Human Resources Director are not present when their remuneration is discussed. The Committee works closely with the Chairs of the Board Risk Committee and the Audit Committee, including receiving input from those Chairs regarding target-setting and payouts under incentive plans, and whether it is appropriate to operate malus and clawback. The Chair of the Board Risk Committee attended Committee meetings on two occasions. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee appointed PricewaterhouseCoopers LLP(**"PwC"**) as its independent adviser from 1 January 2019 following a competitive tender process. PwC is a signatory to the Remuneration Consultants Group's Code of Conduct.

During the year, PwC advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment, investor engagement and other matters that the Committee was considering. PwC supported the Group in several ways, including the provision of IFRS 17, tax, technology consulting and immigration services during 2019. The Committee is satisfied that the advice PwC provided was objective and independent.

PwC's total fees for remuneration-related advice in 2019 were £151,700 exclusive of VAT. PwC charged its fees based on its standard hourly rates for providing advice.

Allen & Overy LLP, one of the Group's legal advisers, also provided legal advice relating to the Group's executive remuneration arrangements. It also provided the Group with other legal services.

Implementing policy and pay outcomes relating to 2019 performance

Single figure table (Audited)

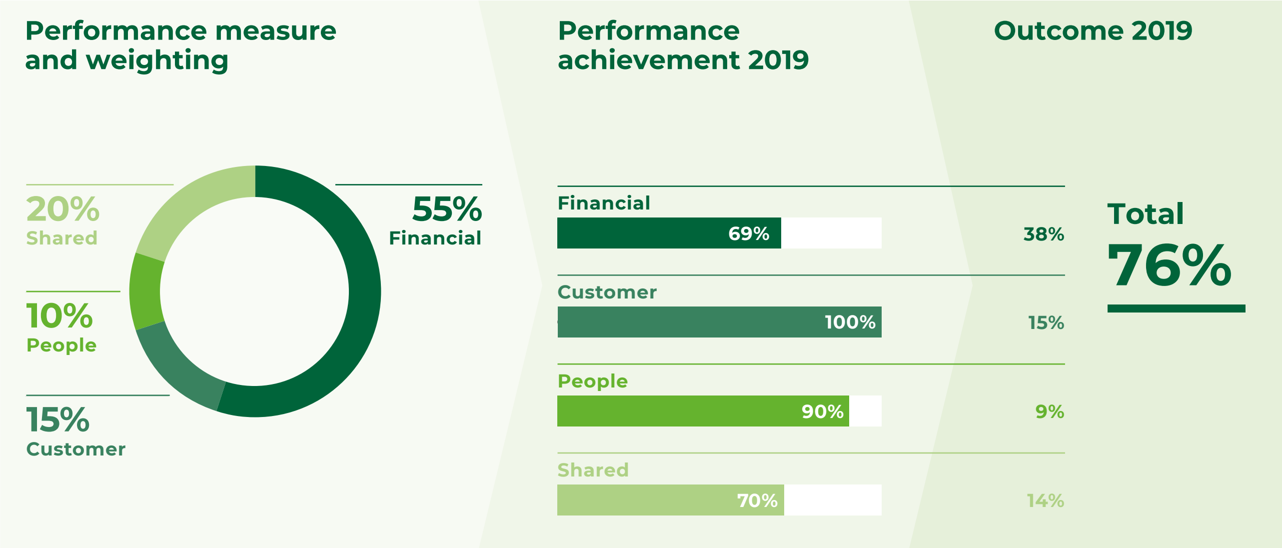
	Salary[1]		Benefits[2]		Annual bonus[3]		Long-term incentives[4,5]		Other[6]		Pension		Total	
£'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Penny James[7]	755	675	35	14	1,005	803	–	2,512	–	–	107	169	1,902	4,174
Tim Harris[8]	134	–	3	–	178	–	–	–	198	–	12	–	525	–
Paul Geddes[9]	297	826	8	19	395	983	–	1,216	–	–	74	206	774	3,250
Mike Holliday-Williams[10]	284	559	7	14	324	570	–	626	–	–	43	84	658	1,854

Notes:
1. Salary – the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
2. Benefits – includes a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance. The CEO uses a car service for travelling on journeys from home to office, the Group also pays for any associated tax liability that arises on this benefit.
3. Annual bonus – includes amounts earned for performance during the year but deferred for three years under the DAIP. For more information, see page 126.
   These deferred awards are subject to continuous employment only. However, awards remain subject to malus and clawback.
4. 2016 LTIP awards RoTE – the expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2016 and reported in 2018 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £3.53 and £2.831 on 29 March 2019 and 30 August 2019 respectively, compared to the three-month average share price of £3.20042 used in reporting this figure in the 2018 report. The revised figures include the actual number of dividends accrued on this portion of the award at vesting. This results in an adjusted reportable increase of approximately £12,167 for Paul and £12,543 for Mike with a corresponding increase of the single figure for 2018 reflected in the table above. Further information on LTIP awards can be found on pages 118-119.
5. The 2018 long-term incentive buyout for Penny James – the expected vesting outcome figure reported in 2018 has been updated. The figure relates to the amount in respect of the second and final tranche of her buy-out awards, which vested in April 2019. These updates are based on the actual vesting of 97.335% (unchanged) and a share price of £3.559 on 1 April 2019. The award was subject to the achievement of performance targets, ending in the 2018 performance year, that relate partly to the performance of the Company and partly to the performance of her previous employer.
6. The 2019 "Other" figure for Tim Harris relates to the amount in respect of his buyout awards, disclosed on page 127. The award is not subject to any performance conditions, and the value of this award is based on a share price at the date of grant (1 October 2019) of £2.9997.
7. Penny James was appointed to CEO on 1 May 2019. Her remuneration for 2019 covers both her time spent in the role as CFO and as CEO during 2019. As disclosed last year, Penny's pension contribution was reduced from 25% to 9% of salary on her appointment to CEO in May 2019 to align with the wider workforce.
8. Tim Harris was appointed to the Board on 1 October 2019 and also became employed on that date.
9. Paul Geddes stepped down from the Board on 9 May 2019. His remuneration for the purposes of this table has been pro-rated with LTIPs vesting by reference to performance conditions met while he was on the Board in 2019. Details of Paul's salary, pension and benefits paid following his cessation as an Executive Director on 9 May 2019 until the date of his exit on 31 July 2019 can be found on page 122.
10. Mike Holliday-Williams stepped down from the Board on 30 June 2019 when the role of Managing Director, Personal Lines was made redundant. His remuneration for the purposes of this table has been pro-rated with LTIPs vesting by reference to performance conditions met while he was on the Board in 2019. Details of Mike's salary, pension and benefits paid following his cessation as an Executive Director on 30 June 2019 until the date of his exit on 30 September 2019 can be found on pages 123-124.

Each Executive Director has confirmed they have not received any other items in the nature of remuneration, other than those already disclosed in the single figure table.

Annual Incentive Plan outcomes for 2019 (Audited)

The chart illustrates the final assessment of the level of achievement under the AIP and total outcome approved by the Remuneration Committee.



Executive Director	Achievement under the 2019 AIP	2019 AIP payment
Penny James	76% of maximum	£1,004,747
Tim Harris[1]	76% of maximum	£177,888
Paul Geddes[2]	76% of maximum	£395,032
Mike Holliday-Williams[2]	76% of maximum	£323,695

Note:
1. The award made to Tim Harris represents a pro-rated amount for the period since joining the Board.
2. The AIP awards made to Paul and Mike represent pro-rated amounts for the period to their departure from the Board.

40% of any AIP award is deferred into shares under the DAIP, vesting three years after grant.

Financial element (55% weighting)

The financial performance measure is profit before tax. The Committee established a target performance level at the start of the year. In the table below, we have disclosed the target set for profit before tax performance.

The approach taken to assessing financial performance against this measure was based on a straight-line outcome between 10% for threshold performance and 60% for on-target performance, and a straight-line outcome between on target performance and 100% for achievement of maximum performance.

The formulaic outcome from 2019 performance against the financial measure was 69%, giving a total of 38% out of 55% attributable to this element. A summary of the assessment is provided in the following table.

Measure	Threshold 10%	Target 60%	Maximum 100%	2019 Actual	2019 Achievement
Profit before tax	£449.1m	£499.0m	£548.9m	£509.7m	69%

Customer element (15% weighting)

Customer experience is at the heart of the Group's strategy and success. As part of our customer strategy, and to ensure that the business strives to achieve a sustained and competitive level of service, the Board sets challenging customer-centric KPIs. These are intended to ensure that remuneration is aligned with and supports continuous improvement.

We set ourselves the highest standards for customer service and demonstrate this by assessing our progress in customer outcomes from the views of our customers. The Group has continued to improve on an already strong performance against stretching targets. Our brands performed well (mainly top quartile) across the majority of insurance customer experience benchmarking studies.

Having considered performance against targets and an assessment of the quality of performance achieved, the Committee determined that a maximum outturn for the Customer measures was appropriate, giving a total of 15% out of 15% attributable to this element. A detailed assessment of the Customer measures is set out below.

Measure	Assessment
Net promoter score ("NPS") Improvement of customer advocacy across the Group	Overall, we worked hard to offer great customer service, and this is reflected in our top quartile NPS scores measuring the likelihood of our customers to recommend one of our brands. – The Group's NPS showed strong year-on-year performance, exceeding target and achieving top quartile performance in a range of independent benchmarking studies. – Churchill NPS was just ahead of the target set for 2019; and we worked hard to boost customers' loyalty by making dealing with insurance easier; launching a new brand driving the Churchill strap line. – We continued the trend for high renewal NPS, with particularly strong performance in H1 on Motor and Home with favourable market conditions for customers. – Rescue NPS performance ended the year well ahead of target as a new supplier framework was embedded delivering great customer outcomes. – We continued to enhance digital capabilities for customers amending and renewing polices to meet more customer needs.
Complaints Reduction in complaints volume and process improvements	– The volume of claims complaints reduced significantly in 2019, as we focused on constantly working to improve and taking learnings from dissatisfaction in order to help ensure that our customer outcomes continue to be high. – Long-term reducing trends on Household, Motor, Commercial and Rescue continued into 2019, so that stretch targets were exceeded in all lines of business.
Claims NPS Increase ease on claims and strategic improvements	– Claims NPS performance was well ahead of target with various customer focused initiatives making a difference (i.e. speeding up total loss payments significantly). – The Group's work in delivering the highest level of customer service has been recognised at the UK Customer Experience Awards where the Group won Gold or Silver across five different categories.
MyCustomer Transaction customer experience performance measuring our people/calls	– Over 1.5 million responses from customers across the Group have provided feedback on the experience delivered by our people and 85% (claims) and 87% (customer ops) rated our people as 9 or 10 out of 10. – A new platform was launched in Q4 2018 to further improve insight capabilities and this improved capability has been embedded during 2019 to drive even more focused coaching conversations and performance recognition. – In Household, Motor and Claims MyCustomer consultant performance was significantly ahead of target with several best-ever months in both areas.

Measure	2019 Achievement
Customer	100%

People element (10% weighting)

For the People element of the AIP, the Board set a range of people measures specifically around succession strength, diversity and employee engagement, reflecting the importance of this agenda to the success of the Group. The Committee considered that performance across these measures was very strong and had exceeded expectations against a background of high employee engagement alongside significant change and transition this year. The Committee therefore agreed a near maximum outturn for the People measures, giving a total of 9% out of 10% attributable to this element. A detailed assessment of the People measures is set out below.

Measure	Assessment
Succession Ensure a succession plan in place for senior roles, nurturing our people to support progression in accordance with succession plan	– We successfully and smoothly navigated changes to our senior leaders and Executive Committee in 2019, quickly filling roles with either internal or external capable long-term leaders and provided continuity of leadership, mindfully increasing our female representation at this level. – To support the CEO transition and prepare for the next generation of senior leaders, we used our Senior Leadership Development Programme, to build strategic capability throughout 2019. – We continue to retain our high potential people across our Emerging Leaders and Graduate population of 33 individuals with just one voluntary leaver. Two cohorts of our emerging leaders programme have taken place in 2019 (with a 50:50 gender split), with five of this group moving into new roles in 2019, including three promotions. – Our high potential graduates have been provided with opportunities to move in the organisation and develop further, raising their profiles with our senior leaders via networking opportunities and building relationships further across the Group. We successfully recruited a further 28 graduates and 117 apprentices during 2019.
Diversity Ensure the Group is a diverse and inclusive place to work where differences are respected, valued and celebrated	– Since becoming a signatory to the Women in Finance Charter, we have actively recruited and promoted more women into senior roles; women now account for 31% of our senior management (2018: 28%, 2017: 22%) and we are looking forward to working towards our next milestone. – We continued to focus on building an inclusive organisation, valuing diversity and uniqueness. 91% of our people responded positively that they feel they can 'bring all of themselves to work' in our 2019 employee survey. – All senior leaders have Diversity and Inclusion action plans in place. – We launched Thrive – an employee movement aimed at helping them and others to grow and feel empowered to drive their own path and inspire other Direct Line Group women to be the best they can be. – Mental health continued to be a focus in 2019, and we further developed the agenda by hosting a Mental Health First Aiders conference and sponsorship of events to provide awareness and support on this subject, including financial wellbeing and targeted training around suicide awareness training. It is our aspiration to enable mental health conversations and support to be at the same level as they are for physical health.
Engagement Ensure we are fully engaged with our employees via the DiaLoGue programme with leaders setting the tone demonstrating the Group's Values and Behaviours in all aspects of their role	– We continued to achieve high participation levels (88%) in our employee survey, DiaLoGue, and maintained high overall engagement levels at 78% in 2019, which places us in the upper quintile of high performing companies. – In 2019 following our accreditation and 3rd place position in the Sunday Times 'Best Big Companies to Work For' survey, we identified personal growth, people management, and leadership as the key priority areas to concentrate on to improve our ability to attract and retain employees.

Measure	2019 Achievement
People	90%

Shared element (20% weighting)

For the Shared element of the AIP, the Board set a range of strategic measures specifically around technology and business transformation and cost savings, with the aim of ensuring the Group has the capabilities and cost base to ensure its sustained success. The Committee considered the delivery of the major technology transformation programmes, for which specific measures and milestones were set; and for the cost objective the Committee focused on the articulation and commencement of activities required to achieve the 2020 and 2021 cost base. The Committee therefore agreed an outturn of 70% for the Shared measures, giving a total of 14% out of 20% attributable to this element. A detailed assessment of the technology transformation and costs measures is set out below.

Measure	Assessment

Technology transformation
Progress and delivery of several technology investment programmes on time and on budget, to deliver new capability benefits
	– There has been successful delivery in our Motor IT platform which will transform our customers' experience, and early signs of performance are meeting expectations.
	– We launched a number of other customer systems, for example:
	  – Darwin motor; our first new personal lines brand in 25 years. Darwin is focused on the Price Comparison Website (**"PCW"**) market and utilises a new technology platform that combines customer serve functionality with a data-led pricing engine employing machine learning techniques. Darwin was launched on two PCW during the year.
	  – Travel for our partnership with RBS/NatWest; a new Travel platform, initially for our major partnerships, and migrated over 1.6 million policies for RBS and NatWest customers. This new platform includes full medical screening and enables automated processing for low value claims; and
	  – Tradesperson on the Direct Line for Business digital platform.
	– Alongside launching new systems, we have made good progress on setting the foundations for changes to come in 2020, for example:
	  – We have delivered the first release of a major finance transformation which will move core finance systems to the cloud and;
	  – We have also made significant steps in updating our underlying technology platform.
	– We deferred certain elements of programmes, primarily to mitigate potential risks arising from system stability and programme complexity. These actions have been well managed and controlled by the Group.

Costs Development and execution of activities to deliver a sustainably lower cost base to support future quality of earnings	– We delivered on our target to reduce operating expenses to below £700 million in 2019. This was delivered through generally tighter cost control together with specific actions relating to media spend and contact centre efficiency. – We have also launched several programmes to reduce cost across multiple spend lines including senior management, technology infrastructure, print and mail, and travel and entertainment. – Furthermore, we are investing in technology to digitalise processes through either increasing customer self-service and automation including the use of robotic process automation. Over time, the results of these investments will be to reduce the headcount of the group and to reduce our property footprint. – We set additional cost targets for 2021 disclosed as part of Capital Markets Day in November 2019.

Measure	2019 Achievement
Shared	70%

LTIP outcomes for 2019 (Audited)

LTIP awards are granted in March and August of each year. Each grant is subject to the following performance conditions:

- RoTE (60% weighting) – performance is measured over three financial years starting from the 1 January preceding the March grant; and
- Relative TSR (40% weighting) – performance is measured over a three-year period from the date of grant.

2016 LTIP awards (vesting in 2019)

Awards under the LTIP granted in March and August 2016 vested during 2019. They are subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2016, 2017 and 2018.

Consistent with the regulations, the expected RoTE vesting outcomes for the year ended 31 December 2018 (together with the TSR elements from the 2015 awards) were included in the 2018 single remuneration figure in the 2018 report. The 2018 single remuneration figure has been updated in the 2019 report to reflect the known share price at the actual vesting date (and updated for dividends) for the RoTE portion of the awards. You can find details of this on page 113. The performance outcomes of these elements are included in the table below.

The 2019 single remuneration figure includes the value of the 2016 TSR elements (for which the performance period ended in March and August 2019, and the awards vested shortly after). Details of the targets and performance achieved are set out in the table below.

The Committee was satisfied that the financial and risk underpins were met at the end of the vesting period and therefore the performance achieved against the targets and the vesting of the awards is as follows.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2016	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	60%
	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Below Median	–	–
August 2016	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	60%
	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Below Median	–	–

2017 LTIP awards (vesting in 2020)

Awards under the LTIP granted in March and August 2017 will vest during 2020. They are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2017, 2018 and 2019. The RoTE performance period for these awards ended on 31 December 2019 and performance in respect of this element is set out in the table below. Performance under the relative TSR measure will be assessed at the end of the vesting periods in March 2020 and August 2020 respectively and will be disclosed in the 2020 Directors' Remuneration Report. This is subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

Consistent with the regulations, the expected RoTE vesting outcomes (together with the TSR elements from the 2016 awards) are included in the 2019 single remuneration figures for the Executive Directors based on the three-month average share price to 31 December 2019. You can find details of this on page 113.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2017	RoTE (2019 single figure)	60%	15.0%	18.0%	20.03%	100%	60%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
August 2017	RoTE (2019 single figure)	60%	15.0%	18.0%	20.03%	100%	60%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Performance period not yet complete		

Summary of the 2019 LTIP single remuneration figure outcomes[1]

		Number of shares awarded (inc. dividends) subject to this performance condition	Percentage vested by reference to performance achieved	Number of shares vested	Total value of shares (inc. dividends) vested £'000
March 2017 LTIP – RoTE[2]	Paul Geddes	136,042	100%	136,042	398
	Mike Holliday-Williams	98,692	100%	98,692	289
August 2017 LTIP – RoTE[2]	Paul Geddes	97,464	100%	97,464	285
	Mike Holliday-Williams	71,746	100%	71,746	210
March 2016 LTIP – TSR	Paul Geddes	99,387	0%	–	–
	Mike Holliday-Williams	50,482	0%	–	–
August 2016 LTIP – TSR	Paul Geddes	105,978	0%	–	–
	Mike Holliday-Williams	55,342	0%	–	–
Total single figure LTIP	Paul Geddes				–
	Mike Holliday-Williams				–

Notes:
1. The August 2016 and both the 2017 LTIP awards for Paul and Mike are pro-rated accordingly (to 9 May 2019, and to 30 June 2019 respectively) and will be disclosed as a payment to past directors in the 2020 and 2021 annual report on remuneration. Paul's and Mike's 2019 single figure disclosure only refers to the March 2016 component of their LTIP, which did not vest.
2. 2017 RoTE elements are based on the three-month average share price to 31 December 2019 of £2.92.

Using shares (Audited)

In receiving a share award, Executive Directors commit not to hedge their exposure to outstanding awards under these plans or in respect of shares they are reporting to the Company within their ownership for the purposes of any share ownership guidelines. They also agree not to pledge as collateral their participation under any of the plans or any shares which they are required to hold in the Company for any purposes, including for share ownership guidelines. There have been no changes to the share interests below since 31 December 2019.

	At 31 December 2019				Share plan interests exercised during the year to 31 December 2019	
	Share plan awards subject to performance conditions[1,2,3]	Share plan awards subject to continued service[1]	Share plan interests vested but unexercised[1]	Shares held outright	Number of options exercised[1]	Share price on date of exercise
Penny James	1,227,561	197,450	–	629,114	705,872	3.559
Tim Harris	356,706	66,157	–	–	–	–

	Interests at end of employments				Share plan interests exercised during the year until end of employments	
	Share plan awards subject to performance conditions[1,2,3]	Share plan awards not subject to performance conditions[1]	Share plan interests vested but unexercised[1]	Shares held outright	Number of options exercised[1]	Share price on date of exercise
Paul Geddes[4]	624,801	343,793	1,230	519,961	292,672	3.626
Mike Holliday-Williams[5]	393,998	204,329	–	393,923	245,532	3.626 2.847

Notes:
1. These awards take the form of nil-cost options over the Company's shares. Awards accrue dividend entitlement from the grant date to the date on which an award vests. Dividends added post-vesting are shown to 31 December 2019 (or end of employment if applicable), but are not realised until exercise.
2. LTIP awards made from August 2017 include an additional two-year holding period before awards may be released.
3. Unvested awards subject to performance conditions represents LTIP awards for which 60% is based on RoTE performance and 40% on relative TSR performance. The exact targets for each award were disclosed in the relevant Annual Report on Remuneration.
4. Paul's employment ended on 31 July 2019.
5. Mike's employment ended on 30 September 2019. Mike exercised shares twice during the year, at a share price of £3.626 and £2.847.

The table below shows the Non-Executive Directors' beneficial interests in the Company's shares[1].

Director	Shares held at 31/12/2019	Shares held at 31/12/18
Michael Biggs	–	–
Danuta Gray	10,000	10,000
Mark Gregory	–	–
Jane Hanson	11,083	11,083
Sebastian James	5,000	5,000
Fiona McBain	–	–
Gregor Stewart	2,925	–
Clare Thompson[2]	44,065	44,065
Richard Ward	–	–

Notes:
1. This information includes holdings of any connected persons, as defined in section 253 Companies Act 2006.
2. Clare Thompson stepped down from the Board on 9 May 2019 and this represents her holding at that date.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2018 and 2019. Non-Executive Directors may also claim for reasonable travel and subsistence expenses, in accordance with the Group's travel and expenses policy, and, where these are classified as taxable by HMRC, they are shown under 'Taxable Benefits' below. The Non-Executive Directors receive no other benefits.

	Fees		Taxable Benefits[2]		Total	
Director[1]	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Michael Biggs	400	400	5	6	405	406
Danuta Gray	110	103	7	4	117	107
Mark Gregory	101	75	0.1	–	101	75
Jane Hanson	120	120	11	10	131	130
Sebastian James	95	95	–	–	95	95
Fiona McBain	83	25	16	2	99	27
Gregor Stewart	115	88	19	4	134	92
Clare Thompson	34	102	–	–	34	102
Richard Ward	120	120	0.1	0.4	120	120

Notes:
1. Non-Executive Directors are not eligible to participate in any of the Group's bonus or share incentive schemes or to join any Group pension scheme.
2. The values shown under 'Taxable Benefits' above comprise the value of taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and National Insurance Contributions due).

CEO pay ratio

In 2018, the Committee chose to adopt early the CEO pay ratio disclosure requirements which would otherwise come into effect in this year's Directors' Remuneration Report. Since then, the Committee have determined that the appropriate methodology to be used in future years is Option A, as the Committee believes this is the most robust approach to use going forward.

The table below compares the 2019 single total figure of remuneration for the CEO with that of the Group employees who are paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its employee population.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	86:1	71:1	47:1

The UK employees included are those employed on 31 December 2019 and remuneration figures are determined with reference to the financial year ending on 31 December 2019.

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2019 as we believe that it is the most robust methodology for calculating these figures. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed.

As required by the regulations, the CEO single figure used to determine the 2019 pay ratios is based on the sum of the total single figures of remuneration for Paul Geddes and Penny James, but with remuneration in respect of Penny's service as CFO excluded. This gives a total of £2,042,000. Each employee's pay and benefits were calculated using each element of the employee remuneration, on a full-time equivalent basis. No adjustments (other than to achieve a full-time equivalent rate) were made and no components of pay have been omitted.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£21,577	£24,988	£37,039
Total pay and benefits	£23,665	£28,894	£43,275

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. For reference, the CEO base salary median pay ratio is 32:1. In reviewing the ratios the Committee also noted that the CEO's remuneration package is weighted more heavily towards variable pay (including the AIP and LTIP) than the wider workforce due to the nature of the role, and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans in each year.

The Group's employees are fundamental to the Group's strategy and to ensuring a high level of service to our customers. We are proud that the high number of consultants in our customer service centres are employed by the Group (rather than being outsourced) and note that the impact of these lower paid roles is reflected in the ratios above. Further details on the differences between remuneration of Executive Directors and the wider workforce are set out on pages 108 and 109. The Committee is satisfied that these policies drive the right behaviours and reinforces the Group's values which in turn drives the correct culture.

Percentage change in Chief Executive Officer's pay for 2018 to 2019

The table below shows Penny James' year-on-year percentage change in salary, taxable benefits and bonus, compared to the average pay for all other employees. This represents the increase in salary received on promotion from CFO to CEO in May 2019.

	Salary[1]	Benefits[2]	Bonus (including deferred amount)[3]
Chief Executive Officer	11.9%	142.3%	25.1%
All employees (average)	3.6%	11.0%	17.4%

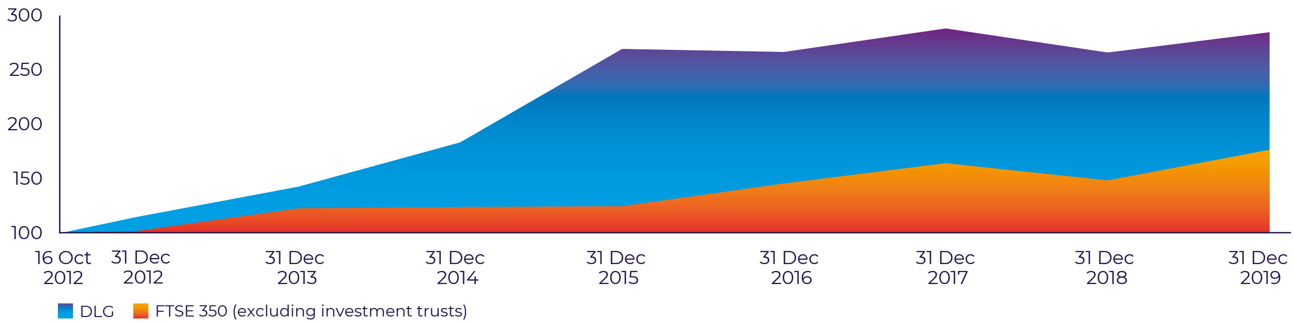
Notes:
1. Based on the change in average pay for employees employed in the year ended 31 December 2019 and the year ended 31 December 2018. The increase for the CEO includes the salary increase received as part of promotion from CFO to CEO.
2. For all employees, there were no changes in benefits provision between 2018 and 2019. For the CEO the increased value of benefits relates to the car service used by the CEO for travelling on journeys from home to office, of which the Group also pays for any associated tax liability that arises on this benefit.
3. For employees other than the CEO, this includes average amounts earned under the AIP, and other variable incentive schemes, including monthly and quarterly incentive schemes operated in certain parts of the Group.

Chief Executive Officer's pay between 2012 and 2019 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2012 and 2019. It also shows vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity. This is presented against the Company's TSR since its shares began trading on the London Stock Exchange in October 2012, against the FTSE 350 Index (excluding investment trusts) over the same period. This peer group is the same used for measuring relative TSR under the LTIP.

Total Shareholder Return

(%)



	2012[1]	2013[1]	2014[1]	2015	2016[2]	2017	2018[3]	2019[4,5]
CEO single figure of remuneration (£'000s)								
Penny James		–	–	–	–	–	–	1902
Paul Geddes	1,908	2,536	5,356	4,795	4,348	4,039	3,250	774
Annual bonus payment (% of maximum)	65%	63%	75%	83%	63%	88%	68%	76%
LTIP vesting (% of maximum)[1]	30%	55%	88%	96%	86%	99%	71%	53%

Notes:
1. Based on actual vesting under the 2010, 2011 and 2012 RBS Group LTIP. The value included in the single figures in respect of these awards is £205,000 in 2012, £728,000 in 2013 and £2,437,428 in 2014.
2. The 2016 single figure and annual bonus payment reflect an adjustment, made in 2019, to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
3. The 2018 single figure has been revised to reflect the actual vesting of the 2016 awards under the LTIP, an increase of £12,167 for Paul.
4. The 2019 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2017. Any shares under the LTIP granted in 2017 will not be delivered until the end of the applicable vesting periods in March and August 2020. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed. The LTIP vesting figure reflects part of the year for the outgoing CEO, Paul Geddes, only.
5. The 2019 single figure reflects part of the year for the outgoing CEO, Paul Geddes, and the entire year for the newly appointed CEO, Penny James.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

Payments for Loss of Office (Audited)

Paul Geddes

As disclosed in last year's report, Paul stepped down from the Board on 9 May 2019 and left the Company on 31 July 2019. Following his cessation as a Director of the Company, Paul's salary, pension and benefits were paid in monthly instalments until the end of his employment as follows:

Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
188	4	47	239

At the time of exit, the Committee exercised its discretion to treat Paul as a 'good' leaver under the Company's incentive schemes. The treatment of his awards was therefore as follows:

AIP

The 2019 AIP was subject to the satisfaction of the gateway criteria and the relevant performance criteria. The award was also pro-rated to reflect the period worked until the end of his employment. 40% of the award will be deferred into shares. Further detail is set out on page 126.

The single figure table on page 113 includes only the value of the AIP based on the period up to 9 May 2019 when Paul stepped down from the Board. As his total 2019 AIP award was pro-rated to the end of his employment (31 July 2019), the additional value of his AIP for 2019 was £249,494 (based on the period from 9 May 2019 to 31 July 2019).

DAIP

The 2017, 2018 and 2019 DAIP awards will continue to vest on their third anniversaries of award and remain subject to all scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

The August 2016, March and August 2017 and March 2018 LTIP awards will be time pro-rated to reflect the period from their date of grant to the end of his employment. The awards will vest on the third anniversary of their grant, subject to their original performance conditions and to all scheme rules, including malus and clawback provisions.

Furthermore, if Paul secures a new role which the Committee consider is comparable with his role with the Group, and which it considers should reasonably compensate him for the loss of any unvested awards, then such unvested awards will be forfeited.

The awards made in August 2017 and March 2018 will be subject to a further two year holding period after vesting.

No LTIP awards have been made to Paul since March 2018.

Paul was granted 215,730 awards under the August 2016 LTIP. As disclosed in last year's report, the RoTE outcome was 100% of maximum. As outlined on page 118, the relative TSR outcome was 0% of maximum. Based on this performance, and pro-rating the original number of shares from the date of grant to the end of employment, a total of 158,967 shares vested on 30 August 2019 with a value of £450,036 based on the share price of £2.831 on that date.

SIP

As the free shares held by Paul under the all-employee Share Incentive Plan ("**SIP**") have been held for more than five years, Paul will be able to withdraw them from the SIP tax-free.

Appointment at QA Limited

On 13 August 2019 Paul's appointment as CEO of QA Limited, a digital education and skills provider was announced. The Committee had been made aware of Paul's new role prior to its formal announcement and considered Paul's leaver status in detail. The Committee determined (in the context of his exit terms) that it was appropriate that Paul remains a good leaver for the following reasons:

- An education provider, QA Limited is not a competitor of the Group; and
- Paul confirmed (via a formal attestation process and statement) that QA Limited does not operate a long-term incentive plan and (as such) will not buyout unvested Direct Line Group awards.

The Committee will continue to monitor his 'good' leaver status and will seek further attestation before the vesting of each future award to ensure this remains appropriate. This is facilitated by the LTIP mitigation clause included in his settlement agreement. All awards will continue to be subject to malus and clawback provisions.

Mike Holliday-Williams

An assessment of senior roles determined that the Managing Director, Personal Lines role was no longer required at the Board level, and that this role would therefore be made redundant. As a result, Mike Holliday-Williams stepped down as an Executive Director on 30 June 2019. He then worked with the Group to ensure a smooth handover until 30 September 2019. It was originally intended that he would then commence a period of garden leave, ending on 30 June 2020, during which time his contractual salary, benefits and pension would be paid. Unvested LTIP awards would continue to accrue during garden leave in line with the Plan rules given his redundancy circumstances. However, the Committee mutually agreed to an earlier employment cessation date of 30 September 2019 following discussions on his potential appointment as CEO of Aegon UK – a Dutch life insurance company that is primarily known as a pensions and life insurance provider. The Committee carefully considered Mike's continued 'good' leaver status in the context of his then anticipated CEO appointment at Aegon and determined that it was appropriate that Mike continues to be treated as a 'good' leaver for the following reasons:

- A life insurance company, Aegon UK is not a competitor of the Group; and
- Mike confirmed that Aegon does not operate a long-term incentive plan and (as such) will not buy out unvested Direct Line Group awards.

Mike's appointment as CEO of Aegon UK was announced on 10 September 2019 and the Committee will continue to monitor his good leaver status and will seek further attestation before the vesting of each future award to ensure this remains appropriate. For example, if the nature of Aegon UK's business operations were to change such that the company would be considered a competitor to the Group, the Committee would again review his leaver status. Like Paul, this is facilitated by the LTIP mitigation clause included in his settlement agreement in line with the ISS guidelines on this. All awards will continue to be subject to malus and clawback provisions.

The Committee had determined its approach to the post-cessation shareholding requirements for the 2020 Policy at the point of Mike's departure. The Committee therefore early adopted post-employment shareholder requirements for Mike ahead of the Policy renewal. Mike is required to maintain his shareholding at exit for a period of two years after he has left the Group.

Given Mike's earlier employment cessation date, Mike's salary, pension and benefits were paid in monthly instalments for a significantly shorter period until the end of his employment on 30 September 2019 as follows:

Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
144	3	22	169

Mike also received a final statutory payment of £4,725 in connection with the cessation of his employment.

Mike was treated as a 'good' leaver under the Company's incentive schemes given his redundancy. The treatment of his awards was therefore as follows:

AIP

The 2019 AIP was subject to the satisfaction of the gateway criteria and the relevant performance criteria. The award was also pro-rated to reflect the period worked until the end of his employment. 40% of the award will be deferred into shares. Further detail is set out on page 126.

The single figure table on page 113 includes only the value of the AIP based on the period up to 30 June 2019 when Mike stepped down from the Board. As his total 2019 AIP award was pro-rated to the end of his employment (30 September 2019) following the handover period, the additional value of his AIP for 2019 was £164,530 (based on the period from 30 June 2019 to 30 September 2019).

DAIP

The 2017, 2018 and 2019 DAIP awards will continue to vest on their third anniversaries of award and remain subject to all scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

The 2017, 2018 and 2019 LTIP awards will be time pro-rated to reflect the period from their date of grant to the end of his employment. The awards will vest on the third anniversary of their grant, remain subject to their original performance conditions and to all scheme rules, including malus and clawback provisions.

Furthermore, if Mike secures a new role which compensates him for the loss of any unvested awards, the Committee has discretion to withhold unvested LTIPs.

The awards made in August 2017, March and August 2018 and March 2019 will be subject to a further two-year holding period after vesting.

No LTIP awards have been made to Mike since March 2019.

Mike was granted 109,568 awards under the August 2016 LTIP. As disclosed in last year's report, the RoTE outcome was 100% of maximum. As outlined on page 118, the relative TSR outcome was 0% of maximum. Based on this performance, a total of 83,013 shares vested on 30 August with a value of £235,010 based on the share price of £2.831 on that date. As the vesting date was before the date his employment ended, no pro-rata reduction was applied to the number of shares.

Payments to Past Directors (Audited)

John Reizenstein (former CFO)

March and August 2016 LTIP

The table below sets out the awards which vested during the year:

Award	Number of share options awarded (inc. dividends)	Vesting proportion (inc. performance and pro-rata)	Number of share options vested	Total value of share options (including dividends) vested (£)
March 2016	150,388	49%	73,504	259,469[1]
August 2016	151,044	44%	66,668	188,737[2]

Notes:
1. Based on closing share price of £3.53 on the vesting date (29 March 2019).
2. Based on closing share price of £2.831 on the vesting date (30 August 2019).

March and August 2017 LTIP

The performance period in respect of the RoTE elements of these awards ended on 31 December 2019 however the performance period in respect of the TSR elements of these awards ends on 26 March 2020 and 28 August 2020. The value of the 2017 LTIP awards vesting for John will therefore be disclosed in the 2020 report.

New Executive Director

On 1 October 2019, Tim Harris joined the Board as an Executive Director and was appointed CFO. Tim's annual salary is £535,000 with a pension allowance of 9% of salary. He also participates in the Group's Annual Incentive Plan up to a maximum of 175% of salary and the Long-Term Incentive Plan up to 200% of salary.

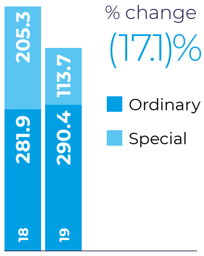
On joining he received an LTIP award over 200% of salary on the same terms as the August 2019 grant (except that the vesting dates will run from the date of grant). This was granted at the annual award level as no separate buyout was made to compensate him for the loss of his 2019 award at his previous employer. Full details of this award is set out on page 126.

In addition, and as disclosed on page 113, he received a one-off award pursuant to listing Rule 9.4.2 to compensate for the loss of LTIP awards made by his former employer. See page 127 for details.

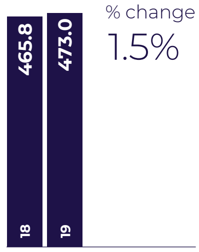
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2018 and 2019.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
1. During 2019 the Company paid special dividends of £113.7million in addition to the regular dividends. Under the dividend policy the Board considers whether to make additional distributions each year alongside the full-year results.
2. There have been no share buybacks since the IPO. The dividends paid information has been taken from note 14 to the consolidated financial statements. The overall expenditure on pay has been taken from note 10 and therefore, consistent with market practice, it has not been calculated in a manner consistent with the single figure in this report.

AGM voting outcomes

The table shows the percentage of shareholders voting for or against, and the percentage of votes withheld, relating to the resolutions to approve the 2018 Directors' Remuneration Report which was put to shareholders at the 2019 AGM on 9 May 2019.

The resolution approving the Directors' Remuneration Report was passed by 93.88% of the votes cast in favour of the resolution.

	For		Against		Number of votes withheld (abstentions)	Percentage of votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' Remuneration Report (2019 AGM)	977,430,480	93.88%	63,723,957	6.12%	8,673,354	0.83%
Approval of Directors' Remuneration Policy (2017 AGM)	881,046,703	98.29%	15,349,348	1.71%	32,669,059	3.52%

Shareholdings (Audited)

This table sets out the share ownership guidelines and actual share ownership levels:

Name	Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2019[2] (% of salary)
Penny James	Chief Executive Officer	200%	293%
Tim Harris	Chief Financial Officer	200%	20%

Notes:
1. Executive Directors are expected to retain all the 'after tax' Ordinary Shares they obtain from any of the Company's share incentive plans until they achieve a shareholding level that is equal to 200% of base salary. From the 2020 AGM, the shareholding level required from the CEO will be equal to 250% of base salary.
2. For these purposes, holdings of Ordinary Shares will be treated as including all vested but unexercised awards, or awards unvested but after the performance period in the holding period, valued on a basis that is net of applicable personal taxes payable on acquiring such Ordinary Shares.

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LTIP awards granted during 2019 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2019 in the form of nil-cost options.

		Awards granted in 2019 under the LTIP[1]		
Director	Position	Award as % of salary	Number of shares granted	Face value of Awards £
Penny James	Chief Executive Officer	200%	470,097	1,475,000
Tim Harris[2]	Chief Financial Officer	200%	356,706	1,070,000
Mike Holliday-Williams[3]	Former Managing Director, Personal Lines	100%	159,702	562,584

Note:
1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.5227 in March 2019 and £2.8727 in August 2019.
2. The LTIP awarded to Tim Harris on joining the Group in October 2019 was based on the average share price in the three days prior to grant of £2.9997 in October 2019. The LTIP awarded to Penny James in March 2019 was whilst she was CFO, whereas the August 2019 was awarded to her as CEO.
3. Mike Holliday-Williams was made redundant on 30 June 2019 and therefore did not receive the second LTIP grant in August 2019.

The performance conditions that apply to the LTIP awards granted in 2019 are set out below

	Performance conditions for awards granted in 2019 under the LTIP		
Performance Measure	Proportion of award	Performance for threshold vesting (20%)	Performance for maximum vesting
RoTE	60%	17.5%	20.5%
TSR	40%	Median	Upper quintile

The RoTE targets for awards granted in 2019, applying to 60% of the award, were an average annual RoTE of 17.5% for 20% vesting, 18.5% for 40% vesting and 20.5% for full vesting. A straight-line interpolation occurs from threshold to target, and then from target to maximum performance.

The remaining 40% of each award is based on TSR performance conditions, for which there is a straight-line interpolation between threshold and maximum performance on a ranked basis.

The performance period for the awards granted on 29 March 2019 will end on 31 December 2021 for the RoTE element and 28 March 2022 for the TSR element. The performance period for the awards granted on 30 August 2019 will end on 31 December 2021 for the RoTE element and 29 August 2022 for the TSR element.

The performance period for the LTIP award granted to Tim Harris on 1 October 2019 ends on 31 December 2021 for the RoTE element and 30 September 2022 for the TSR element.

DAIP awards granted during 2019 (Audited)

The table below shows the deferred share awards granted under the DAIP to Executive Directors on 29 March 2019 in respect of the 2018 AIP and the Ogden adjustment in respect of the 2016 AIP (as disclosed in the 2018 Directors' Remuneration Report). Awards will vest after three years subject to continued service and were granted in the form of nil cost options.

		Awards granted in 2019 under the DAIP		Awards granted in 2019 under the DAIP in respect of Ogden adjustment to 2016 AIP	
Director	Position	Value of deferred bonus £	Number of shares granted	Value of deferred bonus £	Number of shares granted
Penny James	Chief Executive Officer	321,300	91,208	–	–
Tim Harris	Chief Financial Officer	–	–	–	–
Paul Geddes	Former Chief Executive Officer	393,028	111,570	110,565	31,386
Mike Holliday-Williams	Former MD, Personal Lines	228,135	64,761	64,179	18,218

Note:
1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.5227. In accordance with the DAIP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Buyout awards (Audited)

On joining Tim Harris received an LTIP award over 200% of salary on the same terms as the August 2019 grant (except that the vesting dates will run from the date of grant.) This was granted at the annual award level as no separate buy-out was made to compensate him for the loss of his 2019 award at his previous employer. Full details of this award is set out in the relevant section on the prior page.

The table below details buy-out awards made to Tim in October 2019 pursuant to Listing Rule 9.4.2 . These awards were made to the CFO in October 2019 as compensation for the forfeiture of legacy awards granted by his previous employer, Royal London. The normal vesting dates for the buy-out awards will be the same as for the original awards, but as his previous employer was a non-listed company, the original awards were granted in the form of units rather than shares. Therefore the value of the buy-out awards will be equivalent to 60% of the face value of the original awards. The buy-out awards will be in the form of nil-cost options and subject to normal malus and clawback provisions. The awards will accrue dividend equivalent shares until vesting, as per the terms of the legacy awards.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2019	No. of share options granted during the year	No. of share options vested during the year	No. of share options lapsed for performance	No. of dividend shares acquired at vesting	No. of share options exercised	No. of share options held at 31 December 2019	Vesting date
Tim Harris										
01-Oct-19	2.9997	32,325	–	10,776	–	–	–	–	10,776	From 30 June 2020 until 30 June 2022[1]
01-Oct-19	2.9997	166,125	–	55,381	–	–	--	–	55,381	From 30 June 2021 until 30 June 2023[2]
			–	**66,157**	**–**	**–**	**–**	**–**	**66,157**	

Notes:
1. 50% of the award vests on 30 June 2020, 25% of the award vests on 30 June 2021 and the remaining 25% vests on 30 June 2022.
2. 50% of the award vests on 30 June 2021, 25% of the award vests on 30 June 2022 and the remaining 25% vests on 30 June 2023.

Dilution

The Company complies with the dilution levels that the Investment Association guidelines recommend. These levels are 10% in 10 years for all share plans and 5% in 10 years for discretionary plans. This is consistent with the rules of the Company's share plans.

Non-Executive Directors' fees

The current fees for the Chairman and Non-Executive Directors are set out below and were unchanged in 2019. No changes are anticipated for 2020.

Position	Fees for 2020 £'000
Board Chairman fee	400
Basic Non-Executive Director fee	75
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Board Risk and Remuneration Committees	30
Chair of CSR and Investment Committees	10
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (CSR or Nomination)	5

No additional fees are paid for membership of the Investment Committee.

Directors' Remuneration Policy

The following sets out our proposed Directors' policy for the Executive and Non-Executive Directors of the Group. This policy will be put forward for shareholder approval at the 2020 AGM on 14 May 2020 and, if approved, will apply to payments made from that date. Until this time, the policy approved on 11 May 2017 will continue to apply. The main changes in this policy from the 2017 policy have been summarised in the Remuneration Committee Chair's letter above and in the notes to the policy table.

You can find further details regarding the policy's operation for 2020 on page 111.

Policy table

Element and purpose in supporting the Group's strategic objective	Operation

Base salary
– This is the core element of pay that reflects the individual's role and position within the Group
– Staying competitive in the market allows us to attract, retain and motivate high-calibre executives with the skills to achieve our key aims while managing costs
	– Base salaries are typically reviewed annually and set in April of each year, although the Committee may undertake an out-of-cycle review if it determines this to be appropriate
	– When reviewing base salaries, the Committee typically takes the following into account:
	  – level of skill, experience and scope of responsibilities, individual and business performance, economic climate, and market conditions;
	  – the appropriate benchmarking peer group(s) that reflects the Group's size and industry focus, the corresponding market pay range(s) and the relevant positioning within the market pay range(s); and
	  – general base salary movements across the Group
	– The Committee does not follow market data strictly. However, it uses it as a reference point in considering, in its judgement, the appropriate salary level, while regarding other relevant factors, including corporate and individual performance, and any changes in an individual's role and responsibilities
	– The principles for setting base salary are like those applied to other employees in the Group. However, the specific benchmarking groups used to review external market relativities may differ across employee groups
	– Base salary is typically paid monthly

Pension – To remain competitive within the market place – To encourage retirement planning and retain flexibility for individuals	– Pension contributions are paid only in respect of base salary – Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension – The Executive Directors' pension will be set in line with the pension level received by the majority of the employee population
Benefits – A comprehensive and flexible benefits package is offered, emphasising individuals being able to choose the combination of cash and benefits that suits them	– Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity. Benefits currently provided include a company car, use of a car or car allowance, private medical insurance, life insurance, health screening, and income protection – The Committee may periodically amend the benefits available to some or all employees. The Executive Directors are eligible to receive such additional benefits as the Committee considers appropriate having regard to market norms – In line with our approach to all employees, certain Group products are offered to Executive Directors at a discount – Executive Directors are eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant) and on the same basis as other eligible employees. Currently, this includes HMRC-approved SIP, which has been used to provide an award of free shares to all employees (including Executive Directors) and permits employees to purchase shares with a corresponding matching award – Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation benefits. The level of such benefits would be determined based on the circumstances of the individual and typical market practice and be consistent with the relocation arrangements available to the workforce generally. In normal circumstances, relocation benefits will only be paid for a period of 12 months

Maximum opportunity	Performance measures
– When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'	– Not applicable
– The maximum pension percentage contributions are set at a level that is consistent with that applied to the majority of employees	– Not applicable
– The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged – The Committee will monitor the costs in practice and ensure the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances – Additionally, the limit for any employee share plans in which the Executive Directors participate will be in line with the caps permitted by HMRC from time to time – The Executive Directors may be entitled to retain fees received for any directorships held outside the Group – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided	– Not applicable

Element and purpose in supporting the Group's strategic objective	Operation
AIP – To motivate executives and incentivise delivery of performance over a one-year operating cycle	– The AIP is measured based on performance over the financial year against performance targets which the Committee considers to be appropriate – Clawback provisions apply to the AIP. These are explained in the notes to the policy table
DAIP – To enable a stronger focus and alignment with the short to medium-term elements of our strategic aims	– For Executive Directors, at least 40% of the AIP is deferred into shares under the DAIP – This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year-end – The Committee will keep the percentage deferred and terms of deferral under review This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall – Dividends will accrue during the deferral period – Malus and clawback provisions apply to the cash and deferred elements. These are explained in the notes to the policy table
LTIP – Aligning executives' interests with those of shareholders to motivate and incentivise delivering sustained business performance over the long term – To aid retaining key executive talent long term	– Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares – Vested options will remain exercisable for up to the tenth anniversary of grant – Malus and clawback provisions apply to the LTIP. These are explained in the notes to the policy table – Awards under the LTIP may be made at various times during the financial year – Executive Directors will be subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released – During the additional holding period the awards will continue to accrue dividends. Following the holding period awards will cease to accrue dividends if not exercised
Share ownership guidelines – To align the interests of Executive Directors with those of shareholders	– Executive Directors are expected to retain all the ordinary shares vesting under any of the Company's share incentive plans, after any disposals for paying applicable taxes, until they have achieved the required shareholding level; unless such earlier sale, in exceptional circumstances, is permitted by the Chairman – Shares considered will include those held by the director and their connected persons, vested awards subject to holding requirements and unvested awards not subject to performance conditions (on a net of tax basis) – Executive Directors are also expected to retain an equivalent level of shareholding post their employment for a period of two years – In exceptional circumstances, earlier sale is permitted subject to the Chairman's discretion

Maximum opportunity	Performance measures
– Threshold and maximum bonus levels for Executive Directors are set by considering annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators – Outcomes for performance between threshold and maximum will be determined on a straight-line basis – The maximum bonus opportunity under the AIP is 175% of base salary per year. The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of policy – No more than 10% of the bonus is paid for threshold performance – However, the Committee retains flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately	– Performance measures may be financial and non-financial (Group, divisional, business line or individual) – Each year, at least 50% of the bonus is based on financial measures. The remainder of the bonus may be based on a combination of, for example, strategic, operational, shared or individual performance measures – The Committee sets targets at the beginning of each financial year – Before any payment can be made, the Committee will perform an additional gateway assessment (including in respect of any risk concerns). This will determine whether the amount of any bonus is appropriate in view of facts or circumstances which the Committee considers relevant. This assessment may result in moderating (positively or negatively) each AIP performance measure, subject to the individual maximum bonus levels – The AIP remains a discretionary arrangement. In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance
	– Subject to continued employment
– The maximum LTIP award in normal circumstances is 200% of salary – Awards of up to 300% of base salary are permitted in exceptional circumstances, relating to recruiting or retaining an employee, as determined by the Committee	– The Committee will determine the performance conditions for each award made under the LTIP, measuring performance over a period of at least three years with no provision to retest – Performance is measured against targets set at the beginning of the performance period, which may be set by referring to the time of grant or financial year – Awards vest based on performance against financial and/or such other (including share return) measures, as set by the Committee, to be aligned with the Group's long-term strategic objectives. The Committee may alter the precise targets used for future awards – Not less than 50% of the award shall be subject to one or more financial measures, and not less than 25% shall be subject to a relative TSR measure – Awards will be subject to a payment gateway, such that the Committee must be satisfied that there are no material risk failings, reputational concerns or regulatory issues – 20% of the award vests for threshold performance, with 100% vesting for maximum performance. The Committee reserves the right in respect of future awards to lengthen (but not reduce) any performance period and/or amend the terms of any holding period; however, there is no intention to reduce the length of the holding period – In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance
– 250% of salary for the CEO and 200% for the CFO. – The Committee reserves the discretion to amend these levels in future years	– Not applicable

Notes to the policy table

Changes from 2017 Policy

The main changes from the 2017 Policy are summarised below and are primarily driven by the new Code requirements on remuneration and good governance practice:

- Alignment of all Executive Directors' pension percentage with that of the majority of the employee population, in line with the requirements of the new Code.
- Determination of bonus outcomes on a straight-line basis between threshold and maximum to further simplify the remuneration structure and achieve consistency with the LTIP.
- Increasing the level of share ownership guidelines from 200% to 250% of salary for the CEO to further strengthen the alignment with shareholders.
- Introduction of the post-employment shareholding requirements in line with the requirements of the new Code.
- Reviewed malus and clawback trigger events to ensure they continue to reflect the guidance set out by the FRC and remain consistent with emerging best practice in this area. Enabling the Committee to apply discretion and override formulaic outcomes, in line with the requirements of the new Code.

Malus and clawback

Malus (reducing or forfeiting unvested LTIP awards, DAIP awards or un-exercised options in the holding period) and clawback (the Group's ability to claim repayment of paid amounts) provisions apply to the AIP (cash and deferred element) and LTIP (after options have been exercised) if, in the Committee's opinion, any of the following has occurred:

- There has been a material misstatement of the Group's financial results, which has led to an overpayment
- The assessment of performance targets is based on an error, or inaccurate or misleading information or assumptions
- Circumstances warranting summary dismissal in the relevant period
- A material failure of risk management
- An event during the relevant period which has, in the view of the Committee, sufficiently and adversely affected the Company's reputation so as to justify such action

Amounts in respect of awards under both plans (LTIP and DAIP) may be subject to clawback for up to four years post payment or vesting / exercise of options (with such period lengthened if there is an investigation as to whether relevant circumstances exist) as appropriate. Consistent with developments in the market generally, the provisions clarify that any recoupment is out of the post-tax amount, except to the extent that the participant recovers tax from the relevant tax authority.

Exercise of discretion

In line with market practice, the Committee retains discretion relating to operating and administering the AIP, DAIP and LTIP. This discretion includes, but is not limited to:

- timing of awards and payments;
- size of awards, within the overall limits disclosed in the policy table;
- determination of vesting;
- ability to override formulaic outcomes;
- treatment of awards in the case of change of control or restructuring;
- treatment of leavers within the rules of the plan, and the termination policy shown on page 136; and
- adjustments needed in certain circumstances, for example, a rights issue, corporate restructuring or special interim dividend.

While performance conditions will generally remain unchanged once set, the Committee has the usual discretions to amend the measures, weightings and targets where the original conditions would cease to operate as intended. Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the LTIP rules also provide that any such amendment must not make, in the view of the Committee, the amended condition materially less difficult to satisfy than the original condition was intended to be before such event occurred.

Adjusting the number of shares under deferred bonus and LTIP

The number of shares subject to deferred bonus and LTIP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the date of vesting (or, if later, the expiry of any holding period) of awards.

The terms of incentive plan awards may be adjusted in the event of a variation of the Company's share capital, demerger or a similar event that materially affects the price of the shares, or otherwise in accordance with the plan rules.

Remuneration payments agreed before appointment to the Board

The Committee reserves the right to make any remuneration payments and payments for loss of office (including, where relevant, exercising any discretions available to it connected with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) provided the terms of the payment were consistent with any shareholder-approved Directors' remuneration policy in force at the time they were agreed; (ii) at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' include pension arrangements and the Committee satisfying awards of variable remuneration. Relating to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Selecting performance measures and targets

Annual Incentive Plan

The Committee has selected the AIP performance measures to incentivise Executive Directors to achieve financial targets for the year, and specific strategic objectives. These measures are aligned with the key performance indicators we use as a business to monitor performance against our strategic priorities, as shown on pages 26 and 27.

The relevant performance targets are set at or following the start of each year to ensure the Executive Directors focus appropriately on the key objectives for the next 12 months.

Long-Term Incentive Plan

The goal of our strategy is to provide long-term sustainable returns for our shareholders. Therefore, for 2020 (as in prior years), awards under the LTIP will continue to be subject to performance against RoTE (an important KPI to the business) and relative TSR targets. The Committee believes this combination provides a balanced approach to measuring Group performance over the longer term by using a stated financial KPI that incentivises individuals to keep growing the business efficiently, and a measure based on relative shareholder return. This combination of measures appropriately balances absolute and relative returns.

The performance measures are set with reference to internal and external forecasts and the Group's strategic targets.

As set out in the policy implementation table on page 111, different performance measures may apply for awards granted in future years.

Differences in remuneration policy from broader employee population

To ensure that the arrangements in place remain appropriate, when determining Executive Directors' remuneration, the Committee accounts for pay throughout the Group.

The Group has one consistent reward policy for all levels of employees. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors. However, remuneration packages differ to account for appropriate factors in different areas of the business:

- **AIP** – approximately 3,550 employees participate in the AIP. The corporate performance measures for all employees are consistent with those used for Executive Directors, although the weighting. Attributable to those factors may differ. The Group's strategic leaders (approximately 60 employees) also receive part of their bonus in Company shares deferred for three years.
- **Incentive awards** – approximately 3,800 employees, excluding Executive Directors, participate in a function or team specific incentive plan which assesses personal performance over a monthly period. These incentive awards may pay out monthly or quarterly.
- **LTIP** – our strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.
- **Restricted Shares Plan ("RSP")** – RSP awards are used on a limited basis across the Group to help recruit and retain critical staff, and for talent management. Executive Directors do not receive grants under the RSP (with the exception of buyout awards which may be granted under the RSP).
- **All employee share plans** – the Committee considers it important for all employees to have the opportunity to become shareholders in the Group. The HMRC-approved SIP has operated since 2013, and, in addition, the Group has made periodic awards of free shares. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to the completion of three years continuing employment. At year-end, approximately 3,900 employees throughout the Group had signed up to these schemes with 8,400 holding free shares in the Company.
- **Pension and benefits** – the Company contributes on average 9% to the defined contribution pension scheme without any requirement for an employee contribution. Employees may also opt for a proportion or all of this to be paid as cash rather than into the pension scheme.

Remuneration policy for Non-Executive Directors

Element	Purpose and link to strategy	Approach to setting fees and cap	Other items
Chairman and Non-Executive Directors' fees	To enable the Group to recruit and retain Non-Executive Directors of the highest calibre, at an appropriate cost	– Non-Executive Directors are paid a basic annual fee Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee, and for the SID to reflect additional responsibilities, as appropriate. The level of fees for 2020 is shown in the Report on Remuneration – The fees paid to the Chairman include all Board and Committee membership fees, and are determined by the Remuneration Committee – Non-Executive Directors may receive certain expenses, including the reimbursement of travel expenses and accommodation or similar which, consistent with general market practice, will be grossed-up for any tax arising on such expenses (where the tax on those expenses is paid by the Company). It is the Committee's view that expenses (which are deemed to be benefits) are covered under the aggregate cap set by the Articles of Association and that this cap is not restricted to fees only – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided – Fee levels for Non-Executive Directors are reviewed and may be increased at appropriate intervals by the Board, with affected individual Directors absenting themselves from deliberations – In setting the level of fees, the Company accounts for the role's expected time commitment, and fees at other companies of a similar size, sector and/or complexity to the Group – Fees (including expenses which are deemed to be benefits) for Non-Executive Directors are subject to an aggregate cap in the Articles of Association (currently £2,000,000 per annum). The Company reserves the right to change how the elements and weightings within the overall fees are paid, and to pay a proportion of the fees in shares within this limit	– The Non-Executive Directors are not entitled to receive any compensation for loss of office, other than fees for their notice period – They do not participate in the Group's bonus, employee share plans or pension arrangements, and do not receive any employee benefits

Recruitment remuneration policy

To strengthen the management team and secure the skills to deliver the Group's strategic aims, the recruitment remuneration policy aims to give the Committee enough flexibility to secure the appointment and promotion of high-calibre executives.

Principles for recruitment remuneration

1. In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look to the policy for Executive Directors as set out in the policy table and structure a package in accordance with that policy.
2. The Company would normally disclose clearly the terms of any recruitment package on announcing the appointment of any new Executive Director.
3. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
4. For external and internal appointments (including a major change in role), the Committee may agree that the Company will meet certain relocation expenses, legal and other fees involved in negotiating any recruitment, or pay expatriate benefits in line with the policy table, as appropriate.
5. Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than necessary, in the view of the Committee, and will in all cases seek to deliver any such awards under the terms of the existing incentive pay structure.
6. All such awards for external appointments, whether under the AIP, LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer will be determined considering the commercial value of the amount forfeited, and the nature, time horizons and performance requirements of those awards. The Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements, and any awards with service requirements are bought out with similar terms. However, exceptionally, the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the Committee's view, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.

The elements of any package for a recruit, including the maximum level of variable pay, but excluding buy-outs, will be consistent with the Executive Directors' remuneration policy described in this report, as modified by the above statement of principles where appropriate. The Committee reserves the right to avail itself of the current Listing Rule 9.4.2 (being the rule which permits exceptional recruitment awards on terms different from any shareholder approved ongoing plans) if needed to facilitate, in exceptional circumstances, recruiting an Executive Director. Awards granted under this provision will only be used for buy-out awards.

Any commitments made before promotion to the Board (except when made in connection with the appointment to the Board) can continue to be honoured under the policy, even if they are not consistent with the policy prevailing when the commitment is fulfilled.

In exceptional circumstances, the initial notice period may be longer than the Group's 12-month policy up to a maximum of 24 months. However, this will reduce by one month for every month served, until it has reduced to 12 months in line with the Group's policy position.

The remuneration policy for the Chairman and Non-Executive Directors as set out earlier in this report will apply relating to any recruitments to those positions.

Service contracts

Subject to the discretion noted above for new recruits, it is the Group's policy to set notice periods for Executive Directors of no more than 12 months (by the Director or by the Company). The Executive Directors' service agreements summary is as follows:

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Penny James	1 November 2017	12 months	Base salary, benefits & pension only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.
Tim Harris	1 October 2019	12 months	Base salary, benefits & pension only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.

There are no further obligations which could give rise to a remuneration or loss of office payment other than those set out in the remuneration policy table and the termination policy overleaf.

Termination policy

It is appropriate for the Committee to retain discretion to consider the termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. A Director is deemed a 'good' leaver if the following circumstances are met:

- **AIP and LTIP** – death, injury, disability, ill-health, redundancy, retirement, the sale of the individual's employing company or business out of the Group, or in such other circumstances as the Committee determines
- **DAIP** – for any reason other than summary dismissal or resignation. However, the Committee may determine that, in the case of resignation only, awards may be retained

The table below sets out the general position. However, it should be noted that the Committee, consistent with most other companies, has reserved a broad discretion to determine whether an Executive Director should be categorised as a 'good' leaver, and that discretion forms part of the approved policy.

Incentives	If a leaver is a 'bad' leaver, for example leaving through resignation or summary dismissal	If a leaver is deemed to be a 'good' leaver	Other events, for example, change in control of Company
Annual Incentive Plan	No awards made	Bonus based on performance, paid at the normal time and on a time pro-rata basis, unless the Committee determines otherwise	Bonus determined on such basis as the Committee considers appropriate and paid on a time pro-rata basis, unless the Committee determines otherwise
Deferred Annual Incentive Plan	All awards will lapse	Deferred shares typically vest on the normal vesting date, although the Committee reserves discretion to accelerate vesting. In the case of the participant's death or other exceptional circumstances, awards may vest immediately	Awards will vest in full. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis
Long-Term Incentive Plan	All unvested awards will lapse During the holding period, awards cease to be contingent on employment and, therefore, will not lapse (except on dismissal for cause) but may be subject to malus	Awards will vest on the normal vesting date (plus any applicable holding period, unless the Committee determines otherwise) subject to performance and, unless the Committee determines otherwise, time pro-rating. In exceptional circumstances, as determined by the Committee, for example, in the case of the participant's death, awards may vest immediately	Awards will vest subject to applying the performance conditions and, unless the Committee determines otherwise, time pro-rating. The Committee may determine that such awards shall not vest early and, instead, be rolled over into replacement awards (subject to approval for the acquiring company) granted on a similar basis, but over shares in the acquirer or another company or settled in cash or other securities. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis

Service agreements for all Executive Directors provide that they are not eligible to receive any enhanced redundancy terms which may be offered by the Group from time to time. Their rights to a statutory redundancy payment are not affected.

Depending on the circumstances of departure, an Executive Director may have additional claims under relevant employment protection laws, and the Company may contribute to any legal fees involved in agreeing a termination. It may also agree to incur certain other expenses such as providing outplacement services. Any such fees would be disclosed as part of the detail of any termination arrangements. The Committee reserves the right to make any other payments connected with a Director's cessation of office or employment, where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.

Non-Executive Director letters of appointment

Non-Executive Directors have letters of appointments (as opposed to service contracts) and are appointed for a three-year term which may be extended by mutual agreement. In common with the Executive Directors, all Non-Executives are subject to annual re-election by shareholders.

The Directors may appoint additional members to join the Board during the year. Directors appointed in this way will be subject to election by shareholders at the first AGM after their appointment. In subsequent years, the Directors who wish to remain on the Board must submit themselves for re-election at each AGM.

Terms and conditions of appointment of all the Directors are available for anyone to inspect at the Company's registered office and AGM.

The Chairman and Non-Executive Directors have notice periods of three months from either party which do not apply in the case of a Director not being re-elected by shareholders or retiring from office under the Articles of Association. Other than fees for this notice period, the Chairman and Non-Executive Directors are not entitled to any compensation on exit.

External directorships

The Company encourages Executive Directors to accept, subject to the Chairman's approval, an invitation to join the board of another company outside the Group in a non-executive capacity, recognising the value of such wider experience. In these circumstances, they are permitted to retain any remuneration from the non-executive appointment. Executive Directors are generally limited to accepting one external directorship but may accept more with the Chairman's prior approval.

Considering employment conditions elsewhere in the Group

As explained elsewhere in this report, the Committee reviews the overall pay and bonus decisions in aggregate for the wider Group, and, therefore, considers pay and conditions in the wider Group in determining the Directors' Remuneration Policy and the remuneration payable to Directors. Through the CEO and other senior management, the Committee may receive input from employee groups in the Group, such as the Employee Representative Body, as required.

In accordance with prevailing commercial practice, the Committee did not consult with employees in preparing the Directors' Remuneration Policy.

Considering shareholders' views

The Committee takes into account the approval levels of remuneration related matters at the AGM in determining whether the current Directors' Remuneration Policy remains appropriate. Furthermore, we consulted with our largest shareholders and proxy voting agencies on the proposed changes to our Directors' Remuneration Policy. In light of the positive feedback received, we did not make any changes to the proposals outlined in our consultation letter. We completed the consultation by providing a summary of the responses to some of the key queries we received.

When setting the remuneration policy, the Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines issued by the leading shareholder and proxy agencies.

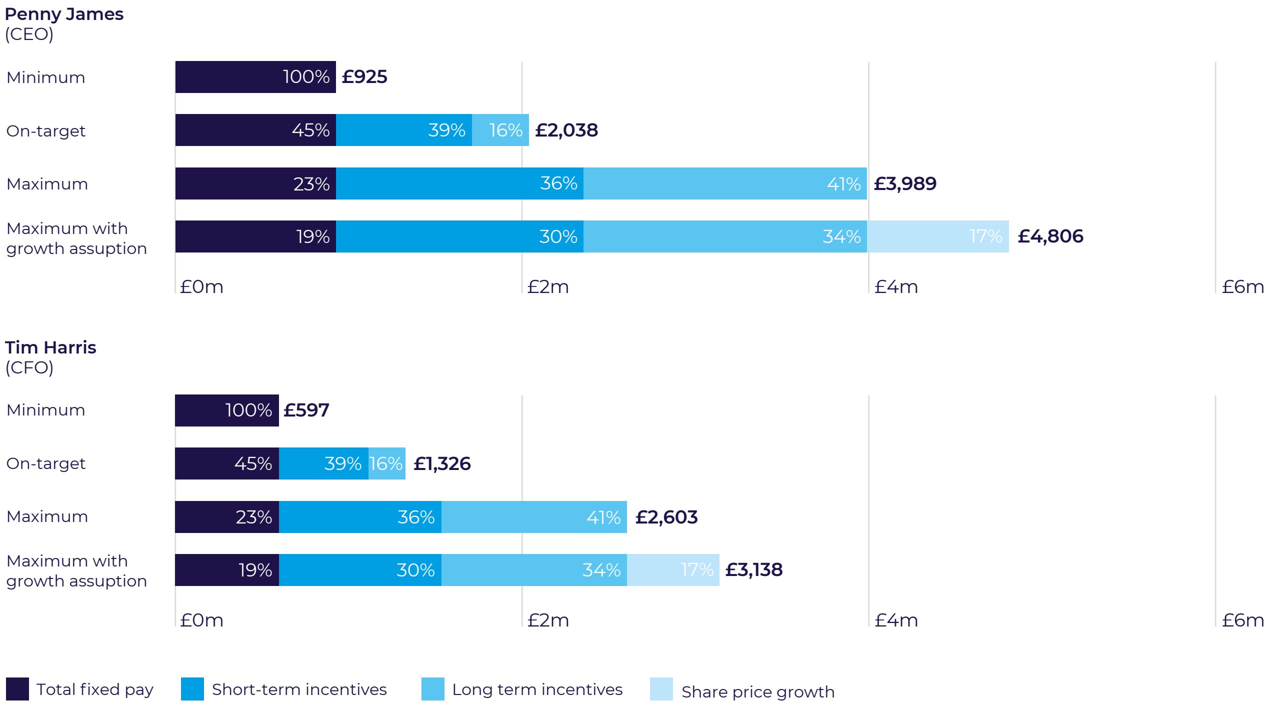
The Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and, particularly, relating to any changes to the Company's executive pay arrangements.

The Committee is satisfied that no element of the Directors' Remuneration Policy conflicts with the Group's approach to environmental, social and governance matters.

Performance scenarios

The Directors' remuneration policy has been designed to ensure that a significant proportion of total remuneration is delivered as variable pay and, therefore, depends on performance against our strategic objectives.

The Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure it would be appropriate in each situation, in the context of the performance delivered and the value created for shareholders.



The elements of remuneration included in each scenario are as follows:

Minimum	Consists of fixed remuneration only (that is, base salary, benefits and pension): – Base salary is the salary to be paid from 1 April 2020 – Benefits measured as benefits paid in 2019 as set out in the single figure table on page 113 – Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary
On-target	Based on the on-target remuneration receivable (excluding share price appreciation and dividends): – Fixed remuneration as above – AIP – as there is no target, for the purposes of this illustration, taken as vesting half-way between threshold and maximum (55% of maximum) – LTIP – consists of the threshold level of vesting (20% vesting)
Maximum	Based on the maximum remuneration receivable (excluding share price appreciation and dividends): – Fixed remuneration as above – AIP – consists of the maximum bonus (175% of base salary) – LTIP – consists of the face value of awards (200% of base salary)
Maximum with growth assumption	Based on the above plus a 50% share price growth assumption

The Board reviewed and approved this policy on 2 March 2020.