Our Governance

Strong and robust corporate governance is integral to the creation of long-term value for our shareholders and stakeholders.

Our values

Do the right thing

For our people, our customers, our shareholders and our wider stakeholders; make decisions based on what is right, not what is easy; demonstrate personal and professional integrity; do what's right for the long-term sustainability of our business.

Aim higher

Strive to be the best in every area of the business; be ambitious, courageous and innovative; relentlessly challenge and improve; seek and embrace change; learn from our mistakes; persevere, always deliver our promises and don't settle for second best.

Work together

Collaborate across all levels and functions; leverage the skills, knowledge and experience, irrespective of hierarchy, to deliver the best possible results; develop relationships based on trusting each other, partnerships and win-wins; recognise and celebrate success.

Take ownership

Treat it like it's OUR business; take the initiative, if you can see a better way, go and make a difference; take decisions, be accountable for your actions in whatever role you perform; take responsibility for your personal development and performance.

Say it like it is

Be real, authentic and true to yourself; have open and honest conversations with all audiences in an adult-to-adult manner; listen, seek to understand and respect diversity of views; be open, call out issues we see; share information and keep things as simple as possible.

Bring all of yourself to work

Be the best you can be, the real and whole you; celebrate our diversity of skills, experiences and personalities; be a role model to others, demonstrate a 'can do' spirit, have fun and make this a great place to be; be excited about our Company and our future; believe in yourself, feel confident and empowered.

Dear shareholders and other stakeholders,

On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 31 December 2018.

Our commitment to good corporate governance

Your Board is committed to putting strong and robust corporate governance at the heart of everything we do. This report explains how your Board has dealt with ensuring that we have effective corporate governance in place to help support the creation of long-term value for our shareholders and stakeholders.

UK Corporate Governance Code 2018

The Board welcomes the new UK Corporate Governance Code and the Guidance on Board Effectiveness which were published by the Financial Reporting Council ("**FRC**") in July 2018 and apply to our 2019 financial year. We seek to ensure that our governance framework remains aligned with best practice and we will report against the new Code in next year's Annual Report.

The Board has arrangements in place to comply with the new Code. For example, in 2018, the Board gave detailed consideration to its workforce engagement mechanisms and agreed that attendance at the Group's national Employee Representative Body ("**ERB**") meetings by NEDs on a rotational basis would enable them to participate effectively in the workforce dialogue and would enable ERB members to benefit from exchanges of views with a variety of NEDs in person.

Succession planning and Board changes

Following the announcement on 1 August 2018, that Paul Geddes will step down as CEO in the summer of 2019, the Board launched a search for his successor.

The Nomination Committee conducted a thorough interview and assessment programme, which is described in more detail on page 83, culminating in its recommendation to the Board that Penny James be appointed as the Group's new CEO. The Board agreed to appoint Penny as CEO with effect from the conclusion of the AGM on 9 May 2019, at which point Paul Geddes will step down from the Board.

After serving as a NED for more than six years, Clare Thompson has also decided to step down from the Board at the conclusion of the 2019 AGM.

The Nomination Committee led the recruitment of Gregor Stewart and Mark Gregory, who joined the Board as NEDs on 1 March 2018, and Fiona McBain, who was appointed as a NED with effect from 1 September 2018. The selection processes were informed by the Nomination Committee's annual review of the Board's balance of skills, experience and expertise.

The Nomination Committee reviews succession plans both for the Board and at executive level each year. The Board recognises the benefit of recruiting leaders who live the Group's culture and values and represent a diversity of gender, ethnicity, cognitive strengths and socio-economic, educational and professional backgrounds. The Board has female representation of 42% and the Board remains committed to the principle that diversity is a key enabler of its effectiveness.

Further information on our diversity policy, our approach to succession planning and Board appointments can be found on pages 83 and 84.

Executive remuneration

The Group's remuneration policy was approved at the 2017 AGM with 98.29% of votes cast and is expected to remain in place for three years. The resolution approving the Directors' remuneration report at the 2018 AGM was passed with 76.58% of votes cast. Whilst the majority of our major institutional shareholders voted in favour of the resolution, we understand some of our shareholders objected to the CFO's base salary compared to that of her predecessor. I have engaged with a number of our shareholders during the year to discuss executive remuneration (in addition to Board succession planning, diversity, data security, climate change and strategic continuity) and to reassure them that good governance is a matter of the highest priority for the Board. Further details on the work of the Remuneration Committee can be found in the Directors' remuneration report on pages 88 to 91.

Effectiveness and evaluation

As Chairman, my principal objective is to guide and develop an effective Board for the benefit of our shareholders, whilst having regard to the interests of our other stakeholders. This year, the Board and its Committees again carried out their effectiveness review in-house with the assistance of the Company Secretary. Suggestions for further improving effectiveness were raised during the review process and taken into consideration by the Board. Further details can be found on page 71.

Culture and values

The Board recognises the importance of its role in setting the tone of the Group's culture and embedding it throughout the Group. The Board aims to create an open and collaborative culture that encourages the Group to make decisions that are best for our shareholders, whilst having regard to the interests of our other stakeholders. I believe that the values and the Code of Business Conduct set by the Board are central to the Group's culture and contribute to the Group's objectives of long-term success and sustainable shareholder value.

Communication with our shareholders and other stakeholders is extremely important to us. By maintaining dialogue with you, we aim to ensure that your views are considered and our objectives are understood. I would like to thank you for your support and look forward to discussing the Group's progress with you at our forthcoming AGM on 9 May 2019.

Yours sincerely,

MICHAEL N BIGGS
CHAIRMAN

Our Code of Business Conduct

Your Board maintains strong relationships and regular interaction with our shareholders and other stakeholders. Their continued support for our strategic aims is important. Visit www.directlinegroup.co.uk for more information.

MIKE BIGGS
CHAIRMAN OF THE BOARD

N R

Appointed
April 2012

Biography
Mike is Chairman of the Nomination Committee. He has over 40 years' experience of the UK and international financial services sectors.

Mike was previously Chairman of Resolution, then a FTSE 100 UK life assurance business, and has acted as Chief Executive Officer and Group Finance Director of Resolution plc. He was previously Group Finance Director of Aviva plc. He is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments
Mike is Chairman of Close Brothers Group plc.

PAUL GEDDES
CHIEF EXECUTIVE OFFICER

C

Appointed
August 2009

Biography
Paul is the CEO and will be succeeded by Penny James with effect from the conclusion of the Annual General Meeting on 9 May 2019. He has served as CEO for close to 10 years and led the Group's transformation, its separation from RBS Group, its initial public offering and its entry into the FTSE 100.

After joining RBS Group in 2004 as Managing Director responsible for products and marketing, Paul became the CEO of RBS Group's mainland UK retail banking business. Before joining RBS Group, he held various senior multi-channel retailing roles in the Great Universal Stores and Kingfisher groups. Paul started his career in marketing, with UK and European roles at Procter & Gamble.

Current external appointments
Paul is a member of the ABI Board and a NED of Channel Four Television Corporation.

DANUTA GRAY
INDEPENDENT NED

N R

Appointed
February 2017

Biography
Danuta is Chair of the Remuneration Committee. She has extensive experience and knowledge of the telecommunications and financial services sectors. Danuta was Chairman of Telefónica O2 in Ireland until December 2012, having previously been its Chief Executive from 2001 to 2010. Prior to Telefónica O2, Danuta held various senior positions within BT Group from 1984 to 2001.

Current external appointments
Danuta is Chair Designate and a NED of St. Modwen Properties plc. She is also Senior Independent Director ("SID") of Aldermore Group plc and a Non-Executive Member of the Defence Board of the UK Ministry of Defence.

MARK GREGORY
INDEPENDENT NED

A I

Appointed
March 2018

Biography
Mark is Chair of the Investment Committee. He has extensive experience and knowledge of the financial services sector, particularly in life and general insurance. Additionally, he has detailed understanding of the retail sector and customer service.

Mark was Group CFO and Executive Director at Legal & General until August 2017. During his 18-year career at Legal & General, he held a variety of senior roles including CEO of the Savings business, Managing Director of the With-Profits business, and Resources & International Director. Before joining Legal & General, Mark held senior financial and business development roles at ASDA and Kingfisher. Mark is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments
Mark is the Chief Executive Officer of Merian Global Investors Limited.

Key for Committee membership
- A Audit Committee
- R Board Risk Committee
- C CSR Committee
- I Investment Committee
- N Nomination Committee
- R Remuneration Committee

JANE HANSON
INDEPENDENT NED

A R C I

Appointed
December 2011

Biography
Jane is Chair of the Board Risk Committee. She has extensive experience of risk management, corporate governance and internal control. She also has wide experience of developing and monitoring customer and conduct risk frameworks and overseeing IT and transformation programmes.

Jane spent her early career with KPMG, working in the financial sector, becoming responsible for delivering corporate governance, internal audit and risk-management services in the north of England. She has also held a number of executive roles, including Director of Audit, and Risk and Governance Director at Aviva plc. She is a Fellow of the Institute of Chartered Accountants in England and Wales.

Current external appointments
Jane is Chair of Reclaim Fund Ltd and an Independent Member of the Fairness Committee at ReAssure Ltd. She is the Honorary Treasurer and a Trustee of the Disasters Emergency Committee and has her own financial sector consulting business. Jane is also a magistrate.

SEBASTIAN JAMES
INDEPENDENT NED

C R

Appointed
August 2014

Biography
Sebastian is Chair of the Corporate Social Responsibility Committee. He has extensive experience in retail and consumer practice at large groups and has a detailed understanding of the UK consumer markets, products and brands. Sebastian was Group Chief Executive of Dixons Carphone plc from August 2014 to April 2018. Before that, he was CEO of Synergy Insurance Services Limited and subsequently gained wide retail experience as Strategy Director responsible for developing and implementing the turnaround strategy at Mothercare.

Current external appointments
Sebastian is Senior Vice President of Walgreens Boots Alliance and President and Managing Director of Boots. He is also a trustee of the charity Save the Children.

MIKE HOLLIDAY-WILLIAMS
MANAGING DIRECTOR, PERSONAL LINES

Appointed
February 2017

Biography
Mike is Managing Director, Personal Lines. He joined Direct Line in 2014 and has over 10 years' insurance industry experience. Under his leadership, the Personal Lines division has delivered strong growth, improved profitability and strengthened its competitive position.

Mike was previously CEO of RSA Group's Scandinavian businesses, Codan A/S and Trygg-Hansa, and before that UK Managing Director of Personal Lines at RSA, responsible for the MORETH>N, Partnerships and Broker businesses. Before joining RSA, Mike had many general management, marketing and customer growth roles across several industries including the energy, telecoms and retail sectors.

Current external appointments
Mike is a member of the ABI General Insurance Council.

PENNY JAMES
CHIEF FINANCIAL OFFICER AND CHIEF EXECUTIVE OFFICER-DESIGNATE

I

Appointed
November 2017

Biography
Penny is the CFO and CEO-designate. She will succeed Paul Geddes as CEO from the conclusion of the AGM on 9 May 2019. She has extensive financial services experience, having been Group Chief Risk Officer and Executive Director at Prudential plc, where she was responsible for leading risk oversight globally.

Before this Penny was Director of Group Finance at Prudential. She had previously been Group CFO at Omega Insurance Holdings Limited and CFO, UK General Insurance, at Zurich Financial Services. Penny was a NED of Admiral Group plc from January 2015 to September 2017. Penny is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments
None.

FIONA McBAIN
INDEPENDENT NED

Appointed
September 2018

Biography
Fiona has over 30 years' experience in retail financial services, in the industry and as an auditor, in the UK and the USA. She served as CEO of Scottish Friendly Group for 11 years, before which she was Scottish Friendly Group's Finance Director.

Fiona is also an Associate Member of the Institute of Chartered Accountants in England & Wales, qualifying as an accountant early on in her career at Arthur Young (currently known as EY).

Current external appointments
Fiona is Chairman of Scottish Mortgage Investment Trust plc and Non-Executive Director of Dixons Carphone plc.

GREGOR STEWART
INDEPENDENT NED

A R

Appointed
March 2018

Biography
Gregor is Chair of the Audit Committee. He has wide-ranging experience of financial services, including significant finance, audit, risk management and distribution experience gained in the insurance and investment management sectors.

Gregor worked with EY for 23 years, including 10 years as a partner in the financial services practice. Following this, he was Finance Director for the Insurance division of Lloyds Banking Group plc, which included Scottish Widows, from 2009 to 2012. Gregor is a member of the Institute of Chartered Accountants of Scotland.

Current external appointments
Gregor is Deputy Chairman of Alliance Trust PLC, Chairman of Intrinsic Financial Services Limited and is a NED of FNZ Group. He is also Honorary Treasurer of the charity International Alert.

CLARE THOMPSON
INDEPENDENT NED

A R

Appointed
September 2012

Biography
Clare has extensive financial and audit experience in financial services. She was a partner at PwC from 1988 to 2011, during which time she held several senior positions, particularly in the insurance sector. Her roles included People Partner for Assurance, in which she oversaw talent management, career development and the design of remuneration structures for PwC UK. Clare is a Fellow of the Institute of Chartered Accountants in England and Wales.

Current external appointments
Clare is Senior Independent Director of the British United Provident Association ("BUPA").

DR RICHARD WARD
INDEPENDENT NED AND SID

R N

Appointed
January 2016

Biography
Richard is the SID. He was Non-Executive Chairman of Brit Syndicates Limited and Executive Chairman of Cunningham Lindsey from 2014 to 2018. Prior to this, he was Chief Executive of Lloyd's of London from 2006 to 2013. He was also a NED of Partnership Assurance Group plc, now part of Just Group plc, between 2013 and 2016 and was Chairman of the Remuneration Committee from 2014 to 2016. Richard previously worked for over 10 years at the London-based International Petroleum Exchange, the second largest energy trading exchange, re-branded ICE Futures, as both CEO and Vice-Chairman. He has extensive insurance industry experience and insight into prudential regulation.

Prior to the International Petroleum Exchange, Richard held a range of senior positions at British Petroleum and was a research scientist for the Science and Engineering Research Council.

Current external appointments
Richard is Executive Chairman of the Specialty division at the Ardonagh Group. Richard serves as a member of the PRA Practitioner Panel, Bank of England.

Key for Committee membership
- A Audit Committee
- R Board Risk Committee
- C CSR Committee
- I Investment Committee
- N Nomination Committee
- R Remuneration Committee

EXECUTIVE COMMITTEE

Paul Geddes chairs the Executive Committee. In addition to Paul Geddes, Mike Holliday-Williams and Penny James, the Committee comprises the following:

JONATHAN GREENWOOD
MANAGING DIRECTOR, COMMERCIAL

Joined
2000

Experience and qualifications
Jonathan has over 30 years' experience of the insurance industry. He is responsible for delivering the Commercial strategy, developing customer propositions, enhancing the Commercial brands and delivering efficiencies within the Commercial businesses.

Jonathan was previously Managing Director of the Group's household and life businesses. He joined the Group as Product and Pricing Director for UK Partnerships. Before joining the Group, Jonathan held roles at HBOS, MBNA and Pinnacle.

STEVE MADDOCK
CHIEF OPERATING OFFICER

Joined
2010

Experience and qualifications
Steve has nearly 30 years' experience of the insurance industry. He is responsible for leading the Group's Claims, Information Technology, Information Security, Procurement and Business Services functions.

Steve's previous roles include Director of Strategic and Technical Claims at RSA, Director of Claims and Customer Service at Capita, and Director of Operations at AMP. Steve is also Chairman of the Motor Insurers' Bureau.

SIMON LINARES
GROUP HUMAN RESOURCES DIRECTOR

Joined
2014

Experience and qualifications
Simon is responsible for leading the Group's HR function, Internal & External Communications and Public Affairs. He is also responsible for delivering the Group's People and Corporate Social Responsibility ("CSR") strategies. Simon is a Fellow of the Chartered Institute of Personnel and Development.

Simon has spent the majority of his career as a leader in customer-centric businesses. Before moving into HR, Simon held several commercial business roles in the fast-moving consumer goods and financial services sectors. Simon is also a trustee of the KidsOut UK charity.

HUMPHREY TOMLINSON
GENERAL COUNSEL

Joined
2011

Experience and qualifications
Humphrey has over 25 years' experience as a solicitor. He is responsible for the Group Legal function and oversees a range of areas of legal advice and services.

Humphrey's experience includes advising on corporate and commercial matters, steering corporate transactions in the UK and internationally, managing legal risk and dealing with corporate governance issues. Before joining the Group, Humphrey was Group Legal Director at RSA and prior to that he was a corporate lawyer with the City law firm, Ashurst Morris Crisp.

JOSÉ VAZQUEZ
CHIEF RISK OFFICER

Joined
2012

Experience and qualifications
José has over 25 years' experience of the insurance industry. He is responsible for the Group's Risk Management and Compliance function and is a Fellow of the Institute of Actuaries.

José was previously Global Chief Risk Officer and Group Chief Actuary at HSBC Insurance. Before joining HSBC, José worked for Zurich Insurance, first in its London Market Operations, then as Chief Actuary International Business Division (Asia, Latin America and Africa) and lastly as Chief Actuary in the UK.

Corporate Governance report

This report explains the Board's role and activities, and how corporate governance operates throughout the Group.

The UK Corporate Governance Code

The UK Corporate Governance Code 2016 (the "**Code**") applied to the financial year ended 31 December 2018. Direct Line Insurance Group plc (the "**Company**") complied with all of the principles and, except as explained below, all provisions of the Code throughout the financial year up to the date of this report. The Company has applied the UK Corporate Governance Code 2018 since 1 January 2019, and will report against this new Code next year.

The only exception is the recommendation contained in Provision E.1.1 of the Code that the SID should attend sufficient meetings with the major shareholders to listen to their views. Throughout 2018, the Board received regular updates from the Company's corporate brokers on the views of its institutional shareholders and, in addition, the Investor Relations team provided regular updates to the Board. The Chairman, CEO and CFO met with key shareholders following announcements of results and reported shareholders' views back to the Board. On this basis the Board is satisfied that it understands the views of shareholders and major shareholders have been invited to meet with the SID should they wish to do so.

It is open to all shareholders to raise any issues they wish with the Chairman, the SID and the Chair of the Remuneration Committee. The Board has therefore concluded that it has complied with the main and supporting principles under section E.1 of the Code regarding dialogue with shareholders.

Further details of how the Company applied the Code's principles and complied with its provisions can be found on the following pages of this report and the Directors' remuneration report:

- Leadership – page 66
- Effectiveness – page 70
- Accountability – page 74
- Remuneration – page 75
- Relations with shareholders – page 75

For more information about the Code, visit the FRC's website at www.frc.org.uk.

Leadership

The Board

The Board understands the views of the Company's shareholders and has regard to a range of other key stakeholders and their interests and other relevant matters in Board discussions and decision-making. The example below demonstrates how the Board recognises that stakeholders' interests are integral to the promotion of the Company's long-term success.

The Board's specific duties are set out in the Schedule of Matters Reserved for the Board, which contains items reserved for the Board to consider and approve, relating to strategy and management, material contracts, financial reporting

Stakeholder interests: the strategic plan

In discussing and approving its strategic and financial plan, the Board carefully considers the potential impact on all of the Group's stakeholders, and other relevant matters, whilst seeking to ensure that the plan promotes the success of the Company for the benefit of its members as a whole. Specific matters discussed by the Board include:

- investments in capability to be made during the plan period to make insurance easier and better value for our customers, supporting the longer-term success of the Group and enabling it to respond to long-term trends in the markets in which it operates;
- engaging with our people to improve our diversity, inclusion, wellbeing and development, providing them with a more productive work environment and the support they need through our flexible working and wellbeing strategies;
- the Group's Code of Business Conduct which supports the Board's commitment to the highest possible standards of integrity in business relationships with our suppliers and partners;
- the Group's ESG philosophy that long-term sustainability is good for all our stakeholders, as part of which our Responsibility strategy supports positive relations with our communities, an appropriate approach to the environment, our partnership with Brake on road safety and our emphasis on mental health; and
- the importance of maintaining the strong and positive reputation of our brands and the significant investment being made to improve customer journeys, through which the Group demonstrates its high standards of business conduct.

Our Chairman, Mike Biggs, and NED, Danuta Gray.

and controls, internal controls and risk management, Board membership and succession planning, corporate governance, structure and capital, and delegation of authority.

In addition to the Schedule of Matters Reserved to the Board, each Board Committee has written terms of reference defining its role and responsibilities. Further details regarding the role and activities of the Board and Board Committees can be found on pages 68 and 76 to 87.

Board composition

As at the date of this report, the Board comprised the Chairman, who was independent when appointed to the Board; three Executive Directors; and eight independent NEDs, including the SID. The current Directors served throughout all of 2018, except for Mark Gregory and Gregor Stewart who were appointed on 1 March 2018 and Fiona McBain who was appointed on 1 September 2018; Andrew Palmer and John Reizenstein also served during the year, retiring from the Board at the conclusion of the AGM on 10 May 2018.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 62 to 64.

Meetings

The Board and Board Committees held a number of scheduled meetings in 2018 at which senior executives, external advisers and independent advisers were invited to attend and present on business developments and governance matters. The Company Secretary attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings. The table below sets out attendance at the scheduled meetings in 2018[1]. Additional Board and Committee meetings were convened during the year to discuss ad hoc business development, governance and regulatory matters.

Meetings attendance

	Board	Audit Committee	Board Risk Committee	CSR Committee	Investment Committee	Nomination Committee	Remuneration Committee
Chairman							
Mike Biggs	9 of 9	–	–	–	–	3 of 3	4 of 4
Senior Independent Director							
Richard Ward	9 of 9	–	5 of 5	–	–	3 of 3	–
Non-Executive Directors							
Danuta Gray	9 of 9	–	–	–	–	3 of 3	4 of 4
Mark Gregory	7 of 7	3 of 3	–	–	2 of 2	–	–
Jane Hanson	9 of 9	5 of 5	5 of 5	3 of 3	4 of 4	–	–
Sebastian James	9 of 9	–	–	3 of 3	–	–	4 of 4
Fiona McBain	3 of 3	–	–	–	–	–	–
Andrew Palmer[2]	4 of 4	2 of 2	2 of 2	–	2 of 2	2 of 2	1 of 2
Gregor Stewart[2]	6 of 7	3 of 3	3 of 3	–	–	–	–
Clare Thompson	9 of 9	5 of 5	–	–	–	–	4 of 4
Executive Directors							
Paul Geddes	9 of 9	–	–	3 of 3	–	–	–
Penny James	9 of 9	–	–	–	2 of 2	–	–
Mike Holliday-Williams	9 of 9	–	–	–	–	–	–
John Reizenstein	4 of 4	–	–	–	2 of 2	–	–
Executive Committee Member							
Simon Linares	–	–	–	3 of 3	–	–	–

Notes:
1. Attendance is expressed as the number of scheduled meetings attended out of the number of such meetings possible or applicable for the Director to attend.
2. Due to other prior commitments, Andrew Palmer was unable to attend the February 2018 Remuneration Committee meeting and Gregor Stewart was unable to attend the April 2018 Board meeting. Papers were circulated to all Directors before the meetings and those unable to attend could raise issues and give comments to the Chairman in advance of the meetings.

Structure of the Board, Board Committees and executive management

The diagrams on pages 68 and 69 summarise the role of the Board, its Committees and the responsibilities of the Chairman, the SID, the NEDs, the CEO and the Executive Committee. The Board and Board Committees have unrestricted access to management and external advisers to help discharge their responsibilities. The Board and Board Committees are satisfied that, in 2018, sufficient, reliable and timely information was received to perform their responsibilities effectively. Each Committee plays a vital role in helping the Board to operate efficiently and consider matters appropriately.

Board

Leadership

The Board has clear divisions of responsibility and seeks the long-term success of the Group.

Shareholder benefit

The Board organises and directs the Group's affairs in a way that it believes will help the Group succeed for the benefit of its members as a whole, whilst having regard to its stakeholders generally.

More information on how the Board has regard for the Group's wider stakeholders can be found on page 66.

Operations

The Board supervises the Group's operations, with a view to ensuring they are effectively managed, that effective controls are in place, and that risks are assessed and managed appropriately.

Financial performance

The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results against them.

Strategy

The Board oversees the development of the Group's strategy, and monitors management's performance and progress against the strategic aims and objectives.

Culture

The Board develops and promotes the collective vision of the Group's purpose, culture, values and behaviours.

Information & support

The Board accesses assistance and advice from the Company Secretary. The Board may seek external independent professional advice at the Company's expense, if required, to discharge its duties.

Board Committees

The Audit Committee:

- Monitors the integrity of the Group's financial statements
- Oversees and challenges the effectiveness of the Group's systems of financial and other controls
- Monitors the work and effectiveness of the Group's internal and external auditors and actuaries

The Board Risk Committee:

- Provides oversight and advice to the Board in relation to current and potential future risk exposures of the Group and the future risk strategy, including determination of risk appetite and tolerance
- Responsible for reviewing and approving various formal reporting requirements and promoting a risk awareness culture within the Group

The Remuneration Committee:

- Sets and oversees how the Group implements its remuneration policy
- Oversees the level and structure of remuneration arrangements for senior executives, approves share incentive plans, and recommends them to the Board and shareholders

The Nomination Committee:

- Reviews the Board's structure, size, composition, and balance of skills, experience, independence, and knowledge of the Company
- Leads the process for Board appointments and makes recommendations to the Board
- Provides guidance to management on executive succession planning

The CSR Committee:

- Provides oversight and advice on how the Group conducts its business responsibly, including matters relating to environmental, employee engagement and wellbeing, community involvement, ethics and diversity

The Investment Committee:

- Provides oversight of the Group's investment strategy
- Oversees the management and performance of the Group's investment portfolio

Board and executive management roles

Each Director brings different skills, experience and knowledge to the Company, with the NEDs contributing additional independent thought and judgement. Depending on business needs, the NEDs and the Chairman commit at least three days a month and three days a week respectively to discharging their duties effectively in accordance with their letters of appointment.

The Chairman:

- Guides, develops and leads the Board
- Plans and manages the Board's business
- Ensures the Directors receive accurate, timely and clear information
- Has an individual role profile agreed by the Board, as does the CEO. These profiles clearly define their respective roles and responsibilities and ensure that no one person has unlimited powers of decision-making

The SID:

- Acts as a sounding board for the Chairman and an intermediary for the other Directors when necessary
- Is available to shareholders if they have any concerns they cannot resolve through normal channels
- Leads the Chairman's performance evaluation annually

The NEDs:

- Challenge management in an objective and constructive manner
- Use their wider business experience to help develop the Group's strategy

The CEO

As authorised by the Board, the CEO manages the Group's day-to-day operations and delivers its strategy. The CEO delegates certain elements of his authority to Executive Committee members to help ensure that senior executives are accountable and responsible for managing their businesses and functions.

The Executive Committee

The Executive Committee is the principal management committee that helps the CEO manage the Group's operations. It helps the CEO:

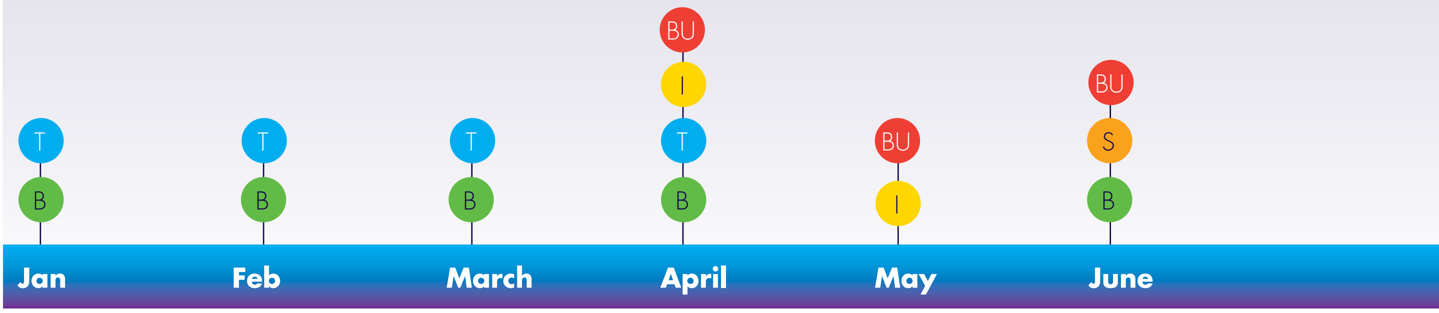
- Set performance targets
- Implement Group strategy
- Monitor key objectives and commercial plans to help achieve the Group's targets
- Evaluate new business initiatives and opportunities

- Managing Director Commercial
- Managing Director Personal Lines
- Chief Operating Officer
- Chief Risk Officer
- Chief Financial Officer
- General Counsel
- Group Human Resources Director

Biographical details of the Executive Directors and Executive Committee members are shown on pages 62 to 65.

Effectiveness

Board meetings & activity in 2018



Board meetings

The activities undertaken by the Board in 2018 were intended to help promote the long-term success of the Company. Scheduled Board meetings (set out on the timeline above) focused on four main themes in 2018:

Strategy & execution, including: approving and overseeing the Group's key strategic targets and monitoring the Group's performance against those targets; reviewing customer experience and trends and monitoring the Group's performance against external brand metrics; reviewing and approving key projects aimed at developing the business or rationalising costs; considering growth opportunities; and reviewing the individual strategy of key business lines.

Financial performance and investor relations, including: setting financial plans, annual budgets and key performance indicators, and monitoring the Group's results against them; considering the Group's reserving position; approving the solvency II narrative reports; approving financial results for publication; approving main reinsurance arrangements and motor reinsurance renewal; and reviewing broker reports on the Group, alongside feedback from investor meetings.

Risk management, regulatory and other related governance, including: considering the impact of the Ogden discount rate; reviewing and agreeing the Group's Policies; setting risk appetites; approving the ORSA; approving major changes to the Group's partial internal model and seeking to ensure that the Group complies with its regulatory requirements; reviewing the Group's solvency position and forecast; and agreeing the Group's ESG approach.

Board & Board Committee governance, including: receiving reports from the Board's Committees; updating terms of reference for the Committees; implementing an annual review of the Board's and Board Committees' effectiveness; and conducting an annual review of the Group's governance framework.

The co-ordination of the Board meeting content is managed by the Chairman, and supported by the CEO and Company Secretary.

In addition to routine business, the Board considers and discusses key issues that impact on the business as they arise. The CEO and CFO spend a considerable amount of time with the different business areas ensuring that the Board's aims are being correctly disseminated throughout the Group, and that our peoples views and opinions are reported back to the Board.

The NEDs meet with key management outside the Board and Committee fora to obtain a wider view of the Group's activities and attend meetings of the Group's ERB to engage with staff and report their views back to the Board.

Strategy day

The Board sets aside time each year outside the annual Board calendar to hold a strategy day giving the Directors the opportunity to focus solely on strategic matters. In June 2018, the Board held a session offsite to set and monitor progress against the Group's strategy and to discuss the strategic challenges and opportunities the Group faces in the future, including advances in motor and connected home technology.

Board training

The Board is committed to the training and development of Directors to improve their knowledge about the business and the regulatory environment in which it operates. The Company Secretary is responsible for helping the Chairman identify and organise training for the Directors which is tailored to individual needs.

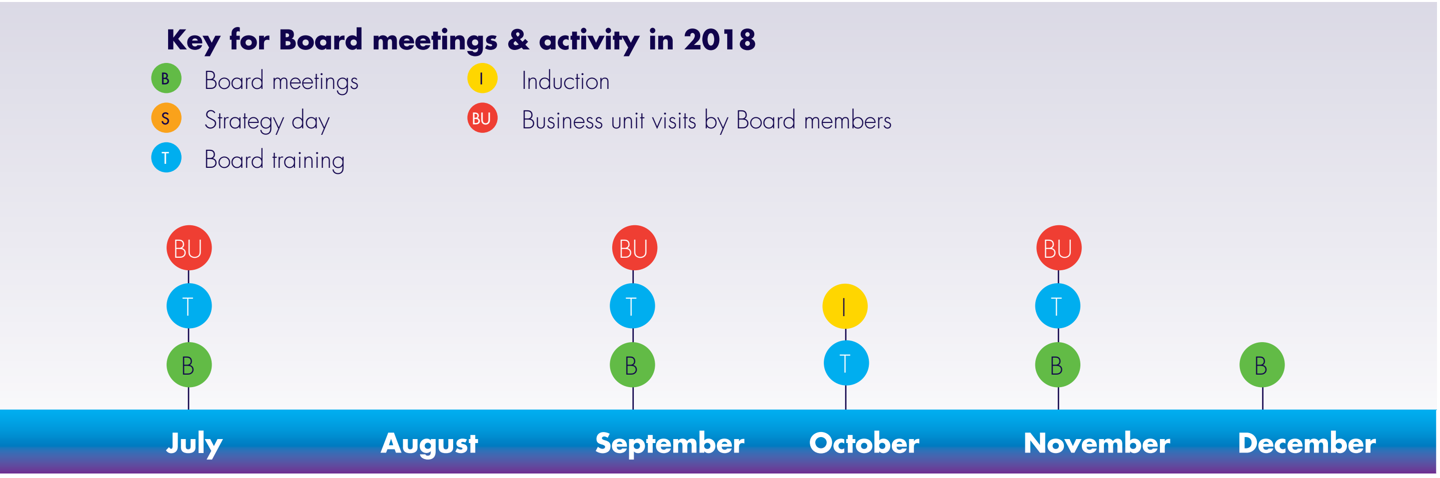
The Company Secretary maintained the training agenda for the Board and its Committees during the year. Training topics during the year included anti-bribery and corruption, growth initiative strategy updates, cyber training, competition law, the forthcoming changes in accounting rules, the IT transformation programme, Green Flag and Capital Model training.

In addition, a series of deep dives into the Group's business areas took place during the year to deepen each Director's knowledge of the business and provide oversight at Board and Committee level.

Board inductions

All new Directors appointed to the Board undertake an induction programme aimed at ensuring they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as Directors of the Company. The programmes are tailored to suit each Director and include:

- provision of relevant current and historical information about the Company and the Group;
- visits to operations around the Group;
- induction briefings from Group functions; and
- one-to-one meetings with Board members, senior management and the Company's advisers.



Penny James, who joined the Board as CFO-designate in November 2017, completed her induction programme before succeeding John Reizenstein as CFO on 1 March 2018.

Mark Gregory, Gregor Stewart and Fiona McBain, who were appointed as NEDs during the year, each had bespoke induction programmes which included sessions on the Group's strategy, operational businesses, financial performance, capital management, risk management, regulatory landscape and governance framework.

Business unit visits

During 2018, NED visits to operational business units in Bromley, London, Bristol, Leeds, Doncaster and Farnham were arranged to meet the management teams and better understand how the business operates. In September, the Board visited the Group's Bristol site to interact with our people in the HR, Legal Services, Customer Operations and Experience, Business Solutions and Direct Line for Business teams.

Board and Committee effectiveness review

In accordance with the principles and provisions of the Code, the Board's practice is to conduct a thorough review of the effectiveness of the performance of the Directors, the Board as a whole and its Committees on an annual basis, with the input of an external facilitator at least once every three years. In 2018, the Board chose to conduct its effectiveness review in-house as an independent Board effectiveness review had taken place in 2016.

The Company Secretary designed and co-ordinated the process. This involved agreeing a structured questionnaire with the Chairman, SID and the Chairs of the Board's Committees, distributing it to and interviewing the Directors and relevant executives and advisers and preparing reports. The Board and each of its Committees reviewed and discussed the relevant reports.

Respondents were asked whether matters identified as particular strengths in previous years, including the Board's leadership and culture, the openness of debate, the productiveness of proceedings, the quality of information flow to the Board and the relationship between the Board and management, remained positive. Interviews also covered the extent to which the Board's 2018 strategy day had helped the Board to debate and establish the Group's medium-term strategy, the quality of the information received by the Board to monitor the progress of the Group's major technology transformation programmes and the Group's culture.

The Committee questionnaire focused on the clarity of each Committee's role and scope, its composition, the resources available to it, the balance between challenging and supporting management and the quality and timeliness of information supplied to each Committee.

Outcome of the effectiveness review

The Chairman discussed the outcome of the effectiveness review with the NEDs and the CEO, providing them with feedback on their individual performance and contributions. The Board and each of its Committees received and debated their own reports resulting from this exercise. Feedback on the Chairman's performance was provided by the SID, with input from his fellow NEDs.

Based on the responses to the questionnaire and resulting reports, the Directors are satisfied that the Board and each of its Committees operated effectively in 2018. The Directors are also satisfied that they made significant progress in areas identified for potential improvement in 2017.

Whilst the findings of the 2018 effectiveness review were positive, the Board and each of its Committees will focus during 2019 on opportunities for fine-tuning with the objective of further improving effectiveness.

Governance framework and structure

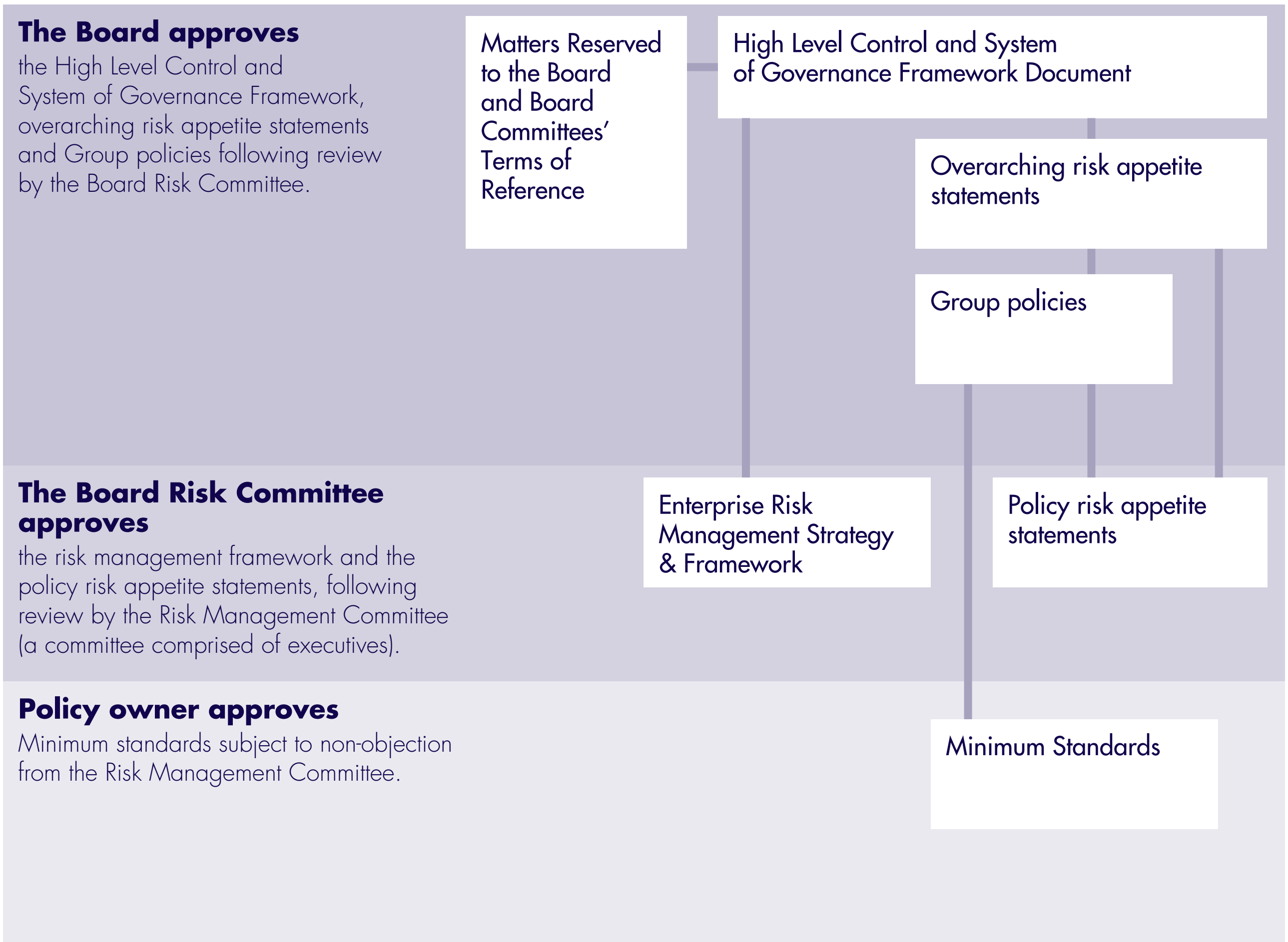
The Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework. The Board has established a risk management model that separates the Group's risk management responsibilities into three lines of defence. An explanation of these responsibilities can be found on page 44.

The Group's governance framework is detailed in the Group's High Level Control and System of Governance Framework document. This document details how the Group meets solvency II and PRA requirements to identify Key Functions and to have and maintain a Responsibilities Map in respect of the PRA and FCA Senior Managers and Certification Regime requirements. The Board reviews these documents annually.

The core elements of the governance framework are the:

- Matters Reserved to the Board and the Board Committees' Terms of Reference;
- High Level Control and System of Governance Framework document;
- Risk appetite statements, which are described on page 44;
- Enterprise Risk Management Strategy and Framework, which is described on page 45;
- Group policies, which address specific risk areas and inform the business how it needs to conduct its activities to remain within risk appetite; and
- Minimum Standards, which interpret the Group policies into a set of operational requirements that can be implemented throughout the Group.

The diagram below summarises the split of responsibilities for the different parts of the Group's governance framework.



Conflicts of interest

The Company's Articles of Association allow the Board to authorise matters where there is, or may be, a conflict between the Group's interests and the direct or indirect interests of a Director, or between a Director's duties to the Group and another person. This is in accordance with the Companies Act 2006.

Each Director has a duty to avoid conflicts of interest. They must declare any conflict of interest that could interfere with their ability to act in the Group's best interests.

The Board has authorised certain potential conflicts of interest in this way. However, the Board still deals with any actual conflict of interest or duty that might arise. This usually would involve making sure a Director does not participate in a relevant Board or Committee discussion or decision.

To do this, the Company Secretary maintains a register of conflicts and any conflicts that the Board has authorised.

The Board reviews this register at each scheduled Board meeting.

Approach to diversity

The Board and executive management are committed to ensuring that diversity is promoted across all areas of the Group and that everyone is treated fairly, irrespective of their racial or ethnic origin, gender, age, disability, belief or sexual orientation, religion, or educational or professional background. There is a Board approved diversity policy and progress has been made in embedding principles and practices to promote diversity across the Group and to champion the benefits of a diverse and inclusive workforce.

The principles and practices set by the Board and the progress made in broadening the diversity of the Board include:

1. Maintaining at least 30% female representation on the Board

The Board aims to maintain female representation of at least 30% and remains committed to seeking to improve further its position on diversity when appropriate opportunities arise. The Board will continue to appoint the most appropriate candidates based on knowledge, skills, experience and, where necessary, independence. As at the date of this report, female representation on the Board was 42% which exceeds the target set in Lord Davies' Women on Boards Review Five Year Summary to be achieved by 2020 and remains on target with the Hampton-Alexander Review's recommendations for a minimum of 33% of women's representation on boards by 2020.

2. Only engaging executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice

In its search for candidates, the Board aims to only engage with executive search firms who are signatories to the Voluntary Code of Conduct for Executive Search Firms as recommended by Lord Davies. During the year, the Nomination Committee worked closely with Egon Zehnder which culminated in the appointment of Fiona McBain, Mark Gregory and Gregor Stewart. Egon Zehnder is a signatory to the Voluntary Code and has no other connection to the Company.

The search process for the replacement CEO, which began in 2018 and culminated in the appointment of Penny James with effect from 9 May 2019, involved engaging MWM Consulting, which is also a signatory to the Voluntary Code and has no other connection to the Company.

Further information regarding the Group's approach to diversity including the process for Board appointments and reappointments can be found on pages 83 and 84 of the Nomination Committee report.

Senior management gender diversity

The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given the opportunity to progress their career internally.

The Group is a signatory to the Women in Finance Charter which aspires to see gender balance at all levels across financial services firms. The Group is committed to seeking to increase female representation at senior management level to 30% by the end of 2019. As at 31 December 2018, women represented 28% of the Group's senior management population. The charts on pages 58 and 59 provide a clearer picture of the diversity of the Board, senior managers and employees.

The Board continues to support Group-wide diversity initiatives, including succession planning programmes, to broaden and strengthen female talent at middle management level. Other key 2018 gender diversity initiatives included: the promotion of flexible working; a partnership with the EveryWoman network which helps organisations enhance the potential of female talent; and mentoring schemes and associated development programmes for high-potential female candidates.

Additional 2018 diversity initiatives

The Board acknowledges that diversity includes but is not limited to gender and aims to increase demographic and philosophical differences at Board level and throughout the Group.

The Board advocates the importance of cultural and ethnic diversity and aims to increase the ethnic diversity across the Group including at Board and senior management level. The Board and senior management continue to support the DNA network which champions diversity and inclusion within our organisation through strands relating to generational divide, unconscious bias, belief, Black, Asian and minority ethnics, gender, sexual orientation, disability, working families and neuro-diversity.

The Board has oversight of diversity initiatives carried out through the remit of the CSR Committee, which received regular updates on the 'build an inclusive culture' strand of our CSR strategy during 2018. Further details on diversity initiatives can be found in the People and culture report on page 58 and in the CSR Committee report on page 85.

Nomination Committee

On behalf of the Board, the Nomination Committee assesses the NEDs' independence, skills, knowledge and experience annually. The Board concluded that every current NED was independent, continued to contribute effectively, and demonstrated they were committed to the role. The Board is also satisfied that the Chairman's external appointment as Chairman of Close Brothers Group plc set out on page 62 does not restrict him from carrying out his duties effectively.

Jane Hanson and Mike Biggs have served on the Board since December 2011 and April 2012 respectively. At the Board's request, they have agreed to continue serving as NEDs and resolutions for their re-election as Directors will be proposed to the 2019 AGM. The Board is satisfied that Jane and Mike remain independent in judgement and character, continue to make a significant contribution to the proceedings of the Board and its Committees and that the extension of their terms of appointment will provide valuable continuity as work on refreshing the Board progresses.

You can find out more about these activities and the Nomination Committee's work during the year on pages 83 to 84.

Accountability

An explanation of how the Board complies with the Code in relation to accountability is set out below, except for the following matters, which are covered elsewhere in the Annual Report & Accounts:

- how the Company seeks to generate value over the long term is explained in the business model on pages 22 and 23, and the strategy for delivering Company objectives is on pages 19 to 21; and
- how the Board has assessed the Group's longer-term viability and the adoption of the going concern basis in the financial statements is on pages 49 and 121.

The Board has delegated responsibility to the Audit Committee to oversee the management of the relationship with the Company's External Auditor. You can find details of the Audit Committee's role, activities and relationship with the External Auditor in the Committee report on pages 78 to 79.

Responsibility for preparing the Annual Report & Accounts

The Board's objective is to give shareholders a fair, balanced and understandable assessment of the Company's position and prospects and business model and strategy. The Board is also responsible for maintaining adequate accounting records and seeks to ensure compliance with statutory and regulatory obligations.

You can find an explanation from the Directors about their responsibility for preparing the financial statements in the Statement of Directors' responsibilities on page 121. The Company's External Auditor explains its responsibilities on page 129.

The Directors confirm that they consider that the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information that shareholders need to assess the Group's position and performance, business model and strategy. In arriving at this conclusion, the Board was supported by a number of processes, including the following:

- management drafted the Annual Report & Accounts to ensure consistency across sections, and a steering group comprising a team of cross-functional senior management provided overall governance and co-ordination;
- a verification process, to ensure the content was factually accurate;
- members of the Executive Committee reviewed drafts of the Annual Report & Accounts;
- the Company's Disclosure Committee reviewed an advanced draft of the Annual Report & Accounts; and
- the Audit Committee reviewed the substantially final draft of the Annual Report & Accounts, before consideration by the Board.

Risk management and internal control systems

The Board oversees the Group's risk management and internal control systems. It has complied with the Code by establishing a continuous process for identifying, evaluating and managing the principal risks the Group faces.

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. This control framework cascades through the divisions and central functions, detailing clear responsibilities to ensure the Group's operations have appropriate controls. This includes controls relating to the financial reporting process.

The frameworks for risk management and internal control were in place for the financial year under review and up to the date of this report. They are regularly reviewed by the Board and comply with the Financial Reporting Council's updated guidance on Risk Management, Internal Controls and Related Financial and Business Reporting.

The Group operates a Three Lines of Defence model. You can find out more about this in the Risk management section on page 44.

The Board, with the assistance of the Board Risk Committee and the Audit Committee as appropriate, monitored the Company's risk management and internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls. The Board and its Committees are overseeing the programme of activity to upgrade and better integrate the major IT systems within the Group's technology infrastructure, including focusing on developing future capability for both customers and our people and monitoring risks relating to IT systems' stability, cyber security and the internal control environment.

The Board was also supported in its review of the annual Control Environment Certification process. As part of this, each directorate self-assessed its risks and whether its key controls were appropriate and effective. The Risk and Group Audit functions reviewed and challenged these findings. The Group then combined the overall findings into a Group-level assessment, which the CEO approved. The process included reporting on the nature and effectiveness of the controls, and other management processes that manage these risks.

The Board Risk Committee regularly reviews significant risks and how they might affect the Group's financial position; comparisons to agreed risk appetites; and what the Group does to manage risks outside its appetite.

The Group Audit function supports the Board by providing an independent and objective assurance of the adequacy and effectiveness of the Group's controls. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of its risk management, control and governance frameworks, and processes.

The Directors acknowledge that any internal control system can manage, but not eliminate, the risk of not achieving business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or financial loss.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of the Group's internal control systems. Its monitoring covers all material controls. Principally, it reviews and challenges reports from management, the Group Audit function and the External Auditor. This enables it to consider how to manage or mitigate risk in line with the Group's risk strategy.

Assessing principal risks

The Board determines the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Directors robustly assessed the principal risks facing the Company, including risks that would threaten its business model, future performance, solvency or liquidity. You can find a description of these risks, and their management or mitigation, on pages 46 and 47.

This confirmation is based on the Board Risk Committee's twice-yearly review and challenge of the Group's Material Risk Assessment and the Board's review and approval of the Group's risk appetite statements. The Risk Assessment identifies risks quantified as having a residual risk impact of £40 million or more based on a 1-in-200 years likelihood. The quantifications are produced through stress and scenario analysis, and the capital model. Each directorate's bottom-up risk identification and assessment supplements the Risk Assessment. The Risk Assessment also plays a key role in developing the ORSA and assessing the Group's strategic plan.

Remuneration

The Board has delegated responsibility to the Remuneration Committee for the remuneration arrangements of the Group's Executive Directors and Chairman. It recommends and monitors the remuneration level and structure for senior executives. You can find out more about this in the Directors' remuneration report starting on page 88.

Relations with shareholders

The Board believes that engaging regularly with the Company's shareholders is vital to the Group's success. Communicating and engaging with investors means the Board can express clearly its strategy and performance and receive regular feedback from investors. It also gives the Company the opportunity to respond to questions and suggestions.

During 2018, the Board received regular updates from the Executive Directors, the Investor Relations team and the Company's corporate brokers on the views of its shareholders and other investors.

The Chairman, SID and NEDs are available to attend meetings with major shareholders at their request. In 2018, the Chairman met some of the Company's major shareholders and discussed corporate governance topics including executive remuneration.

It is open to all shareholders to raise any issues they wish with the Chair of the Remuneration Committee. As part of the development of the revised remuneration policy for Executive Directors which was approved by shareholders at the Group's 2017 AGM, the Chair of the Remuneration Committee led a wide-ranging consultation through engagement with proxy advisers, regulators and shareholders on corporate governance matters including executive remuneration.

During 2018, the CEO and the CFO met with key shareholders following announcements of results and reported shareholders' views back to the Board.

The Investor Relations team helps the Directors to communicate with investors. The Directors, in conjunction with senior management and the Investor Relations team, participated in varied forms of engagement, including investor meetings, seminars and conferences throughout the year. Management hosted analysts at its Bristol offices in October 2018 to bring to life the Group's various customer-centric and agile ways of working.

The CEO and CFO hosted conference calls for the Group's quarterly results and presentations for its 2017 full year results in February 2018 and its 2018 half year results in August 2018. In addition, the CEO and CFO provided a short video summarising the key messages of the Group's 2017 full year results which is available on the Company's website.

We communicate with our debt investors through regular announcements and the debt investor section of our website which contains bond information, credit ratings and materials relating to the Group's year-end reports, and information about our long-term debt maturity profile so investors can see the related future refinancing needs of the Group.

The Directors, in conjunction with senior management and the Investor Relations team, met with debt investors in the course of the Group's normal investor conferences and roadshows throughout 2018. In addition to this, the CFO hosted a meeting with debt investors in September 2018.

Annual General Meeting

The Board sees the Company's AGM as a good opportunity for private shareholders to talk directly with the Board. All shareholders can attend the AGM if they wish. All Directors attended the AGM in 2018.

At the AGM, the CEO presents the Group's financial results. The Chairman then invites shareholders to ask questions about the meeting's business, before proposing the AGM's formal business. All Directors who wish to continue to serve will be put forward for election or re-election at the AGM. The Chairman, the Committee Chairs and the remaining Directors and members of the Executive Committee are also available to talk with shareholders at the end of the meeting.

The Articles of Association of the Company and the letters of appointment of the NEDs and the Chairman are available for inspection at the Company's registered office and AGM.

The outcome of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, are published on the London Stock Exchange's and the Company's websites once the AGM has concluded.

Audit Committee report

Membership, attendance and responsibilities of the Committee can be found on pages 67 and 68.

GREGOR STEWART
CHAIR OF THE AUDIT COMMITTEE

Areas of focus in the reporting period

- The Committee reviewed how, International Financial Reporting Standard ("**IFRS**") IFRS 17 'Insurance Contracts', which relates to recognition, measurement, presentation and disclosure of insurance contracts, is expected to apply to the Group for annual reporting periods beginning on or after 1 January 2022. It is expected to have a significant impact on accounting for insurance contracts. The Committee received training dedicated to the key aspects of IFRS 17 and the likely areas of impact on the Group.
- The Group initiated a change programme to transition to IFRS 9 and IFRS 17. As part of the programme the Group's ledger system will be upgraded. The change programme will review finance processes to deliver operational benefits alongside the transition to IFRS 17.
- The Board delegated oversight of the changes to the financial reporting system to the Committee. Throughout 2018 the Committee received updates on the programme and the implications of the new IFRSs on the financial statements.
- The impact of the change in the methodology for setting the Ogden discount rate on reserves following the Civil Liability Act 2018 receiving Royal Assent and the related sensitivity analysis were considered by the Committee.

Committee skills and experience

Gregor Stewart was appointed Chair of the Committee in May 2018. In line with the Code, all members of the Committee are independent, and the Audit Committee as a whole is deemed to have competence relevant to the insurance and financial services sectors in which the Group operates.

All Committee members are members of the Institute of Chartered Accountants in England and Wales, with the exception of Gregor Stewart who is a member of the Institute of Chartered Accountants of Scotland. They also have recent and relevant financial experience across a number of different insurance businesses, enabling them to contribute diverse expertise to the Committee's proceedings. To keep their skills current and relevant, in addition to Board training, members of the Committee have received training during the period on matters including IFRS 17 and solvency II technical provisions.

Main activities during the year

At each scheduled Committee meeting, the Committee received reports on financial reporting, reserves, internal controls and Group Audit, except at the December 2018 meeting where the focus was on pre-year-end financial matters. You can find out more about this in the following sections.

Financial reporting

The Committee considered the integrity of the Group financial statements and all external announcements relating to its financial performance. In 2018, this included the Group's 2017 Annual Report & Accounts, the Solvency and Financial Condition Report and its 2018 Half Year Report.

The Committee followed a review process before recommending the reports to the Board which focused on the choice and application of significant accounting policies, emphasising those requiring a major element of estimation or judgement. The review also considered the going concern assumptions and viability statement in the Annual Report & Accounts, valuation of assets and impairment reviews, reserving provisions, non-recurring period-specific transactions and clarity of disclosures.

The Committee reviewed and concluded that the Annual Report & Accounts taken as a whole was fair, balanced and understandable and provided sufficient information to enable the reader to assess the Group's position and performance, business model and strategy.

When considering the 2018 Annual Report & Accounts, the Committee focused on the significant judgements and issues which could be material to the financial statements. These included the matters set out in the table on page 77.

The Committee challenged the judgements being made and also discussed these matters with the External Auditor.

Reserves

The Committee reviews and challenges the key assumptions and judgements, emerging trends, movements and analysis of uncertainties underlying the estimate of reserves. These assumptions and judgements are informed by actuarial analysis, wider commercial and risk management insights, and principles of consistency from period to period. After reviewing the reserves, the Committee recommends them to the Board.

Significant issues

Matter considered	Description	Action
Insurance reserves valuation	The Committee reviewed the level of reserves of the Group. As part of its review, the Committee considered the estimate of reserves, taking into account certain trends and risks as well as management judgement where higher confidence, knowledge and experience can be applied. The Committee also obtained insight from an independent actuarial review of the reserves. Further information on reserves is provided on pages 76 and 77.	In 2018, the Committee reviewed and challenged the level of reserves. In addition, it monitored developing trends in risks that could materially impact them. On an ongoing basis it received updates from the Actuarial Director on how estimates of reserves matched the claims paid.
Ogden discount rate	The Committee considered the process, estimates and judgements made in recommending the new Ogden discount rate. The Civil Liability Act 2018 received Royal Assent on 20 December 2018. The Act details how the UK Government will set the rate used in the assessment of damages for large bodily injury claims. The Actuarial Director considered the new discount rate setting process, after looking at information published by the UK Government on the factors which would be considered when the new rate was set. The Actuarial Director proposed that the rate used by the Group in assessing the level of reserves be changed from minus 0.75% to 0%.	The Audit Committee approved the Actuarial Director's proposal to change the rate used in assessing the level of reserves. In addition, the Committee reviewed the implementation process. The application of the new reserving rate led to a release of £55 million reserves. The Committee continues to monitor the factors that impact the Ogden discount rate and a new rate will be set in accordance with the Act by the middle of 2019.
Valuation of investments not held at fair value	The Committee considered reports on the estimates and judgements applied to the carrying value of the Group's investments that are not held at fair value and the basis for the valuation. These assets are principally comprised of infrastructure loans, commercial real estate loans and private placement bonds held within the investment portfolio. Information was provided to the Committee on a regular basis to support the value recognised in the accounts.	In 2018, the Committee considered major accounting estimates and judgements in respect of assets held at fair value and was satisfied with the carrying value of investments and the basis for their valuation.
Valuation of intangible assets	The Committee considered the valuation of intangible assets. These mainly related to investment in the Group's IT systems and capabilities in respect of projects which are aimed at improving the digital offering, customer experience and operational efficiency. Reports were presented to the Committee covering the assumptions and judgements made in arriving at a valuation of these assets.	In 2018, the Committee considered major accounting estimates and judgements in respect of the valuation of intangible assets and was satisfied that the assets did not warrant any further impairment.

The Committee also considered an appropriate balance between internal and external actuarial review. An external actuarial review of the reserves was carried out by PricewaterhouseCoopers LLP ("**PwC**") for the Directors of the Company. The appointment of consultants to provide actuarial reviews of reserves is subject to approval by the Committee.

Internal control and Group Audit

During the year, the Committee reviewed the adequacy and effectiveness of the Group's internal control systems. The Group's financial reporting control framework is part of the wider internal controls system. It addresses financial reporting risks. The Board delegates supervision of the framework to the Committee while the CFO is responsible for the framework's operation on a day-to-day basis. During 2018, the Committee received regular reports on control deficiencies, compensating controls and the mitigating actions taken by management.

The Committee oversees Group Audit's work and seeks to ensure industry best practice is adopted appropriately. The Group Head of Audit's primary reporting line is to the Chair of the Committee. The secondary reporting line, for day-to-day administration, is to the CFO. Group Audit provides the Committee with independent and objective reports on the adequacy and effectiveness of the Group's governance, risk management and internal controls. The Committee approves Group Audit's annual plan and receives quarterly reports detailing internal audit activity, key findings, management responses, and proposed action plans. Group Audit also monitors that the most significant actions are completed. The Committee approves the Group Audit Charter, which is reviewed annually.

During 2018, following a tender process, the Committee appointed PwC to carry out an external quality assessment of Group Audit in accordance with guidelines issued by the Chartered Institute of Internal Auditors. The scope of the assessment was to assess Group Audit against the CIIA requirements, including the Effective Internal Audit in Financial Services Code in the Financial Sector and best practice. The assessment concluded that the function has achieved the highest rating of compliance with CIIA standards and the CIIA Financial Services Code. A number of recommendations were made by PwC to support the function in continuing to evolve and keep pace with the future challenges and expectations it faces both internally and externally. The Committee endorsed the report and recommendations for continuing improvement and the findings have been incorporated into an action plan. In addition, the Committee concluded that the function had appropriate resources.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2018 it received sufficient, reliable and timely information to perform its responsibilities effectively.

The Actuarial Director, external actuarial advisers, External Auditor and Group Head of Audit meet privately with the Audit Committee, in the absence of management.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

External audit

Deloitte LLP ("**Deloitte**") has served as the Company's Auditor since 2000. Before listing, the Group was audited by Deloitte as a division of RBS Group. The Committee is responsible for overseeing the External Auditor and agreeing the audit fee, as well as approving the scope of the External Auditor's annual plan.

The current audit partner is Mr Colin Rawlings, FCA, who was first appointed for the 2016 audit. The Committee has reviewed the latest public report on Deloitte, issued by the FRC Audit Quality Review Team, and has discussed the findings with Mr Rawlings and made enquiries as to how those findings relevant to the Group have been addressed.

The Financial Reporting Council's Audit Quality Review team reviewed the audit of the 2017 financial statements of the Group's principal subsidiary as part of their 2018 annual inspection of audit firms. The inspection covered selected aspects of the audit and focused on identifying areas where improvements were required. The Committee received a full copy of the report and noted that there were no areas for improvement identified. In addition, the AQR team identified areas of good practice within the audit areas they reviewed. Having considered the report and discussed it with the audit partner, the Committee was satisfied that there was nothing noted which might have a bearing on the audit appointment.

External Auditor tenure

During the year, the Committee discussed the position on its external audit services contract and examined a number of options regarding the timing of tendering for the external audit, including the mandatory rotation of the Group's audit firm. This took into account the reforms of the audit market by the Competition and Markets Authority and the EU, under which Deloitte can continue as the Company's External Auditor until 31 December 2023. The Committee considered whether it was appropriate to tender the external audit contract for the year ending 31 December 2020 and concluded it was not appropriate. The Committee also confirmed that it will continue to comply with the regulations governing auditor rotation.

When considering the timing of the external audit tender, the Committee took into account the Group's ongoing change programmes including the implementation of a new general ledger, the use of consultants employed by auditing firms in connection with those programmes, audit partner rotation, the impact of IFRS 17 and the best interests of shareholders. Following an assessment of all the factors, the Committee decided that it was not appropriate to tender the external audit contract at this time. The Committee will review the position on an annual basis, but currently anticipates tendering the audit contract after the implementation of IFRS 17 for the 2023 year end to ensure the broadest choice of firms.

There are no contractual obligations restricting the Group's choice of External Auditor.

The Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Auditor independence and non-audit services policy

The Group has a Minimum Standard in relation to Independence of External Auditors. This establishes parameters for preventing or mitigating anything that compromises the External Auditor's independence or objectivity. The Minimum Standard includes a formal process for the approval of non-audit services by the External Auditor.

During the year the Committee reviewed the non-audit services that could be provided by the External Auditor. It was agreed that, in order to protect the independence of the External Auditor, generally on an on going basis non-audit services should not be provided unless there is a strong, clear and understandable business reason. The Committee is satisfied that the Group has adequate procedures to ensure that the External Auditors are independent and objective.

During the year, the Committee approved fees of £0.7 million to Deloitte for services unrelated to audit work. The following is a breakdown of fees paid to Deloitte for the year ended 31 December 2018.

	Fees £m	Proportion
Audit fees[1]	1.9	70%
Audit-related assurance services	0.1	4%
Other assurance services	0.1	4%
Non-audit fees	0.6	22%
Total fees for audit and other services	2.7	100%

Note:
1. Further information is disclosed in note 10 to the consolidated financial statements.

The non-audit fee of £0.6 million related primarily to assurance activities on IT projects in relation to the development of new systems.

Effectiveness of the external audit process and re-appointing Deloitte as External Auditor

In 2018, the Committee assessed the External Auditor's effectiveness. This was in addition to regularly questioning the External Auditor during its meetings. The Committee assessed the External Auditor through:

(i) a detailed questionnaire completed by key stakeholders;

(ii) discussing matters with the CFO;

(iii) formally reviewing the External Auditor's independence;

(iv) assessing whether the agreed audit plan was fulfilled; and

(v) consideration of the FRC's review of the audit of the Group's principal subsidiary.

After taking into account all of the information available, the Committee concluded that Deloitte had performed its obligations effectively and appropriately as External Auditor to the Group.

The Committee recommended to the Board that the Group re-appoint Deloitte as External Auditor. The Group will put a resolution regarding this to shareholders at the 2019 AGM.

The Board reviewed and approved this report on 4 March 2019.

GREGOR STEWART
CHAIR OF THE AUDIT COMMITTEE

Board Risk Committee report

Membership, attendance and responsibilities of the Committee can be found on pages 67 and 68.

JANE HANSON
CHAIR OF THE BOARD RISK COMMITTEE

Areas of focus in the reporting period

– As the Group continues with its IT transformation programme, the Committee reviewed progress against the plans at each meeting. In 2018, the Committee received and challenged reports from management on the programme plans and considered how these would achieve the planned benefits for customers. The Committee probed and challenged all aspects of the programme including the governance, key risks and assumptions and progress reporting. The Committee obtained objective views from the Risk and Group Audit functions on the programme's progress at each meeting and commissioned a series of external specialist reviews to obtain assurance on the approach being taken.

– In March 2018, members of the Committee and management participated in a strategy session, which considered macro risks and the role of the Committee. The session reviewed developments in areas such as the global economy and the impacts of US and UK fiscal policy, Brexit and the potential impacts on the insurance market. Committee members considered market and regulatory developments, as well as the development and measurement of risk culture, taking into account the Group's ongoing initiatives in these areas. In light of these discussions, the Committee considered its own role with the aim of ensuring continued alignment with the key risks facing the Group.

– The Committee considered medium to long-term risks to the Group to gain assurance that management is taking timely actions to manage risks. The Committee received reports from management on the emerging risks the Group faces and evaluated how the Group could be affected by potential developments. During the year, the Committee reviewed all key risks in the Emerging Risk Register, focusing particularly on political and economic risks, and considered the impacts of autonomous technology on the motor market. The Committee considered climate change and its impact both on the Group's current book of business and the Group's longer-term strategy.

– The Committee considered risks relating to the Group's conduct towards its customers. During the year the Committee reviewed the key themes and topics from the Group's Customer Conduct Committee, which were focused on complaints improvement, vulnerable customers, and improved oversight of offshore and supplier performance. The Committee undertook a deep dive into pricing rating factors including the pricing principles and policies currently in place. This area will be closely monitored giving consideration to appropriate regulatory expectations.

Main activities during the year

Risk monitoring and oversight

At each scheduled meeting, the Committee received a report from the Chief Risk Officer which provided an overview and assessment of the Group's risk profile. It detailed the key activities undertaken by the Risk function to further embed risk management across the Group, provided outputs of regular risk monitoring and details of specific risk issues. The Committee also received details of the Group's current and forward-looking solvency position. The Committee received regular reports regarding the three strategic risk appetite statements: maintain capital adequacy; stable and efficient access to funding and liquidity; and maintain stakeholder confidence.

The Committee monitored the Group's exposure against these risk appetite statements and the lower level risk appetite statements, considered key risk indicators and assessed the key drivers that affected status against risk appetite. The Committee reviewed and questioned the justification of the assessment of certain risks and the robustness of management action plans to address areas close to or outside tolerance. During the year, the oversight of change risk was a central focus for the Committee, which challenged management on progress of both the portfolio and individual programmes.

Risk management and controls

The Committee monitored the Group's risk management and internal control systems, and reviewed their effectiveness. This covered all material risks, including financial, operational and compliance. The Committee reviewed the residual risk position after the operation of controls and considered the effectiveness of any associated mitigating actions and compensating controls. The monitoring and review by the Committee involved examining an assessment of the control environment and material controls at Group level, based on divisional risk and control self-assessments. These assessments had been subject to challenge by the Risk and Group Audit functions.

Material Risk Register

The Committee assessed the principal risks facing the Group, which are listed on pages 46 and 47. The Committee achieved this by reviewing and challenging the Group's Material Risk Register in the context of the Group's risk appetite and through consideration of the risk assessment contained in the Chief Risk Officer's report that was discussed at each scheduled meeting.

Assessment of risk behaviours and attitudes

The Committee reviewed the annual Assessment of Risk Behaviours and Attitudes undertaken jointly by the Risk and Group Audit functions, which covered areas including: tone from the top; decision-making; and risk management framework. The Committee discussed the outputs of the assessment, as well as areas for further improvement, seeking to ensure the appropriateness of the actions identified. The Committee also considered the activities of the Risk function in driving a good risk culture across the Group through mechanisms such as training and its internal communications strategy.

Additionally, the Committee considered other subjects in more detail at each scheduled meeting. These included: compliance and regulatory risk including oversight of the Group's regulatory relationships; operational risk; financial risk, solvency II and capital model; and risk governance.

Customer and conduct

The Group aims to make insurance much easier and better value for its customers by delivering on its commitments, fixing things when they go wrong and ensuring that fairness is a natural outcome of what the Group does. In order to help achieve these aims, the Customer Conduct Committee reviews, challenges and oversees customer and conduct matters across the Group. The purpose of the Customer Conduct Committee is to help ensure that the desired outcomes are achieved for the Group's customers. The Customer Conduct Committee's findings and any recommendations for improvement are provided to the Committee and Board on a regular basis.

The Committee reviewed and challenged reports relating to the Group's conduct towards its customers, seeking assurance that customer outcomes were fair and appropriate and to determine that the Group was operating within its defined conduct risk appetite, as set by the Board.

The Committee undertook a deep dive which focused on rating factors, governance and pricing practices. The Committee challenged management in order to gain assurance that the pricing principles and policies in place were fit for purpose and remained fair to customers. The Committee will monitor closely any changes to regulators' expectations.

Compliance and regulatory risk

During the year, the Committee considered the Group's compliance with regulatory requirements including conduct and financial crime. The Committee approved the annual Compliance Plan which sets out the compliance activities which will be undertaken in the coming year with the objectives of: (i) ensuring compliance; (ii) maintaining an open and co-operative relationship with regulators; and (iii) ensuring the Board and employees understand their regulatory responsibilities.

The Committee continued to monitor and challenge the Group's plans for compliance with the EU General Data Protection Regulation which came into force on 25 May 2018. Following its introduction, the Committee received assurance that the programme had successfully implemented the strategy for compliance and that activity to further enhance the programme would be built into the existing compliance strategy. The Committee reviewed and challenged the outputs from conduct and compliance assurance reviews, including in relation to solvency II compliance.

The Committee reviewed regular updates on regulatory developments and interactions, particularly in relation to the FCA and PRA. The Committee also reviewed the actions being undertaken to ensure compliance with the SM&CR, which included a comprehensive review of the Group's High Level Control and System of Governance Framework document and updating the detailed management responsibilities map. The regime, which came into effect on 10 December 2018, now covers employees who are considered to be performing functions which are of specific importance to the sound and prudent management of the firm. The Committee considered regular reports on the Group's actions to prevent financial crime, including reviewing the annual Financial Crime Report.

The Committee has closely monitored developments from the FCA and the Competition and Markets Authority's work on pricing practices and will remain apprised of the review throughout 2019 as well as of the actions which are being undertaken with the aim of ensuring that the Group continues to maintain fair pricing principles. These actions broadly fall into three categories: governance and accountability; oversight (including data and management information); and vulnerable customers.

Operational risk

The Committee continued to review and challenge IT controls, including those relating to IT systems' stability, cyber security and technology resilience. The Committee assessed the level of prevention, protection and detection controls in relation to cyber risk and the residual risk for each of the IT control areas, taking into account any compensating controls and/or mitigating actions. The Committee challenged the progress made in relation to technology risk, in particular to ensure that plans were in place to ensure the Group took action where IT hardware was due to reach the end of its useful life or would no longer be supported. The Committee also reviewed IT risk appetite statements to gain assurance that these were appropriate and in line with the overarching Group risk appetite.

The Committee received regular updates on the Group's multi-year transformation programmes. The Committee received detailed updates following external reviews of the programmes and challenged management on the progress which had been made so far, as well as on the plans going forward. The Committee continued to monitor and examine the oversight and challenge of the major change initiatives by the Risk function and reviewed the outputs of the assurance work undertaken by the Risk function and Group Audit.

The Committee also considered operational risks and controls in respect of third-party suppliers, operational resilience and offshoring, with the aim of ensuring that these risks were being managed appropriately by management and actions taken where necessary.

Financial risk

At each meeting, the Committee monitored the Group's performance against its capital risk appetite through the Chief Risk Officer's report. Committee members considered financial risks in the strategic plan against risk appetite. Committee members also reviewed and challenged the ORSA process and key content before the report was submitted for approval to the Board. Committee challenges on elements of the ORSA during the year included those in relation to stress testing of the strategic plan, pricing and underwriting risk, internal model validation activity and the appropriateness of contingent management actions.

The Committee reviewed and challenged the stress and scenario testing plan prioritising the importance of certain scenarios. The Committee also examined the outputs of the budget stress tests and the associated management actions, where necessary, required to keep the Group within capital risk appetite.

Throughout the year the Committee received reports on the internal model, including independent validation results and the internal model owners' report. This outlined the scope of the capital model, key outputs, risk drivers, significant parameters, expert judgements and key assumptions. The Committee challenged management on the assumptions in relation to the reinsurance decision-making process in the context of the Group's risk appetite as a result of reviewing the internal model owners' report.

Risk governance

Every year, the Committee reviews and approves the Enterprise Risk Management Framework, which includes details of the Group's Policies and Minimum Standards. The Committee reviewed and challenged each Group Policy as part of the Group's solvency II requirements and recommended them for approval by the Board. The Committee also considered the results of the annual Group assessment of the effectiveness of the internal control environment undertaken by each business division, as well as monitoring controls on an ongoing basis.

The Committee considered, challenged and approved the Annual Risk and Compliance operational plan and the adequacy and objectivity of the Risk function's resources.

Whistleblowing

The Committee reviewed the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ("**whistleblowing**"). The Committee also reviewed reports relating to whistleblowing including individual cases, anonymised to ensure arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The Committee probed management and was satisfied that the whistleblowing process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements.

Anti-bribery and corruption

Annually, the Committee considers an anti-bribery and corruption report, which includes an annual risk assessment of the level of anti-bribery and corruption risk to the Group. Following review and challenge, the Committee was satisfied that the Group's policies and procedures on anti-bribery and corruption were fit for purpose and that anti-bribery and corruption risks were managed appropriately.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2018 it received sufficient, reliable and timely information to perform its responsibilities effectively.

In addition to monthly one-to-one meetings with the Chair, the Chief Risk Officer also met privately with the Committee without management being present.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 4 March 2019.

Jane C Hanson.

JANE HANSON
CHAIR OF THE BOARD RISK COMMITTEE

Nomination Committee report

Membership, attendance and responsibilities of the Committee can be found on pages 67 and 68.

MICHAEL BIGGS
CHAIR OF THE NOMINATION COMMITTEE

Areas of focus in the reporting period

- During 2018, the majority of the Committee's time was devoted to monitoring and recommending changes to the composition of the Board and its Committees. The Committee led the recruitment of three independent NEDs and reviewed the skills and experience that the Board needs to be able to challenge and support senior management in developing and executing the Group's strategy.
- Following the announcement that Paul Geddes will be stepping down as CEO of the Group in the summer of 2019, the Committee launched an internal and external search for his successor.
- With the aim of improving gender and other diversity in the Group's senior management, the Committee continued to encourage management to grow its talent pipeline, both by developing existing employees and by hiring new talent. This is being achieved by the systematic assessment of potential, bespoke personal coaching and development plans for high-potential employees.

Main activities during the year

CEO succession

At the time of the announcement that Paul Geddes would step down as CEO in the summer of 2019, the Committee revisited the succession plan for the Board and launched the process of identifying his successor, which included refreshing the role profiles, taking into account the Group's medium and long-term strategic and cultural leadership requirements, and the selection and appointment of external executive search specialists.

The Committee appointed MWM Consulting, which is a signatory to the Volutary Code of Conduct for Executive Search Firms, to lead the search and engaged Egon Zehnder and YSC Consulting to assist with the evaluation of the candidates. The appointed specialists have no other connection to the Company. The Committee considered a diverse long list prepared by MWM and, having agreed a shortlist, interviewed a number of internal and external candidates. Following a thorough interview and assessment programme and having obtained regulatory approval, the Committee recommended Penny James as its preferred candidate. The Board accepted the recommendation and agreed to appoint Penny as Chief Executive from the conclusion of the AGM on 9 May 2019. The decision was announced on 26 February 2019. The Company has launched the search for a new CFO.

Board composition

During the year, the Committee: considered the Board's skills and experience; reviewed the structure, size and composition of the Board; reviewed the membership and chairmanship of the Board's Committees; and reviewed NEDs' letters of appointment, terms of appointment and time commitment.

The letters of appointment for the Chairman and NEDs set out the time the Group anticipates that they will commit to their roles. This is at least three days a week for the Chairman and an average of three days a month for the other NEDs depending on business needs.

The Committee guides management in executive succession planning. Further information on how the Group develops our talent pipeline can be found on page 73.

Board and Committee changes

On 1 March 2018, Mark Gregory and Gregor Stewart joined the Board as NEDs and Penny James assumed responsibility as Chief Financial Officer. John Reizenstein and Andrew Palmer retired from the Board following the conclusion of the 2018 AGM and, on 1 September 2018, Fiona McBain joined the Board as a NED.

The Committee monitors the membership of the Board's Committees to ensure that each Committee has a suitable balance of skills as well as taking into consideration the length of service of the members.

Following the conclusion of the 2018 AGM, it was agreed that Gregor Stewart be appointed as Chair of the Audit Committee and a member of the Risk Committee. Mark Gregory was appointed Chair of the Investment Committee and a member of the Audit Committee and Penny James was appointed as a member of the Investment Committee. Danuta Gray was appointed Chair of the Remuneration Committee in place of Clare Thompson. Clare remained a member of the Committee.

Board appointment process

The Committee is responsible for reviewing and recommending to the Board any changes as necessary. During the year, the Committee oversaw the formal, rigorous and transparent process which resulted in the appointments of Mark Gregory, Gregor Stewart and Fiona McBain as NEDs.

For each of their appointments, the Committee produced a detailed brief setting out the required skills and experience of preferred candidates which included significant financial services, coupled with audit or risk, experience. The brief was shared with executive search agencies and the Committee agreed to engage Egon Zehnder, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, and has no other connection to the Company, to conduct the searches.

Egon Zehnder prepared a list of candidates of appropriate merit from diverse backgrounds for each of the positions. The Committee agreed a shortlist for the roles and a series of interviews took place. Once the preferred candidates had been identified and had given their consent to act as Directors, and following regulatory approval, the Committee recommended the appointment of Mark Gregory, Gregor Stewart and Fiona McBain to the Board subject to regulatory approval.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2018 AGM, the Committee reviewed the independence of NEDs and concluded that all NEDs met the criteria for independence set out in the Code. Mike Biggs was independent when he was appointed as Chairman.

Jane Hanson and Mike Biggs have served on the Board for longer than six years and, in accordance with the Code, the extension of their terms of appointment has been the subject of a particularly rigorous review by the Committee. Mike Biggs, as Chairman of the Board and Chair of the Committee, was not involved in his own review.

The Board is satisfied that Jane and Mike remain independent in judgement and character, that they continue to make a significant contribution to the Board and its Committees, and that they provide valuable continuity to the Board. The Committee recommended to the Board and shareholders that all serving Directors be submitted for election or re-election at the Company's 2018 AGM, with the exception of Andrew Palmer and John Reizenstein, who had decided to step down at the conclusion of the AGM.

As announced on 5 March 2019, Clare Thompson has decided, after serving as a NED for over six years, to step down from the Board at the conclusion of the AGM on 9 May 2019 and, accordingly, will not be submitting herself for re-election.

Diversity

The Board believes that an effective board with a broad strategic perspective embraces a diversity of gender, race, skills, experience, as well as regional, socio-economic, educational and professional background, among other differences. In its search for candidates, the Board aims only to engage with executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms.

In March 2018, the Board adopted a Diversity Policy which sets out the Board's approach to diversity and is available on the Company's website. This policy, which is annually reviewed and monitored by the Committee, is presented to any executive search firm during the selection and appointment process for Board positions. Further information on the Board Diversity Policy and the Group's diversity initiatives can be found in the Corporate Governance report on page 73.

The Board supports the targets set in the Hampton-Alexander Review. As at the date of this report, female representation on the Board was 42% (2017: 36%). The Board remains committed to progressing women into senior roles and aims to increase female representation at executive level through associated development programmes for high-potential females.

The Board also supports the recommendations set out in the Parker Review. It is the Board's ambition to increase cultural and ethnic diversity on the Board by 2021.

The Board reviewed and approved this report on 4 March 2019.

MICHAEL N BIGGS
CHAIR OF THE NOMINATION COMMITTEE

Corporate Social Responsibility Committee report

Membership, attendance and responsibilities of the Committee can be found on pages 67 and 68.

SEBASTIAN JAMES
CHAIR OF THE CSR COMMITTEE

Areas of focus in the reporting period

- The Committee focused on Shotgun, the Group's CSR initiative, aimed at reducing young driver accidents, and noted encouraging evidence that use of the Shotgun app was having a measurable positive influence on young drivers' driving behaviours.
- During the year, management introduced a new initiative to realign Group charitable giving with a single cause: mental health. The Committee supported management in its collaboration with MIND and its partner charity, the Scottish Association for Mental Health.
- The Committee was delighted to see increases in employee engagement scores across the Group, as measured by the annual employee survey and the 2019 Sunday Times list of the 25 Best Big Companies to Work For, in which the Group achieved third place.
- The Group's target for reducing energy usage is 30% by 2020 against a baseline established in 2013. The Committee noted that, in 2018, the Group's energy usage had decreased by 2% compared to 2017, bringing the total reduction against the 2013 baseline to 20%.

Main activities during the year

The Committee monitors the implementation of the Group's CSR strategy through regular updates on the different focus areas and challenges the robustness of, and progress against, targets relating to each strand of the CSR strategy. The Committee also ensures that best practice and thinking across the market are considered as part of the Group's own CSR approach.

The Group launched a new CSR strategy for 2018 which focused on two overarching goals: 'Protecting Britain's road users' and 'Reflecting an ever-changing Britain'. Information on the key strategies for these goals is set out below.

Stop deaths now

During the year, the Committee received regular progress updates on Shotgun. The Committee was pleased that, since its inception in 2015, there had been more than 27,000 downloads of the Shotgun app and 79% of users had experienced an improvement in their overall driving scores. You can find further details on Shotgun in the Responsibility Report on page 54.

Shape the future

During 2018, the Committee monitored the 'shape the future' strategy, which aims to influence the future road safety framework through strategic partnerships. The Committee supports the Group's three-year programme with the road safety charity, Brake, to produce a series of topical survey reports on driver behaviour and attitudes, and the Group's work with the Parliamentary Advisory Council for Transport Safety to investigate whether the lack of seat belt use is leading to road casualties.

Build an inclusive culture

Throughout 2018, the Committee reviewed management's initiative to build an inclusive culture through diversity and inclusion. The Committee supported management's plans to focus on wellbeing and mental health. Priority areas during 2018 included: extending the roll-out of mental health training to all people managers; providing access to resilience workshops and webinars for all employees; and introducing Mental Health First Aiders on every floor of every site to be points of contact for employees who are experiencing a mental health issue or emotional distress.

During the year, management updated the Committee on key statistics in relation to the Group's gender pay gap, and on the work being undertaken to increase the number of women in senior roles. This included the introduction of a progression focused support programme for high-potential females, new recruitment methods for attracting and retaining female talent and the launch of the 'Thrive' initiative, a support community aimed at inspiring the Group's female colleagues. Further details on diversity can be found in the Corporate Governance report on page 73.

The Committee recognises the importance of maintaining the highest standards of ethical conduct and behaviour in our business practice and in the workplace. The Committee examined the content and effectiveness of the Group's Code of Business Conduct to ensure that it reflected the Group's position in relation to CSR and diversity and inclusion.

Support our community

The 'One Day' volunteering initiative, which gives employees paid leave to volunteer in their local community, continued to be an area with great impact. The Committee was pleased to hear that 28% of the Group's employees engaged in some form of volunteering or fundraising activity in Company time during 2018.

The Committee also reviewed the Group's policy on compliance with the Modern Slavery Act 2015 and how third-party suppliers complied with the Act's requirements.

The CSR strategy considers energy use, waste management and resource use within the Group's operations, and environmental and social matters in the Group's supply chain. The Committee reviewed and supported the key 2018 objectives relating to the replacement of relevant plant and equipment at office locations with more energy-efficient equipment, the optimisation of the Building Energy Management System, the introduction of a scheme in the Group's Bromley office to recycle coffee cups and the implementation of further energy saving opportunities in the Group's auto repair centres.

Additional CSR activities

The Committee reviewed and challenged management on key CSR developments and emerging risks throughout 2018. The Committee also monitored and scrutinised the extent and effectiveness of the Group's external reporting of CSR performance, including through preparation for CSR-related questions at the 2018 AGM and engagement with proxy voting advisers regarding CSR-related feedback. The Committee continues to monitor management's evaluation of CSR matters in the context of ESG reporting to ensure that the Group's external CSR position is consistent and appropriate.

The Committee continues to challenge management's approach to CSR initiatives to ensure that it is both authentic and strategic, and that management continues to focus on initiatives with real potential to improve lives.

The Board reviewed and approved this report on 4 March 2019.

SEBASTIAN JAMES
CHAIR OF THE CSR COMMITTEE

Investment Committee report

Membership, attendance and responsibilities of the Committee can be found on pages 67 and 68.

MARK GREGORY
CHAIR OF THE INVESTMENT COMMITTEE

Areas of focus in the reporting period

- Throughout the year, the Committee kept under review the economic and financial implications of the UK leaving the EU. The implications of an orderly transition and 'no deal' exit were considered.
- The positioning and asset holdings in the investment portfolio and the need to balance risk and reward were considered in light of the potential Brexit outcomes.
- An investment framework which included an ESG lens for the Group's investment grade credit portfolios was developed and adopted.

Main activities during the year

Brexit

One of the principal risks considered by the Committee during 2018 was the economic and financial market implications of the UK leaving the EU. For planning purposes, in view of uncertainty about the progress of negotiations with the EU, the implications of both an orderly transition and a 'no deal' exit had to be considered.

Against this background, the Committee considered papers and reports which examined current portfolio diversification, portfolio positioning (duration, liquidity) and the possible range of changes in asset valuations that could be experienced under the orderly transition and 'no deal' exit scenarios. The Committee also debated the benefits of hedging strategies to mitigate changes in asset valuations in addition to the investment portfolio's existing defensive orientation.

The Committee's view was that the positioning and asset holdings within the investment portfolio were proportionate to the need to balance risk and reward. The Committee noted the likelihood of higher cash balances at the end of 2018, reflecting existing defensive positioning within the portfolio and a decision taken in November to not reinvest sterling bond maturities in the short term while monitoring market reactions to the development of a Brexit solution. The Committee's conclusions were reported to the Board during its discussions on the wider implications of Brexit on the business operations and capital position of the Group.

Sustainable investing

At the April and July meetings of the Committee, a framework for including an ESG lens into investment decision-making for the investment grade credit portfolios was debated and agreed.

The Group's future investing framework will incorporate a focus on ESG-weighted indices which will tilt the composition of the portfolio towards higher holdings and weightings of issuers with strong ESG scores. Investment managers will be encouraged to invest more in 'green' bonds where such bonds are available and of comparable credit quality. Limited negative screening will be applied and investments will not be made in companies which carry out activities which the Committee does not consider appropriate.

During the first half of 2019, the changes are expected to be reflected in investment decision-making across all relevant credit portfolios.

Market developments

At each scheduled meeting, the Committee received a market update from the Director of Investment Management and Treasury. The updates covered: economic conditions in the UK, the US and the Eurozone; market levels for key asset classes (notably credit); the outlook for interest rates and inflation; and developing issues viewed as appropriate to be brought to the attention of the Committee. The impact on assets of developments in international trading relations and the weakness of the retail sector were of particular note during 2018. The Committee also monitored the continuing development of interest rate policies set by the Bank of England and the US Federal Reserve and the impact on the hedged yields of US Dollar credit assets held in the portfolio.

Suitability of investment strategy

An annual asset and liability management study and a stressed liquidity analysis were presented to the Committee, informing strategic benchmark allocations and providing part of the context for the addition of new asset classes or exiting a present holding. The Committee approved a small reduction in US credit exposure, a reduction in overall access to liquidity required over a three-month horizon and increases in exposure to commercial real estate loans and Euro credit.

Monitoring investment activity and performance

The Committee received a comprehensive report at each scheduled meeting covering: the financial results from investment activity; aggregate portfolio positioning against strategic benchmarks; performance of each individual portfolio against benchmark; adherence to operational controls; performance of suppliers; and compliance with an agreed framework of risk limits. The Committee invited the managers responsible for the commercial real estate loans portfolio and the infrastructure debt portfolio to present updates on their respective portfolios. The Committee also examined a proposal by management to reduce investment fees through the appointment of a core external asset manager, under whom a number of investment mandates would be consolidated. The Committee met the recommended manager to determine the adequacy of their skills and resources to meet the expanded role towards the end of the year. The Committee was also updated on the change in categorisation of money market funds (used by the Group for cash investments) as the funds move to comply with EU money market reform regulation.

The Board reviewed and approved this report on 4 March 2019.

MARK GREGORY
CHAIR OF THE INVESTMENT COMMITTEE

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.

Dear shareholders,

I am pleased to introduce my first Directors' Remuneration Report as Chair of the Remuneration Committee ("the Committee"), for the 2018 financial year. I would like to thank Clare Thompson for her stewardship of the Committee over the last few years.

At Direct Line Group we believe that Directors should be paid fairly for the job they do and the results that they generate. 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 Board with sufficient 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.

In this letter I introduce the items that I think are important or new in the Directors' Remuneration Report. The report is set out in the following sections:

Section	Page
Remuneration at a glance – summarising the remuneration arrangements for Executive Directors	92 to 93
Annual report on remuneration – detailing pay outcomes for 2018 and covering how the Group will implement remuneration in 2019	94 to 113
Summary of policy approved at the 2017 AGM	114 to 117

The Remuneration Policy which covers the 2018 report was approved, by a substantial vote in favour of the policy at the AGM in May 2017. Consistent with the regulations, the Directors' Remuneration Policy is next due to be submitted to the Company's AGM for approval in 2020.

Pay outcomes for 2018

All-employee pay in 2018

We could not be successful without the hard work and dedication of our talented people, at all levels of the organisation. It is important to us that we ensure all our people are rewarded fairly and have an interest in the success of the Group.

In 2018 we focused our pay budget specifically on those in lower paid roles, ensuring that all employees with satisfactory performance received a pay increase of at least £650. We also increased minimum salaries across the Group to £17,000 or £18,000 (depending on contracted hours), which were adopted for all roles except apprenticeship schemes. This meant that the average pay increase for employees below Senior Leadership was around 3.2%, but was around 5% for our lowest paid frontline roles. Our minimum salaries were positioned approximately 6% above the Living Wage Foundation rate for non-London roles, and approximately 18% higher than the Government's National Wage at the time.

We want our employees to have ownership of the Group and its success, and in 2018 we issued our fourth all-employee free share award since our IPO. Outside our Senior Leadership, 86% of our people own shares in the Company, thus ensuring alignment at all levels between the work they do and the success in which we share.

Annual Incentive Plan

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 £583 million. For the purpose of the financial element of the Annual Incentive Plan, the profit before tax target excluded the budgeted reserve release related to the expected Ogden discount rate change. The actual profit before tax consequently differed from the statutory IFRS basis by excluding the actual Ogden discount rate related releases made in 2018. The out-turn was slightly ahead of the target leading to a pay-out of 64% of maximum for this element.

Performance across the People measures was particularly strong for the year and the Committee awarded a maximum out-turn for this element. The Customer measures were assessed as being on target. The Committee is pleased to report this year that management have made significant progress on the technology transformation agenda on which the Personal objective was measured, and awarded an out-turn of 70% for this element. Full details on the outcomes for the year are included on pages 96 – 99.

We therefore awarded bonuses of 68% of the maximum to the Executive Directors. In line with the Remuneration Policy, 40% of any AIP award is automatically deferred into a Deferred Annual Incentive Plan award.

Review of the impact of the Ogden discount rate change on the 2016 AIP out-turn

You may recall that, at the time of the approval of the 2016 AIP out-turn, the Government had just announced a change in the Ogden discount rate which materially impacted the financial results for 2016. To align the 2016 AIP out-turn with shareholders, the Committee significantly reduced the AIP out-turn from an anticipated maximum pay-out for the financial element (based on the indicative range used by the Committee for its assessment) to 10% out of the 55% of total bonus opportunity attributable, an approach more conservative than many of the Group's competitors. The government, at the same time, announced that a review of the rate setting mechanism would be undertaken. Given these exceptional circumstances, the Committee agreed to keep its assessment of the 2016 AIP outcome under review to enable the Committee to recalculate the out-turn for the 2016 financial year if the Ogden discount rate was raised or the mechanism for setting it was changed.

On 20 December 2018 the Civil Liability Act passed into law which confirmed the new process for the setting of the Ogden discount rate. Following the introduction of the new rate setting process, the Group considered the Ogden discount rate it uses to calculate its liabilities which led to an increase from minus 0.75% to 0% (pending the Government publishing the final rate which will be set by the middle of 2019 at the latest).

The application of this new discount rate led to a reserve release of £55 million which, together with an earlier associated release in 2017 of £49 million, totalled £104 million of the £217 million originally charged in 2016 as a result of the Ogden rate change.

Following the commitment made by the Committee (and disclosed in the 2016 Remuneration Report), the Committee considered the impact of the Ogden-related reserve releases made since February 2017 in terms of the impact on the 2016 AIP out-turn. Had they been attributed to the 2016 financial year, this would have resulted in a maximum pay-out for the financial element of the AIP and a potential increase to 2016 bonuses of up to 45% of maximum. The Committee reviewed this result in the context of balancing the desire to ensure the outcome was fair to participants while being appropriately aligned with the shareholder experience. In striking this balance it concluded that it was appropriate to make an overall increase of 20% to the bonus payment for 2016 (below the 45% formulaic calculation).

This led to additional payments in March 2019 for Paul Geddes, Mike Holliday-Williams and John Reizenstein for the 2016 AIP. All payments have been made in accordance with the normal policy with 40% deferred into the Group's shares which will vest on the third anniversary of award (March 2022).

Finally, the Committee noted that the Ogden rate change in February 2017 was exceptional in that there had not been a change for over 10 years. Now that the new rate setting mechanism has been implemented, the Committee considers that the impact of future Ogden discount rate changes to be part of the normal management of reserves and so it is unlikely in the normal course of events that special allowance will be made in the AIP out-turn for a change in Ogden discount rate.

Long Term Incentive Plan

The LTIP has two performance measures: RoTE (60% of the total award) and relative TSR (40% of the total award). Awards under the LTIP granted in March and August 2015 vested during 2018.

The Group achieved an average RoTE of 18.1% over 2015, 2016 and 2017 resulting in 100% of the maximum potential vesting of the RoTE element for both awards (60% of the total awards).

The TSR performance periods 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). For the March 2015 award the TSR performance was positioned between the median and the upper quintile against its comparator group which resulted in 62% of the maximum potential vesting for this element (24.8% of the total award). Accordingly, this gave a total vesting outcome of 84.8%. For the August 2015 award, the TSR performance was below the threshold requirement of median and therefore no shares vested under this measure. Subsequently the overall vesting outcome for this award was 60%.

Awards under the LTIP granted in March and August 2016 are due to vest during 2019, 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 2018. The three-year average RoTE performance for 2016, 2017 and 2018 was 18.5% against a maximum target of 17.5%. Awards under the RoTE element are, therefore, due to vest at 100% of the maximum potential.

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 ongoing enhancement to earnings expected in future years has been explicitly recognised by the Committee in setting higher targets than would otherwise be the case.

Consistent with the regulations, due to the different timings of the performance periods for RoTE and TSR, the TSR element of the 2016 awards due to vest during 2019 will be reported separately next year. Accordingly, we have included an estimated value of the RoTE vesting outcomes for 2016's awards plus the TSR vestings from the 2015 awards in the single figure remuneration table for 2018 for the Executive Directors.

UK Corporate Governance Code 2018 and the new CEO pay ratio disclosure

There have been several changes to the UK Corporate Governance Code which affect the remit of this Committee: communication with employees about Directors' remuneration (in addition to the workforce consultation requirements); policy on post-employment shareholding requirements; and the alignment of pension contributions for Directors to those of the workforce. The Committee worked hard to be in compliance with these requirements for when they came into effect on 1 January 2019 and the Committee will report details on how we have met these requirements in our 2020 report. We have also chosen to adopt early the new disclosure requirements on the CEO's pay relative to the wider workforce as part of our efforts to strengthen the transparency in our approach to the alignment of Directors' pay with that of the wider workforce.

Approval of the Directors' Remuneration Report for 2017 at the AGM in May 2018

At the Direct Line Group plc AGM held in May 2018 the resolution approving the Directors' Remuneration Report was passed by 76.6% of the votes cast in favour of the resolution. The resolution, which only required a simple majority to be approved and is advisory in nature, was therefore convincingly approved by shareholders. However, this was significantly lower than the percentage of votes in favour of resolutions that the Company has historically received and as a result the Group have been included on the Investment Association's register of companies that have more than 20% of votes cast against a resolution at a general meeting. All of the remuneration arrangements described within the 2017 report were in line with the Remuneration Policy approved by shareholders at the AGM in 2017. The main issue raised by some of the proxy voting agencies on the Remuneration Report was the increase in remuneration for the new Chief Financial Officer compared with that of her predecessor. Consequently, the proxy voting agencies recommended an automatic vote against the Remuneration Report in 2017.

The Board carried out a thorough recruitment process and identified Penny James as the ideal candidate for the role: after considering the needs of the Group, the role and her experience, the Committee agreed to match the remuneration from her previous employer to secure her services. The Board was satisfied that Penny was the right person for the job and this was considered the only way to bring Penny into the organisation. The Committee Chair and the Board Chair engaged with shareholders to understand any concerns. Shareholders were supportive of the decisions that the Board and Committee had made and understood the reasons for them. Engagement with investors in relation to remuneration will continue with regards to new appointments to the Board.

Approach to pay in 2019

No change to the overall approach to pay is anticipated for 2019. The updated Remuneration Policy will be put to shareholders in 2020.

The MD Personal Lines will be awarded a salary increase of 2.25% from 1 April 2019 in line with the average rate for staff generally. The Committee is satisfied that the increase is warranted based on his performance and the role he performs.

No increase will be awarded to the CEO in view of the fact that he will be leaving the Group during 2019.

The CEO-designate will not receive a salary increase before her appointment as CEO on 9 May 2019 (see below).

No change will be made to either the weightings or the approach to assessment of the metrics under the AIP.

We are not proposing any changes to the performance conditions for the 2019 awards under the LTIP. Likewise the target RoTE scale of 17.5% to 20.5% will remain at the same level as in 2018 and reflects an appropriate performance range in the context of the Group's planned underlying RoTE performance.

Chief Executive Officer

On 26 February 2019, Penny James, the current CFO, was appointed to succeed Paul Geddes as Chief Executive Officer and will become the CEO from the conclusion of the AGM on 9 May 2019. Paul will step down from the Board following the AGM on 9 May 2019 and will leave the Group at the end of July 2019.

In setting Penny's remuneration, we benchmarked her salary against the FTSE 51-100 and positioned her salary below the current CEO's salary level. There will be no change to her participation in the Company's AIP up to a maximum of 175% of salary and the LTIP up to 200% of salary. We have however taken the opportunity to set Penny's pension contribution at 9% of salary (reduced from the existing pension contribution rate of 25% of salary), in line with that of the wider workforce which will be our policy for all new Executive appointments. The Committee will be considering the reduction of pension contribution for all Executive Directors as part of the remuneration policy review during 2019. The details of Penny's remuneration, which will take effect from 9 May 2019, are set out on page 112.

Any payments relating to Paul Geddes' departure will be in accordance with the Remuneration Policy approved by shareholders at the Company's 2017 AGM and will be disclosed in the Directors' Remuneration Report to be contained in the Company's Annual Report and Accounts for the year ending 31 December 2019.

Advisers to the Committee

During the year, the Committee appointed PwC as its independent adviser from 1 January 2019. FIT Remuneration Consultants LLP have been advisers to the Remuneration Committee since the time of the IPO in 2012 and therefore the Committee felt it was appropriate to seek a change of adviser at this time. On behalf of myself and the Committee I wish to extend our thanks to FIT, and John Lee in particular, for their support and counsel over the past years.

Your AGM vote

I hope that having read the information in this report, and considering the performance of the Group during 2018, you will vote in support of the Remuneration Report at the AGM. Should you have any questions about my Committee's report please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or my team will respond to you.

Yours sincerely

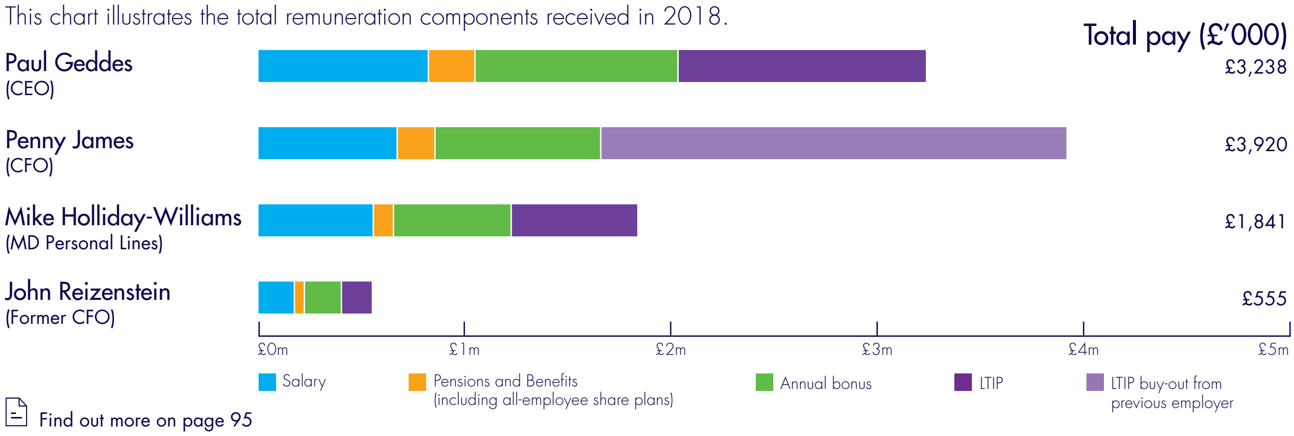
DANUTA GRAY
CHAIR OF THE REMUNERATION COMMITTEE

Remuneration at a glance

Remuneration outcomes for 2018

Executive Directors' total pay

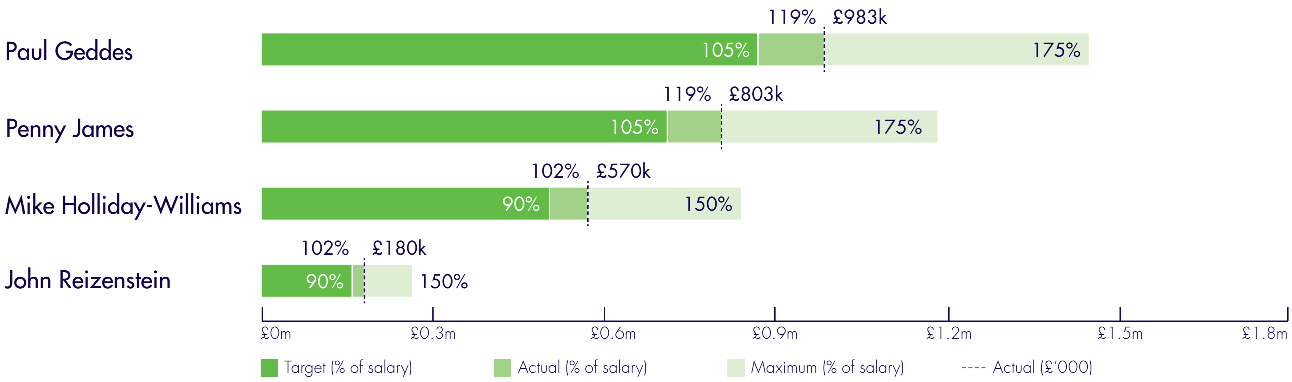
This chart illustrates the total remuneration components received in 2018.



Find out more on page 95

AIP achievement

This chart illustrates the actual amounts earned from the AIP and reflecting performance in 2018. 60% of the amount is payable in March 2019 and 40% will be deferred into shares for three years.

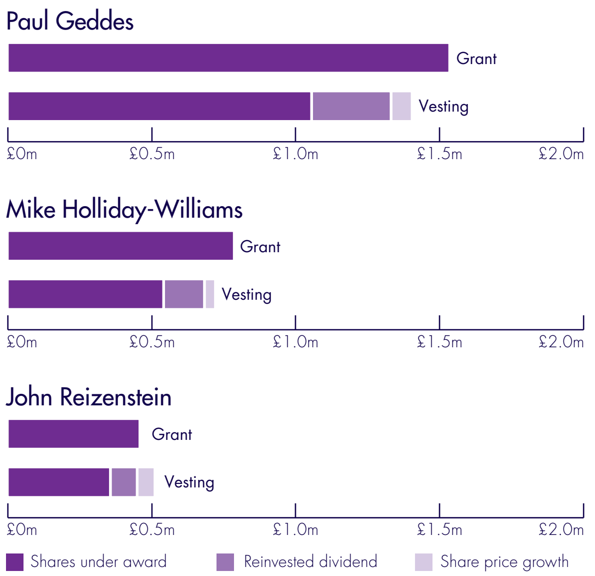


Find out more on pages 96 – 99

LTIP

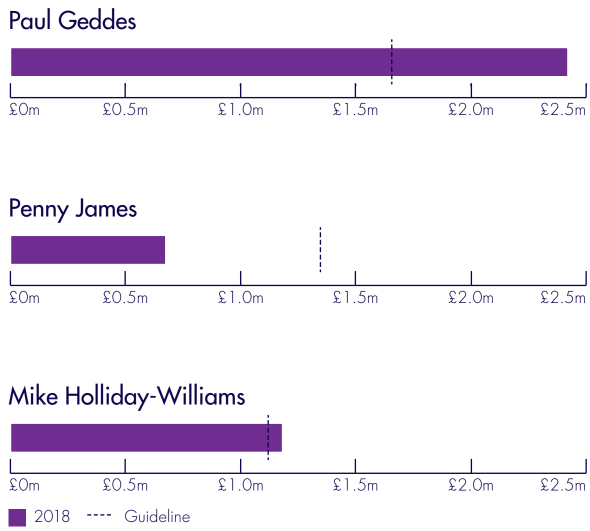
Release of value

This chart illustrates the total value of the 2015 LTIP awards that vested in 2018.



Shareholding at year end

This chart illustrates the number of shares held at the end of 2018 by the Executive Directors against the share ownership guidelines of 200% of salary.



Find out more on pages 100 – 101 and 105

Implementing the policy in 2019

Key feature	Implementation in 2019
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	– No salary increase for the outgoing CEO – CEO-designate salary to increase to £800,000 (effective from appointment on 9 May 2019) – No salary increase for the CEO-designate at 1 April – New CFO to be appointed – 2.25% salary increase for the MD Personal Lines to £575,242
Pensions	
– CEO and CFO contribution rate of 25% of salary – MD Personal Lines contribution rate of 15% of salary	– CEO-designate pension contribution to be reduced to 9% of salary (effective from appointment on 9 May 2019) – New CFO to be appointed – The pension contribution rate will be in line with that of the wider workforce for all new Executive Director appointments – The reduction of pension contribution for all Executive Directors in line with that of the wider workforce will be considered as part of the policy review during 2019
Annual Incentive Plan	
– Maximum opportunity of 175% of salary for the CEO and the CFO, and 150% for the MD Personal Lines; 40% of the award is deferred into shares, typically vesting after three years and subject to continued employment – At least 50% of bonus is based on financial measures. The Committee considers various non-financial and strategic performance measures. It bases its judgement on the payment outcome at the end of the performance period on its assessment of the level of stretch inherent in targets – Any payment is subject to an additional gateway assessment, including assessing risk factors – Malus and clawback conditions apply	– No change to the maximum opportunity – No change to the weightings or measures used for 2019 – The targets are commercially sensitive and will be disclosed in next year's report.
Long-Term Incentive Plan	
– Awards typically granted as nil-cost options – Awards typically granted every March and August at half the annual level – The Plan allows for awards with a maximum value of 200% of base salary per financial year – Performance is measured over three years and determined by RoTE and relative TSR measures – Awards vest subject to financial underpin and payment gateway – Malus and clawback conditions 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 – A RoTE target range of 17.5% to 20.5% is required for the 2019 awards to vest

Find out more on page 114

Statutory remuneration report

Introduction

We have prepared this remuneration 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 Financial Conduct Authority, and describes how the Board has complied with the principles and provisions of the UK Corporate Governance Code relating to remuneration matters. Remuneration tables subject to audit in accordance with the relevant statutory requirements are contained in the annual Remuneration Report and stated to be audited. Unless otherwise stated, the information within this Directors' Remuneration Report is unaudited.

Annual remuneration report

Remuneration Committee members and governance

The following list details members of the Remuneration Committee during 2018. You can find information about each member's attendance at meetings on page 67. You can find their biographies on pages 62 to 64.

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

Notes:
1. Danuta Gray was appointed as Chair of the Remuneration Committee with effect from 10 May 2018.
2. Andrew Palmer stepped down from the Board with effect from 10 May 2018.

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 pay-outs under incentive plans, and whether it is appropriate to operate malus and clawback. The Chair of the Board Risk Committee attended Remuneration Committee meetings on two occasions. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee retained FIT Remuneration Consultants LLP ("**FIT**") as its independent adviser until the end of 2018. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct. The Committee appointed FIT when preparing for the IPO.

During the year, FIT 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. FIT did not provide the Company with other services. The Committee is satisfied that the advice FIT provided was objective and independent.

FIT's total fees for remuneration-related advice in 2018 were £110,349 exclusive of VAT. FIT charged its fees based on its standard hourly rates for providing advice.

Following a competitive tender process, the Committee appointed PwC as its independent adviser from 1 January 2019. PwC is a member of the Remuneration Consultants Group and, as such, operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice received is objective and independent. PwC also provides other advice to the Group covering accounting, tax and immigration services. The total fees (charged on an hourly basis) for the provision of remuneration advice to the Committee in relation to the 2018 financial year were £8,000 exclusive of VAT.

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 2018 performance

Single figure table (Audited)

	Salary[1]		Benefits[2]		Annual bonus[3,6]		Long-term incentives[4,7,8]		All-employee share plans[5]		Pension		Total	
£'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Paul Geddes	826	807	19	18	983	1,242	1,204	1,770	–	–	206	202	3,238	4,039
Penny James[9]	675	113	14	2	803	1,014	2,259	532	–	–	169	28	3,920	1,689
Mike Holliday-Williams[10]	559	501	14	13	570	721	614	851	–	–	84	75	1,841	2,161
John Reizenstein[11]	177	488	4	9	180	644	150	1,071	0.3	1	44	122	555	2,335

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 value of benefits in the table above includes all taxable benefits received.
3. Annual bonus – includes amounts earned for performance during the year, but deferred for three years under the DAIP. For more information, see page 106. These deferred awards are not subject to any conditions, except continuous employment. However, awards remain subject to malus and clawback.
4. 2015 LTIP awards RoTE – the expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2015 and reported in 2017 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £3.75300 and £3.34400 on 25 March 2018 and 26 August 2018 respectively, compared to the three-month average share price of £3.65557 used in reporting this figure in the 2017 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 decrease of approximately £292,700 for Paul Geddes, £177,160 for John Reizenstein, and £149,439 for Mike Holliday-Williams with a corresponding decrease of the single figure for 2017 reflected in the table above. Further information on LTIP awards can be found on pages 107 to 108.
5. SIP – includes the value of matching shares under the SIP.
6. The 2017 annual bonus figure for Penny James includes a payment of £840,841 made in lieu of the bonus forfeited at her previous employer and is pro rated for the period 1 January to 31 October 2017 (before Penny joined the Group). This is in line with the estimated payment shown in last year's report and therefore this figure has not been updated.
7. The 2017 estimated long-term incentive figure for Penny James in respect of the first tranche of her buy-out awards, which vested in May 2018 and which was reported in 2017, has been updated. This value is based on an actual level of vesting of 95.835% and the share price on 2 May 2018 of £3.658. Details of this award are disclosed on page 109.
8. The 2018 long-term incentive figure for Penny James relates to an estimated amount in respect of the second and final tranche of her buy-out awards, disclosed on page 109, which vests in April 2019. The award is 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. The value of this award is based on an expected level of vesting of 97.335% and a three-month average share price to 31 December 2018 of £3.20042. The actual vesting outcome will be confirmed in next year's report once actual performance and the vesting date share price are known. Further details are set out on page 101.
9. Penny James was appointed to the Board on 1 November 2017 and also became employed on that date.
10. Mike Holliday-Williams was appointed to the Board on 1 February 2017. His salary, benefits and pension for 2017 have been pro rated accordingly.
11. John Reizenstein stepped down from the Board at the AGM on 10 May 2018. His remuneration for the purposes of this table has been pro rated accordingly, with LTIPs vesting by reference to performance conditions met while he was on the Board in 2018. Details of John's salary, pension and benefits paid following his cessation as an Executive Director on 10 May 2018 until the date of his retirement on 7 September can be found on page 112.

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.

2016 single figure table restated (Audited)

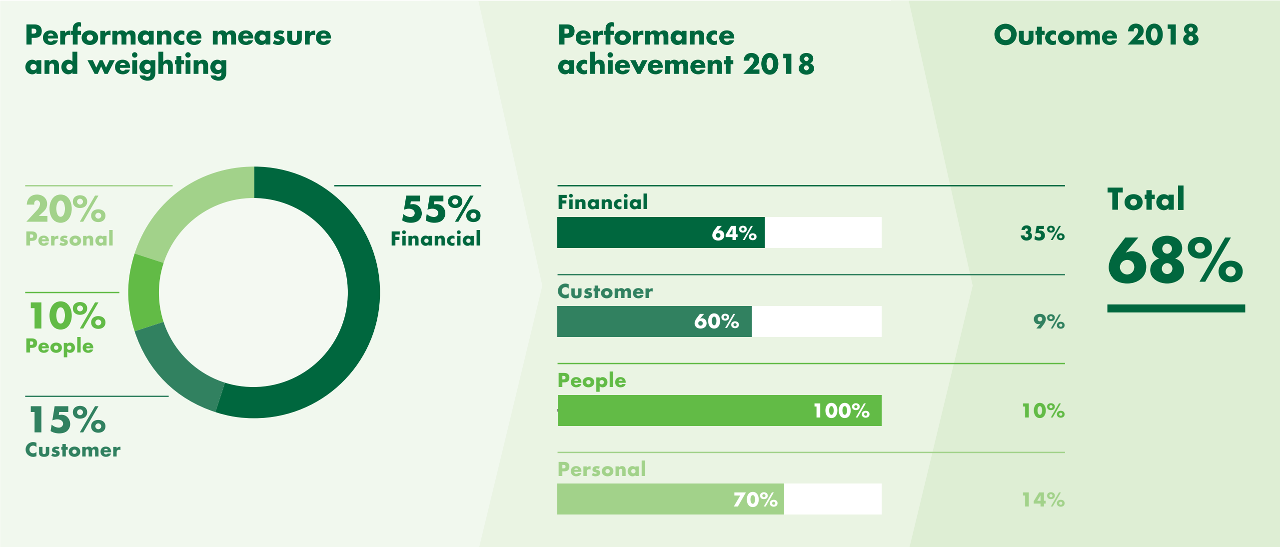
As set out in the Chair's letter, the Committee concluded that an adjustment to the 2016 profit out-turn as a result of the impact of reserve releases that are due to the Ogden rate changes is appropriate. This led to additional payments in March 2019, in relation to the 2016 AIP, representing 20% of maximum opportunity of the original awards. The 2016 single figure table is therefore restated below to reflect this. All additional payments in relation to the 2016 AIP have been made in accordance with the normal policy with 40% deferred into the Group's shares which will vest on the third anniversary of award (March 2022).

	Salary		Benefits		Annual bonus		Long-term incentives		All-employee share plans		Pension		Total	
£'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Paul Geddes[1]	790	771	19	18	871	1,120	2,471	2,693	–	–	197	193	4,348	4,795
John Reizenstein[2]	478	467	10	15	452	602	1,495	1,630	1	1	119	117	2,555	2,832
Mike Holliday-Williams[3]	–	–	–	–	546	–	–	–	–	–	–	–	–	–

Notes:
1. The revised 2016 annual bonus figure for Paul Geddes relates to an adjustment of 20% of maximum opportunity of the original award of £594,287, resulting in an increase of £276,413.
2. The revised 2016 annual bonus figure for John Reizenstein relates to an adjustment of 20% of maximum opportunity of the original award of £308,294, resulting in an increase of £143,393.
3. Although Mike Holliday-Williams was not an Executive Director during 2016, his restated annual bonus has been included above for completeness. This represents an adjustment of 20% of maximum opportunity of the original award of £385,074, resulting in an increase of £160,448.
4. The original out-turn and explanation of the 2016 AIP can be found on page 88 of the 2016 Annual Report and Accounts.
5. The 2016 figures are as disclosed on page 79 of the 2017 Annual Report other than in relation to the restated bonus.

Annual Incentive Plan outcomes for 2018 (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 2018 AIP	2018 AIP payment
Paul Geddes	68% of maximum	£982,569
Penny James	68% of maximum	£803,250
Mike Holliday-Williams	68% of maximum	£570,337
John Reizenstein	68% of maximum	£180,226

Note: The annual incentive award made to John Reizenstein represents a pro rated amount for the period to the AGM on 10 May 2018.

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. The only adjustment from the reported accounting position, as explained in the letter from the Committee Chair, was to exclude the assumed benefit as a result of the Ogden discount rate change. In the table below, we have disclosed the target set for profit before tax performance. The actual profit before tax performance includes the adjustment to reported profit before tax as described above.

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 2018 performance against the financial measure was 64%, giving a total of 35% 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%	2018 Actual	2018 Achievement
Profit before tax	£469.6m	£521.8m	£574.0m	£527.6m	64%

Customer element (15% weighting)

Customers are 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 overall service to our customers, the Board sets challenging customer-centric KPIs. These key customer metrics focus on continuous improvement of the customer experience. The Committee considered that overall the Group had continued to improve on an already strong performance against stretching targets. The Group's brands perform 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 judged the Customer measures to be on target and agreed an out-turn of 60%, giving a total of 9% 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 Direct Line Group	– Direct Line NPS was ahead of the target and continued to show strong year on year performance. Market leading propositions were successfully launched during the year and are performing well with consumers. – Churchill NPS was relatively flat over the year, and was below the target set for 2018; we launched campaigns focused on meeting key customer needs for target segments. – An improved perception of 'price' and 'value for money' supported the significantly increased Renewal NPS for the year during which several of our best ever months were recorded. – Rescue NPS performance ended the year below the target set as the result of a challenging H1 due to extreme weather events, with improved performance across H2.
Complaints Reduction in complaints volume and process improvements	– The volume of complaints in Personal Lines and Commercial reduced significantly in 2018, exceeding the stretch targets for both areas. – We introduced and rolled out a specialist bereavement team to assist the families of deceased customers. – Claims complaints were adverse to target due to higher than forecast volumes caused by extremes in weather in the first half of 2018, with performance stabilising throughout the second half of 2018.

Claims Ease
Increase ease on claims and strategic improvements
	– We were unable to meet the ambitious targets set in this area in a year when the 'Beast from the East' and increased volume challenged capacity across claims and networks.
	– However several programmes contributed to improvements for customers, including:
	  – earlier identification of total loss vehicles in Motor which resulted in faster payments, a key driver of improved Ease for customers.
	  – Travel 'Return to Green' plan (all KPIs at target levels) successfully delivered against a challenging landscape.

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 84% rated our people as 9 or 10 out of 10. A new platform was launched in Q4 to further improve insight capabilities. – In Personal Lines MyCustomer consultant performance was significantly ahead of target. – MyCustomer for Claims stabilised in H2 after a challenging start to the year due to the high volumes of claims, however ended the year short of the ambitious target set.

Measure	2018 Achievement
Customer element	60%

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. The Committee therefore agreed an out-turn of 100% for the People measures, giving a total of 10% out of 10% attributable to this element. A detailed assessment of the People measures is set out below.

Measure	Assessment
Succession	– We continue to develop our senior leaders, collectively and as individuals, to ensure we continue to strengthen our succession depth. – After a comprehensive programme in 2017 to map our talent, with a particular focus on gender balance, we developed an emerging leader programme which has been attended by 20 high potential managers in 2018. – 52 (87%) of our senior leaders have completed personal assessments and profiles carried out to enable individual development planning in 2018 and development of the senior leadership team as a whole, and have attended mental health awareness training. – We have successfully recruited for our new graduate and apprenticeship schemes with a further 26 graduates and 114 apprentices joining us during 2018.
Diversity	– 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 28% of our senior management (2017: 22%) and we are on track to meet our 2019 target. – We continue to focus on building an inclusive organisation, valuing diversity and uniqueness. 93% of our people responded positively that they feel they can 'bring all of themselves to work' in our 2018 survey. – All senior leaders have Diversity and Inclusion action plans in place. – We launched Wellbeing, CSR and My Life family policies to respond to the variety of life needs our people may have. – Mental health was a particular focus this year and we trained over 135 Mental Health First Aiders with at least one available on every floor across all our locations, and all people managers attended mental health awareness training. It is our aspiration to enable conversations and support to be at the same level as they are for physical health.
Engagement	– We achieved record participation levels (90%) in our employee survey, DiaLoGue, and increased our already high overall engagement levels from 78% in 2017 to 81%, which places us in the upper quintile of high performing companies. – We achieved a strong 2* accreditation in the Sunday Times 'Best Big Companies to Work For' survey and are extremely proud to have been ranked in third place overall in our first year of entry. – In 2018 our focus on fair pay for all employees resulted in 'Fair Deal' being one of the most positively valued aspects by our people in the 'Best Companies to Work For' survey. – About 250 of our people managers completed Engage training focused on helping them develop more authentic relationships with their people. – Through Idea Lab, our employee suggestions scheme established in 2015, we have adopted c.90 ideas to improve customer service, the way we work or save cost. Cost saving ideas have delivered over £3.2 million in savings so far and employees have received over £130 thousand in recognition rewards.

Measure	2018 Achievement
People	100%

Personal element (20% weighting)

This element relates to an objective that is shared across the Executive Committee and set by the Remuneration Committee. The shared objective for 2018 focused on the Company's key technology transformation and the changes it is making to its IT infrastructure, as well as other areas of the general change agenda. There has been significant progress on the stability and performance of the broader technology landscape and with the management of overall change across the organisation. Taking performance against each Executive Director's individual performance objectives and the above challenges into account, and the material progress seen over the past two years, the Committee determined that the Executive Directors should each receive awards of 70% of the maximum available, giving a total of 14% out of 20% attributable to this element. Further details of the assessment of the Personal element is set out below.

- We have remained focused on improving our digital offering, customer experience and operational efficiency, recognising the challenges experienced in previous years. The Committee is pleased to report that strong progress has been made in the development and delivery of the Group's ambitious technology transformation programme to build capability for the future. The implementation of the new core Personal Lines systems is on track to start to roll out for Motor and Travel during 2019, and within the budget as agreed with the Board. The programme includes a new pricing engine and a digital Travel platform, both of which went into testing in 2018.
- Following the launch of our bespoke Direct Line for Business insurance products, Hair & Beauty and Bed & Breakfast, Direct Line for Business launched Office, Professional and Retail. Although a few weeks later than scheduled, this release is the largest of our bespoke offerings to date, and supported by a national Small and Medium-sized Enterprises marketing campaign, has shown month on month improvements in gross written premiums in H2.
- Significant improvements in the stability and performance of the technology transformation programme, supporting our people perform their roles more efficiently, resulted in increased internal customer satisfaction, with savings for the programme on track.
- The Company saw satisfactory progress in implementing and embedding Change controls across the business.
- The EU General Data Protection Regulation programme was implemented successfully and notably delivered our compliance strategy ahead of time against tight deadlines.

Measure	2018 Achievement
Personal element	70%

LTIP outcomes for 2018 (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.

2015 LTIP awards (vested in 2018)

Awards under the LTIP granted in March and August 2015 vested during 2018. They were subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2015, 2016 and 2017.

Consistent with the regulations, the expected RoTE vesting outcomes for the year ended 31 December 2017 (together with the TSR elements from the 2014 awards), were included in the 2017 single remuneration figure in the 2017 report. The 2017 single remuneration figure has been updated in the 2018 report to reflect the known share price at the actual vesting date for the RoTE portion of the awards. You can find details of this on page 95. The performance outcomes of these elements are included in the table below.

The 2018 single remuneration figure includes the value of the 2015 TSR elements (which vested in March and August 2018). 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	Maximum	Actual performance	Achievement	Outcome
March 2015	Relative TSR (2018 single figure)	40%	Median	Upper quintile	Between median and upper quintile	62%	24.8%
	RoTE (2017 single figure)	60%	14.5%	17.5%	18.1%	100%	60%
	Total						84.8%
August 2015	Relative TSR (2018 single figure)	40%	Median	Upper quintile	Below median	0%	0%
	RoTE (2017 single figure)	60%	14.5%	17.5%	18.1%	100%	60%
	Total						60%

2016 LTIP awards (vesting in 2019)

Awards under the LTIP granted in March and August 2016 will vest during 2019. They are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2016, 2017 and 2018. The RoTE performance period for these awards ended on 31 December 2018 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 2019 and August 2019 respectively and will be disclosed in the 2019 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 2015 awards) are included in the 2018 single remuneration figures for the Executive Directors based on the three-month average share price to 31 December 2018. You can find details of this on page 95.

Award	Performance measure	Weighting	Threshold	Maximum	Actual performance	Achievement	Outcome
March 2016	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	60%
August 2016	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	100%

Summary of the 2018 LTIP single remuneration figure outcomes

		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 2016 LTIP – RoTE[1]	Paul Geddes	149,080	100%	149,080	£477
	Mike Holliday-Williams	75,723	100%	75,723	£242
	John Reizenstein	90,233	100%	73,504	£235[2]
August 2016 LTIP – RoTE[1]	Paul Geddes	149,743	100%	149,743	£479
	Mike Holliday-Williams	76,054	100%	76,054	£243
	John Reizenstein	90,626	100%	61,079	£195[2]
March 2015 LTIP – TSR	Paul Geddes	106,371	62%	65,929	£247
	Mike Holliday-Williams	55,110	62%	34,157	£128
	John Reizenstein	64,383	62%	39,904	£150
August 2015 LTIP – TSR	Paul Geddes	111,350	0%	0	£0
	Mike Holliday-Williams	56,558	0%	0	£0
	John Reizenstein	67,396	0%	0	£0
Total single figure LTIP	Paul Geddes				£1,204
	Mike Holliday-Williams				£614
	John Reizenstein				£150[2]

Notes:
1. 2016 RoTE elements are based on the three-month average share price to 31 December 2018 of £3.20042.
2. John Reizenstein stepped down from the Board on 10 May 2018. His 2016 LTIP awards are pro rated accordingly and will be disclosed as a payment to past directors in the 2019 annual report on remuneration. John Reizenstein's 2018 single figure disclosure will therefore only include the amount vesting in relation to the March 2015 TSR component of the LTIP.

Buy-out award

The second tranche of Penny James' buy-out award is due to vest on 1 April 2019, based on the achievement of performance targets that relate partly to the performance of the Company and partly to the performance of her previous employer. The performance conditions for this award are relative TSR (50%) and IFRS profit over 2016, 2017 and 2018 (50%). Relative TSR performance is measured against a peer group based on the prior employer's TSR performance from 1 January 2016 to 31 October 2017 and Direct Line Group's TSR performance from 1 November 2017 to 31 December 2018 with a threshold vesting of median (25% vests) and a maximum vesting of upper quartile (100% vests). The peer group is consistent with that used by the prior employer.

Relative TSR performance over the period was just below the upper quartile of the comparator group. As such, 94.7% of this element will vest. The prior employer does not disclose the IFRS profit targets in advance of vesting. The outcome for this element is estimated to be 100% based on the prior employer's previous year's LTIP out-turn and the 2018 mid-year results. The overall estimated vesting outcome is therefore 97% of maximum. The final vesting outcome will be disclosed in the 2019 Directors' Remuneration Report once the prior employer's targets and actual performance have been published. The number of shares expected to vest is 705,871, calculated as 97% of 725,199. The estimated value is £2,259,087 based on a three-month average share price to 31 December 2018 of £3.20042.

Using shares (Audited)

In receiving an award under the LTIP or DAIP, 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.

	At 31 December 2018			
	Share plan awards subject to performance conditions	Share plan awards subject to continued service	Share plan interests vested but unexercised	Shares held outright
Paul Geddes	1,081,288	320,239	1,154	759,844
Penny James	1,413,501	106,242	–	213,075
Mike Holliday-Williams	829,306	193,524	–	372,026

Note:
There have been no changes to the above share interests since 31 December 2018.

	Share plan interests exercised during the year to 31 December 2018	
	Number of options exercised	Share price on date of exercise
Paul Geddes	365,467	3.7280
	167,025	3.3200
Penny James	145,500	3.3520
Mike Holliday-Williams	200,807	3.7280
	84,837	3.3200

Note:
The above relates to nil cost options.

	At end of employment 7 September 2018			
	Share plan awards subject to performance conditions	Share plan awards not subject to performance conditions	Share plan interests vested but unexercised	Shares held outright
John Reizenstein	659,353	169,104	1,052,440	511,489

	Share plan interests exercised during the year to end of employment 7 September 2018	
	Number of options exercised	Share price on date of exercise
John Reizenstein	208,988	3.7280
	971,146	3.3710
	101,094	3.3200

Note:
The above relates to nil cost options.

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

Director	Shares held at 31 December 2018	Shares held at 31 December 2017
Michael Biggs	–	–
Danuta Gray	10,000	10,000
Mark Gregory[3]	–	n/a
Jane Hanson	11,083	26,190
Sebastian James	5,000	5,000
Fiona McBain[4]	–	n/a
Andrew Palmer[5]	10,475	10,475
Gregor Stewart[6]	–	n/a
Clare Thompson	44,065	40,128
Richard Ward	–	–

Notes:
1. There were no changes to the number of shares held by Non-Executive Directors between the year end and the date of this report.
2. Includes holdings of connected person, as defined in section 96B(2) of the Financial Services and Markets Act 2000.
3. Mark Gregory was appointed to the Board with effect from 1 March 2018.
4. Fiona McBain was appointed the Board with effect from 1 September 2018.
5. Andrew Palmer stepped down from the Board at the AGM on 10 May 2018 and this represents his holding at that date.
6. Gregor Stewart was appointed to the Board with effect from 1 March 2018.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2017 and 2018. 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]	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Michael Biggs	400	400	6	6	406	406
Danuta Gray[3]	103	74	4	–	107	74
Mark Gregory[4]	75	–	–	–	75	–
Jane Hanson	120	115	10	12	130	127
Sebastian James	95	90	–	–	95	90
Fiona McBain[5]	25	–	2	–	27	–
Andrew Palmer[6]	51	125	–	–	51	125
Gregor Stewart[7]	88	–	4	–	92	–
Clare Thompson	102	110	–	–	102	110
Richard Ward	120	115	0.4	–	120.4	115

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).
3. Danuta Gray was appointed as Chair of the Remuneration Committee with effect from the AGM on 10 May 2018.
4. Mark Gregory was appointed to the Board with effect from 1 March 2018. He was appointed as Chair of the Investment Committee and as a member of the Audit Committee with effect from the AGM on 10 May 2018.
5. Fiona McBain was appointed to the Board with effect from 1 September 2018.
6. Andrew Palmer stepped down from the Board at the AGM on 10 May 2018.
7. Gregor Stewart was appointed to the Board with effect from 1 March 2018. He was appointed as Chair of the Audit Committee and as a member of the Board Risk Committee with effect from the AGM on 10 May 2018.

CEO pay ratio

The Committee has chosen to adopt early the CEO pay ratio disclosure requirements which would otherwise come into effect from next year's Directors' Remuneration Report. Over the coming year, the Committee will determine the appropriate methodology (Option A, B or C) to be used in future years, considering the robustness of the calculation methodology, the consistency of the method going forward as well as operational time constraints. For the purposes of this year's disclosure, the April 2018 gender pay gap data has been used to identify the three appropriate employees for comparison with the CEO (Option B). Further detail on this methodology is set out below.

The table below compares the 2018 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
2018	Option B	127:1	116:1	81:1

The remuneration figures for the employee at each quartile were determined with reference to 31 December 2018.

Under Option B, the latest available gender pay gap data is used to identify the best equivalent for three Group employees whose hourly rates of pay are at the 25th, 50th and 75th percentiles for the Group and their total pay and benefits figure for 2018 is then calculated. A sample of employees with hourly pay rates either side of the initially identified individuals are also reviewed to ensure that the appropriate representative employees are selected. The table below sets out the salary and total pay and benefits for the three identified quartile point employees:

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£20,072	£24,810	£34,452
Total pay and benefits	£25,072	£27,538	£39,555

Each employee's pay and benefits were calculated using each element of employee remuneration, consistent with the CEO, on a full-time equivalent basis. No adjustments (other than to achieve full-time equivalent rates) were made and no components of pay have been omitted.

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 33:1. 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 our approach to fairly paying and motivating our employees are set out on page 58.

Percentage change in Chief Executive Officer's pay for 2017 to 2018

The table below shows the Chief Executive Officer's year on year percentage change in salary, taxable benefits and bonus, compared to the average pay for all other employees.

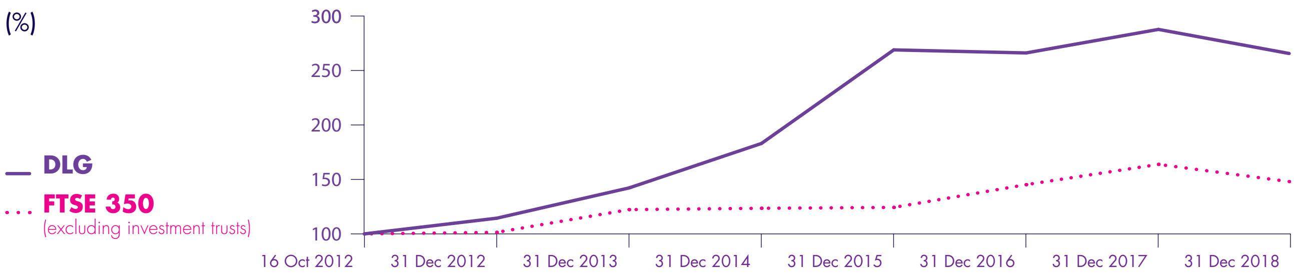
	Salary[1]	Benefits[2]	Bonus (including deferred amount)[3]
Chief Executive Officer	2.5%	7.1%	(20.9%)
All employees (average)	4.46%	16.9%	(12.1%)

Notes:
1. Based on the change in average pay for employees employed in the year ended 31 December 2018 and the year ended 31 December 2017.
2. There were no changes in benefits provision between 2017 and 2018. There has been a change in the assumptions used to calculate the all-employee average benefits figure, making the year on year change appear high to last year. If the treatment was the same as previous years, this would result in a 5% benefits increase from 2017 for all employees.
3. For employees other than the Chief Executive Officer, 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 2018 and historical performance of TSR

The table below shows historical levels of the Chief Executive Officer's pay between 2012 and 2018. 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



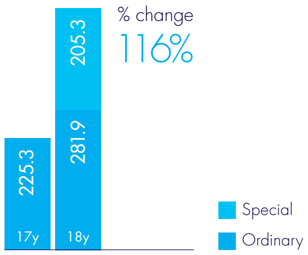
	2012	2013	2014	2015	2016[2]	2017[3]	2018[4]
CEO single figure of remuneration (£'000s)	1,908	2,536	5,356	4,795	4,348	4,039	3,238
Annual bonus payment (% of maximum)	65%	63%	75%	83%	63%	88%	68%
LTIP vesting (% of maximum)[1]	30%	55%	88%	96%	86%	99%	71%

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 have been updated to reflect an adjustment to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
3. The 2017 single figure has been revised to reflect the actual vesting of the 2015 awards under the LTIP, an increase of £292,700.
4. The 2018 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2016. Any shares under the LTIP granted in 2015 will not be delivered until the end of the applicable vesting periods in March and August 2019. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed.

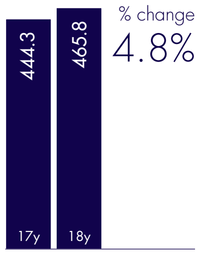
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2017 and 2018.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
1. During 2018 the Company paid special dividends of £205m 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. During 2017, no special dividend was paid for the 2016 financial year as following the implementation of the new Ogden discount rate the Board did not consider the Group had surplus capital.
2. There have been no share buy-backs 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 2017 Directors' Remuneration Report which was put to shareholders at the 2018 AGM on 10 May 2018.

The resolution approving the Directors' Remuneration Report was passed by 76.58% of the votes cast in favour of the resolution. The reasons for this outcome and subsequent actions taken are discussed by the Chair in her letter on page 90.

	For		Against		Number of votes withheld (abstentions)	Percentage of votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' Remuneration Report (2018 AGM)	766,710,834	76.58%	234,492,835	23.42%	7,284,313	0.72%
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 2018 (% of salary)
Paul Geddes	Chief Executive Officer	200%	292%
Penny James	Chief Financial Officer	200%	101%
Mike Holliday-Williams	MD Personal Lines	200%	211%

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.
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.

Direct Line Group share awards

Direct Line Group Deferred Annual Incentive Plan awards (Audited)

This table details the Directors' interests under the Direct Line Group DAIP.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options as at 1 January 2018	No. of share options granted during the year[1]	No. of share options vested during the year	No. of dividend shares acquired at vesting[2]	No. of dividend shares added post vesting	No. of share options exercised[1,3,4,5]	No. of share options held at 31 December 2018[6]	Vesting date
Paul Geddes										
28-Mar-13	2.0157	380,004	1,044	–	–	–	110	–	1,154	28-Mar-16
25-Mar-15	3.3007	400,000	111,087	–	111,087	28,874	–	139,961	–	25-Mar-18
29-Mar-16	3.752	447,996	119,402	–	–	–	–	–	119,402	29-Mar-19
27-Mar-17	3.36	237,715	70,713	–	–	–	–	–	70,713	27-Mar-20
26-Mar-18	3.818	496,816	–	130,124	–	–	–	–	130,124	26-Mar-21
			302,246	**130,124**	**111,087**	**28,874**	**110**	**139,961**	**321,393**	
Penny James										
26-Mar-18	3.818	405,636	–	106,242	–	–	–	–	106,242	26-Mar-21
			–	**106,242**	**–**	**–**	**–**	**–**	**106,242**	
Mike Holliday-Williams										
25-Mar-15	3.3007	239,997	66,651	–	66,651	17,324	–	83,975	–	25-Mar-18
29-Mar-16	3.752	270,797	72,174	–	–	–	–	–	72,174	29-Mar-19
27-Mar-17	3.36	154,030	45,819	–	–	–	–	–	45,819	27-Mar-20
26-Mar-18	3.818	288,378	–	75,531	–	–	–	–	75,531	26-Mar-21
			184,644	**75,531**	**66,651**	**17,324**	**–**	**83,975**	**193,524**	
John Reizenstein										
28-Mar-13	2.0157	137,999	94,009	–	–	–	9,911	–	103,920	28-Mar-16
25-Mar-15	3.3007	207,200	57,542	–	57,542	14,957	–	72,499	–	25-Mar-18
29-Mar-16	3.752	240,800	64,179	–	–	–	–	–	64,179	29-Mar-19
27-Mar-17	3.36	123,318	36,683	–	–	–	–	–	36,683	27-Mar-20
26-Mar-18	3.818	257,724	–	67,502	–	–	–	–	67,502	26-Mar-21
			252,413	**67,502**	**57,542**	**14,957**	**9,911**	**72,499**	**272,284**	

Notes:
1. These awards take the form of nil-cost options over the Company's shares. Awards granted before 2014 accrue dividend entitlements until the date of transfer of shares. Awards granted from 2014 accrue dividend entitlement from the grant date to the date on which an award vests.
2. Dividends added post-vesting are shown to 31 December 2018, although these are not realised until exercise.
3. Paul Geddes exercised 139,961 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £521,775.
4. Mike Holliday-Williams exercised 83,975 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £313,059.
5. John Reizenstein exercised 72,499 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £270,276.
6. John Reizenstein stepped down from the Board at the AGM on 10 May 2018 and his share interests are as that date. However, the movements in his DAIP interests across the entire year are disclosed above. Further information on what happened to his share scheme interests on leaving employment (on 7 September 2018) can be found on page 108.
7. The dates of the three-day averaging period used to determine the number of shares granted on 26 March 2018 were 21, 22 and 23 March, being the three days preceding the grant.

Direct Line Group Long-Term Incentive Plan awards (Audited)

This table details the Directors' interests in the Company's LTIP. For all LTIP awards, 20% of the awards granted would vest if the minimum performance was achieved.

Grant date	Three- day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2018[1]	No. of share options granted during the year[2]	No. of share options vested during the year[3]	No. of share options lapsed for performance [4]	No. of share options lapsed on leaving employment	No. of dividend shares acquired at vesting [5]	No. of dividend shares added post vesting	No. of share options exercised [6]	No. of share options held at 31 December 2018	Vesting date
Paul Geddes												
25-Mar-15	3.3007	760,000	211,066	–	178,984	32,082	–	46,522	–	225,506	–	25-Mar-18
26-Aug-15	3.517	775,200	220,415	–	132,249	88,166	–	34,776	–	167,025	–	26-Aug-18
29-Mar-16	3.752	775,197	206,609	–	–	–	–	–	–	–	206,609	29-Mar-19
30-Aug-16	3.6833	794,598	215,730	–	–	–	–	–	–	–	215,730	30-Aug-19
27-Mar-17	3.361667	794,597	236,370	–	–	–	–	–	–	–	236,370	27-Mar-20
29-Aug-17	3.854	810,488	210,298	–	–	–	–	–	–	–	210,298	29-Aug-20
26-Mar-18	3.818	810,492	–	212,281	–	–	–	–	–	–	212,281	26-Mar-21
			1,300,488	212,281	311,233	120,248	–	81,298	–	392,531	1,081,288	
Penny James												
28-Nov-17	3.5673	1,349,984	378,433	-	-	-	-	-	-	-	378,433	28-Nov-20
26-Mar-18	3.818	675,000	-	176,794	-	-	-	-	-	-	176,794	26-Mar-21
28-Aug-18	3.3377	675,000	-	202,237	-	-	-	-	-	-	202,237	28-Aug-21
			378,433	379,031	–	–	–	–	–	–	757,464	

Notes:

The Company's share price on 31 December 2018 was £3.187, and the range of prices in the year was £3.049 to £3.932.

1. These awards take the form of nil-cost options over the Company's shares and are subject to performance conditions to be assessed by the Committee. Awards granted before 2014 accrue dividend entitlements until the date of transfer of shares. Awards granted from 2014 accrue dividend entitlement from the grant date to the date on which an award vests.
2. The RoTE targets for awards granted in 2018, applying to 60% of the award, were 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, which are the same as noted on page 111.
3. The closing market price on the dates of the vesting of the awards was £3.728 on 26 March 2018 and £3.371 on 28 August 2018.
4. Awards under the LTIP vested at 84.8% of the maximum potential on 26 March 2018 and 60.0% of the maximum potential on 28 August 2018.
5. Dividends added post-vesting are shown to 31 December 2018, although these are not realised until exercise.
6. Paul Geddes exercised 225,506 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £840,686, and on 29 August 2018 167,025 options when the share price was £3.32 resulting in a notional gain of £554,523.
7. The dates of the three-day averaging period used to determine the number of shares granted on 26 March 2018 were 21, 22 and 23 March, being the three days preceding the grant. The dates of the three-day averaging period used to determine the number of shares granted on 28 August were 22, 23 and 24 August.
8. The performance period for the awards granted on 26 March 2018 will end on 31 December 2020 for the RoTE element and 25 March 2021 for the TSR element. The performance period for the awards granted on 28 August 2018 will end on 31 December 2020 for the RoTE element and 27 August 2021 for the TSR element.

All awards made from August 2017 include an additional two-year holding period before awards may be released. The Company's normal policy is to grant awards twice a year, after the Group announces its full and half-year results. The value of each grant of awards is set at 50% of the annual policy level. This means the total combined face value of awards per year to each of the Executive Directors equates to 200% of base salary.

Direct Line Group Long-Term Incentive Plan awards (Audited) continued

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2018[1]	No. of share options granted during the year[2]	No. of share options vested during the year[3]	No. of share options lapsed for performance [4]	No. of share options lapsed on leaving employment	No. of dividend shares acquired at vesting [5]	No. of dividend shares added post vesting	No. of share options exercised [6,7]	No. of share options held at 31 December 2018[8]	Vesting date
Mike Holliday-Williams												
25-Mar-15	3.3007	393,747	109,351	–	92,729	16,622	–	24,103	–	116,832	–	25-Mar-18
26-Aug-15	3.5170	393,749	111,956	–	67,173	44,783	–	17,664	–	84,837	–	26-Aug-18
29-Mar-16	3.7520	393,750	104,944	–	–	–	–	–	–	–	104,944	29-Mar-19
30-Aug-16	3.6833	403,572	109,568	–	–	–	–	–	–	–	109,568	30-Aug-19
27-Mar-17	3.361667	538,099	160,069	–	–	–	–	–	–	–	160,069	27-Mar-20
29-Aug-17	3.854	548,860	142,413	–	–	–	–	–	–	–	142,413	29-Aug-20
26-Mar-18	3.818	548,862	–	143,756	–	–	–	–	–	–	143,756	26-Mar-21
28-Aug-18	3.3377	562,584	–	168,556	–	–	–	–	–	–	168,556	28-Aug-21
			738,301	312,312	159,902	61,405	–	41,767	–	201,669	829,306	
John Reizenstein												
7-Nov-12	1.96	460,000	299,271	–	–	–	–	–	31,551	330,822	–	9-Nov-15
28-Mar-13	2.0157	459,999	302,089	–	–	–	–	–	31,848	333,937	–	28-Mar-16
28-Aug-13	2.1564	459,999	277,167	–	–	–	–	–	29,220	306,387	–	28-Aug-16
25-Mar-15	3.3007	460,000	127,750	–	108,332	19,418	–	28,157	–	136,489	–	25-Mar-18
26-Aug-15	3.5170	469,200	133,409	–	80,045	53,364	–	21,049	–	101,094	–	26-Aug-18
29-Mar-16	3.7520	469,199	125,053	–	–	–	23,184	–	–	–	101,869	29-Mar-19
30-Aug-16	3.6833	480,899	130,562	–	–	–	42,567	–	–	–	87,995	30-Aug-19
27-Mar-17	3.361667	480,900	143,054	–	–	–	74,006	–	–	–	69,048	27-Mar-20
29-Aug-17	3.854	490,518	127,275	–	–	–	83,844	–	–	–	43,431	29-Aug-20
			1,665,630	–	188,377	72,782	223,601	49,206	92,619	1,208,729	302,343	

Notes:
The Company's share price on 31 December 2018 was £3.187, and the range of prices in the year was £3.049 to £3.932.

1. These awards take the form of nil-cost options over the Company's shares and are subject to performance conditions to be assessed by the Committee. Awards granted before 2014 accrue dividend entitlements until the date of transfer of shares. Awards granted from 2014 accrue dividend entitlement from the grant date to the date on which an award vests.
2. The RoTE targets for awards granted in 2018, applying to 60% of the award, were 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, which are the same as noted on page 111.
3. The closing market price on the dates of the vesting of the awards was £3.728 on 26 March 2018 and £3.371 on 28 August 2018.
4. Awards under the LTIP vested at 84.8% of the maximum potential on 26 March 2018 and 60.0% of the maximum potential on 28 August 2018.
5. Dividends added post-vesting are shown to 31 December 2018, although these are not realised until exercise.
6. Mike Holliday-Williams exercised 116,832 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £435,550 and 84,837 options on 29 August 2018 when the share price was £3.32 resulting in a notional gain of £273,175.
7. John Reizenstein exercised 136,489 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £508,831, 971,146 options on 28 August 2018 when the share price was £3.371 resulting in a notional gain of £3,273,733 and 101,094 options on 29 August 2018 when the share price was £3.32 resulting in a notional gain of £335,632.
8. John Reizenstein stepped down from the Board at the AGM on 10 May 2018 and his share interests are as at that date. However, the movements in his LTIP interests across the entire year are disclosed above. Further information on what happened to his share scheme interests on leaving employment (on 7 September 2018) can be found on page 106.
9. The dates of the three-day averaging period used to determine the number of shares granted on 26 March 2018 were 21, 22 and 23 March, being the three days preceding the grant. The dates of the three-day averaging period used to determine the number of shares granted on 28 August were 22, 23 and 24 August.
10. The performance period for the awards granted on 26 March 2018 will end on 31 December 2020 for the RoTE element and 25 March 2021 for the TSR element. The performance period for the awards granted on 28 August 2018 will end on 31 December 2020 for the RoTE element and 27 August 2021 for the TSR element.

All awards made from August 2017 include an additional two-year holding period before awards may be released. The Company's normal policy is to grant awards twice a year, after the Group announces its full and half-year results. The value of each grant of awards is set at 50% of the annual policy level. This means the total combined face value of awards to each of the Executive Directors equates to 200% of base salary.

Buy-out awards (Audited)

The table below details buy-out awards made to Penny James. These awards were made to the CFO in November 2017 as compensation for the forfeiture of legacy awards granted by her previous employer. The awards were made in the form of restricted stock options (pursuant to Listing Rule 9.4.2) and subject to performance conditions that, as far as possible, mirrored those of the original awards.

The first tranche of these buy-out awards, which vested in April 2018, was subject to the performance conditions and comparator groups identical to those of the original award, ending in the 2017 performance year. For the second tranche, which will vest in April 2019, the performance conditions differ from the above in that the Group's TSR performance replaces that of the former employer for the period from 1 November to 31 December 2018 (post-joining).

The awards 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 2018	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-Dec-18	Vesting date
Penny James									
28-Nov-17	3.5673	500,492	140,298	134,454	5,844	11,046	145,500	–	3-Apr-18
Penny James									
28-Nov-17	3.5673	2,340,304	656,037	–	–	–	–	656,037	1-Apr-19

Notes:
1. Penny James exercised 145,500 options on 2 August 2018 when the share price was £3.352 resulting in a notional gain of £487,716.
2. The first tranche of the above buy-out awards vested on 2 May 2018, deferred from the original vesting date of 3 April 2018 due to the Company being in a closed period from 29 March to 1 May 2018.

Direct Line Group 2012 Share Incentive Plan (Audited)

During 2018, all employees, including Executive Directors, were eligible to invest from £10 to £150 a month from their pre-tax pay into the scheme, and receive one matching share for every two shares they purchased. This table details the number of shares held by John Reizenstein under the SIP. Paul Geddes, Mike Holliday-Williams and Penny James do not participate in the plan.

Director	Matching shares as at 31 December 2017	Matching shares granted during the period	Matching shares cancelled during the period	Matching shares vested during the period	Value of matching shares granted[1] £	Balance of matching shares at 10 May 2018
John Reizenstein	742	80	–	82	303	740

Notes:
1. The accumulated market value of matching shares at the time of each award. Purchase of the matching shares takes place within 30 days of the contributions being deducted from salary.
2. John Reizenstein stepped down from the Board on 10 May 2018 and his interests are shown as at that date. On leaving employment on 7 September 2018, his SIP shares were transferred to him in accordance with the rules of the scheme.

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.

Statement of policy implementation in 2019

Executive Directors' salaries in 2019

The salary increase awarded to the Executive Directors, effective 1 April 2019, reflects the average increase awarded to staff generally.

Director	Position	2019 base salary £'000	2018 base salary £'000	Annual change in base salary
Paul Geddes	Chief Executive Officer to 9 May 2019	831	831	–
Penny James	Chief Financial Officer to 9 May 2019	675	675	–
	CEO-designate from 9 May 2019	800	–	–
Mike Holliday-Williams	MD Personal Lines	575	563	2.25%

AIP 2019

Director	Position	Maximum annual incentive award for 2019 (% base salary)	Deferred under the DAIP (% bonus)
Paul Geddes	Chief Executive Officer	175%	40%
Penny James	CEO-designate	175%	40%
Mike Holliday-Williams	MD Personal Lines	150%	40%

The AIP measures remain unchanged:

	Measures	Weighting for 2019	Weighting for 2018
Financial	Profit before tax	55%	55%
Customer	A range of customer metrics including Net Promoter Score and complaints	15%	15%
People	A range of people measures including succession, diversity and engagement	10%	10%
Personal	Objectives for each Executive Director, including shared objectives across the Executive Committee	20%	20%

As in previous years, all AIP outcomes will be determined after the Committee establishes a payment gateway. To do this, the Committee must be satisfied that it is appropriate to permit a bonus award at all, or at a given level. The gateway involves some subjectivity about performance. This may result in positive or negative moderation of each AIP performance measure or the overall bonus outcome. The targets are commercially sensitive and will be disclosed in next year's report.

The list on the following page sets out the gateway criteria for the AIP for 2019.

Gateway criteria for the AIP for 2019 – outcomes for Executive Directors

- Year on year changes in profit before tax
- Quality and sustainability of earnings, referring to reserving, gross written premium, costs and loss ratio, and relevant lead indicators
- Additional customer context, for example, conduct, experience, brand and franchise health
- Capital strength and affordability
- Risk management within risk appetite
- The Group's relative performance to that of its peers
- The wider economic environment
- Exceptional events, such as abnormal weather
- Any regulatory breaches and/or reputational damage to the Group
- Committee satisfaction that paying the bonus does not cause major reputational concerns

The Committee may also use its discretion to account for additional factors. These include the quality of financial results, the 'direction of travel' of all measures, and, more widely, reputation, risk and audit.

In considering such factors, and whether to adjust the overall pay-outs and/or operate malus and clawback, the Committee receives appropriate input from the Audit Committee and the Board Risk Committee.

LTIP 2019

Director	Position	Annual LTIP award for 2019
Paul Geddes	Chief Executive Officer	–
Penny James	CEO-designate	200%
Mike Holliday-Williams	MD Personal Lines	200%

Performance conditions for LTIP awards

LTIP awards to be granted in 2019 will continue to be subject to performance against these performance conditions:

- 60% based on RoTE over a three-year performance period (2019, 2020 and 2021)
- 40% based on relative TSR performance against the constituents of the FTSE 350 (excluding investment trusts) over a three-year performance period, starting on the date of grant. The starting and closing TSR will be averaged over a three-month period.

For these purposes, we use the Group's standard definition for RoTE, subject to such other adjustments as the Committee may consider appropriate. To find out more about how we calculate RoTE, see page 192.

The Committee reviewed the performance targets and decided to maintain the RoTE target range at the same level as in 2018 as follows:

Performance measure	Vesting for threshold performance	Performance required for threshold vesting			Performance required for maximum vesting		
		Awards in 2019	Awards in 2018	Awards in 2017	Awards in 2019	Awards in 2018	Awards in 2017
RoTE	20% of this element of the award	Average annual RoTE performance of 17.5%	Average annual RoTE performance of 17.5%	Average annual RoTE performance of 15.0%	Average annual RoTE performance of 20.5%	Average annual RoTE performance of 20.5%	Average annual RoTE performance of 18.0%
Relative TSR	20% of this element of the award		Median			Upper quintile	

For the TSR element, there is a straight-line interpolation between threshold and maximum performance on a ranked basis.

For the RoTE element, 20% of the award will vest for threshold RoTE and 40% for a RoTE of 18.5% for awards to be made in 2019. Otherwise, vesting is similar to TSR: a straight-line interpolation occurs from threshold to target, then from target to maximum performance.

The LTIP awards will also vest only to the extent that the Committee is satisfied that the outcome of the TSR and RoTE performance conditions reflects the Group's underlying financial performance from the date of grant until vesting. When considering these matters, the Committee will also consider whether there have been any material risk failings.

The LTIP will continue to be subject to the application of malus and clawback and an additional two-year holding period post vesting which facilitates post-employment shareholding requirements. The Committee will be considering the application of a post-employment shareholding requirement in more detail as part of the Remuneration Policy review during 2019.

Pension and benefits

A pension contribution of 25% of base salary will be paid to the CEO in 2019 (until date of leaving). The pension contribution for the CEO-designate will be reduced from the current level of 25% of salary to 9% of salary (from date of appointment) in line with the wider workforce. A pension contribution of 15% of salary will be paid to the MD Personal Lines in 2019; this level of contribution remained unchanged following his promotion to the Board in 2017. Pension contribution rates will be in line with those of the wider workforce for all new Executive appointments. The reduction in pension contributions for the current Executive Directors, in line with those of the wider workforce, will be considered as part of the policy review during 2019. No Directors participate in any defined benefit pension arrangements operated by the Company.

Appointment of new Chief Executive Officer

On 26 February 2019, Penny James, the current CFO, was appointed CEO-designate to succeed Paul Geddes. Penny will become CEO from the conclusion of the AGM on 9 May 2019. Penny's annual salary will be £800,000. This salary is in line with the FTSE 51-100 CEO benchmark and below the current CEO's salary level.

At the same time, Penny's pension contribution will be reduced from her current contribution rate of 25% of salary to 9% of salary, in line with that of the wider workforce. There will be no change to her participation in the Company's AIP up to a maximum of 175% of salary and the LTIP up to 200% of salary.

Retirement of Executive Director (Audited)

John Reizenstein, the former CFO, retired on 7 September 2018 having stepped down from the Board as an Executive Director at the end of the AGM on 10 May 2018. Following his cessation as a Director of the Company, John's salary, pension and benefits were paid in monthly instalments until the end of his employment as follows:

Pay component	Salary (£'000)	Pension (£'000)	Benefits (£'000)	Total (£'000)
Payments since cessation as a Director of the Company	160	40	3	203

John's planned retirement was announced in September 2017 and the Committee confirmed his 'good leaver' status, without the exercise of any discretion, at that time. He has, therefore, retained share awards granted to him up to that date (for details of all awards see pages 106 and 108). LTIP awards made in 2016 and 2017 have been time pro rated to reflect the period from their date of grant to the end of his period of employment. No LTIP awards were made to him in 2018. John has also been made an award under the AIP for the period to the AGM on 10 May 2018, details of which can be found on page 96.

Payments to former Directors (Audited)

There have been no payments made to a former Director during the year, with the exception of the payments made to John Reizenstein since his cessation as a Director of the Company.

Non-Executive Directors' fees

Position	Fees for 2019 £'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.

External directorships

Paul Geddes is a Non-Executive Director for Channel 4 for which he receives and retains an annual fee of £22,177. Otherwise, the Executive Directors do not currently hold any further external directorships.

Service contracts

Subject to the discretion set out in the recruitment remuneration policy, it is the Company's policy to set notice periods for Executive Directors of no more than 12 months (both by the Director or Company). The Executive Directors' service agreements summary is as follows:

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Paul Geddes	1 September 2012	12 months	Base salary 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.
Mike Holliday-Williams	30 January 2014		
Penny James	1 November 2017		

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 and the termination policy.

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.

The Board reviewed and approved this report on 4 March 2019.

DANUTA GRAY
CHAIR OF THE REMUNERATION COMMITTEE

Policy report

The following is a copy of the main table from the policy approved by shareholders at the 2017 AGM. The full policy is available in the Directors' Remuneration Report of the 2016 Annual Report and Accounts.

Policy table

Element	Purpose and link to strategy	Operation

Base salary	– This is the core element of pay that reflects the individual's role and position within the Group. It is payable for doing the expected day-to-day job
	– 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 median market pay in the context of companies of a similar size, particularly FTSE 31-100 companies, as they are considered to reflect the size and complexity of the Group;
		  – the practice of insurance peers such as Admiral Group, Aviva, esure Group, Hastings Group, Legal & General, Old Mutual, Phoenix Group, Prudential, RSA Insurance Group, Standard Life and companies of a similar size to DLG as appropriate; 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 similar to 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
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, particularly FTSE 31-100 companies. Benefits currently provided include a company 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 the Share Incentive Plan ("SIP"), which has been used to provide an award of free shares to all employees (including Executive Directors), and permit 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

Maximum opportunity	Performance measures
– When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'. In any event, no increase will be made if it would take an Executive Director's salary above £850,000 (the current median level of salaries for CEOs in the FTSE 100), as further increased by UK RPI from the date of approving this policy	– Not applicable
– The maximum pension contribution is set at 25% of base salary per annum	– Not performance-related
– The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged. An annual limit of 10% of base salary per Executive Director has been set for the duration of this policy (plus an additional amount of up to 100% of salary in respect of relocation expenses). 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 performance-related

Element	Purpose and link to strategy	Operation
AIP	– To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategic aims	– For Executive Directors, at least 40% of the award is deferred into shares under the Deferred Annual Incentive Plan (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 – 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 up to the 10th 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. While the Committee reserves the right to do otherwise, the Committee's practice has been to make awards twice in each financial year, following the announcement of the Group's annual and half-year results – For awards made after adopting the new policy at the 2017 AGM, 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

Maximum opportunity	Performance measures
– Maximum and target bonus levels for Executive Directors are set by taking into account annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators – The maximum bonus opportunity under the AIP is 175% of base salary per annum. The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of policy	– Performance over the financial year is assessed against performance measures which the Committee considers to be appropriate – These may be financial, non-financial (Group, divisional or business line) and 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 strategic, shared and individual performance measures – The Committee sets targets at the beginning of each financial year – No more than 10% of the bonus is paid for threshold performance (30% of the bonus for the individual performance element). No more than 60% of the maximum opportunity pays out for target 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 – 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. The Committee reserves discretion to adjust the out-turn (from zero to the cap), should it consider it appropriate
– 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 – For awards to be granted in 2017, vesting will continue to be determined based on two measures: RoTE and relative TSR performance against the FTSE 350 (excluding investment trusts). The Committee may apply different performance measures and targets for future awards, provided 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 – Additionally, there is a financial underpin relating to the Committee's view of the Group's underlying financial performance for the TSR and RoTE (and any other) elements; 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
– 200% of salary for all Executive Directors – The Committee reserves the discretion to amend these levels in future years	– Not applicable

The Directors present their report for the financial year ended 31 December 2018.

You can find the forward-looking statements disclaimer on page 195.

Strategic report

The Company's Strategic report is on pages 1 to 59. It includes the following information that would otherwise need to be disclosed in this Directors' report:

Subject	Pages
Use of financial instruments	30 and 36
Important events since the financial year end	12 to 17
Likely future developments in the business	17
Employee involvement	56 to 59
Research and development	18 to 21

Corporate governance statement

The FCA's Disclosure Guidance and Transparency Rules require a corporate governance statement in the Directors' report to include certain information. You can find information that fulfils the corporate governance statement's requirements in this Directors' report; the Corporate Governance report; the Committee reports; and the Directors' remuneration report, on pages 60 to 117. This information is incorporated in the Directors' report by reference.

Disclosure of information under Listing Rule 9.8.4R

In accordance with Listing Rule 9.8.4C, the table below sets out the location of the information required to be disclosed, where applicable.

Subject	Page
Interest capitalised by the Group	None
Unaudited financial information	None
Long-term incentive plan involving one Director only	109
Directors' waivers of emoluments	109
Directors' waivers of future emoluments	Not applicable
Non pro-rata allotments for cash (issuer)	Not applicable
Non pro-rata allotments for cash (major subsidiaries)	None
Listed company is a subsidiary of another company	Not applicable
Contracts of significance involving a director	Not applicable
Contracts of significance involving a controlling shareholder	Not applicable
Details of shareholder dividend waivers	119
Controlling shareholder agreements	Not applicable

Dividends

The Board recommends a final dividend of 14.0 pence per share to shareholders. Subject to shareholder approval at the Company's 2019 AGM, this will become payable on 16 May 2019 to all holders of Ordinary Shares on the Register of members at close of business on 5 April 2019. A special interim dividend has been declared of 8.3 pence per share and will have the same record and payment dates as the final dividend for 2018.

The final dividend resolution provides that the Board may cancel the dividend and, therefore, payment of the dividend at any time before payment, if it considers it necessary to do so for regulatory capital purposes. You can find detailed explanations about this in the Notice of AGM 2019. Likewise, the special interim dividend can also be cancelled if necessary.

You can find further details regarding dividends paid during 2017 and 2018 in the Finance review on page 26 and in note 14 to the consolidated financial statements on page 164. You can also find information on dividend and capital management in the Finance review on page 32.

Directors

You can find the current Directors' biographies on pages 62 to 64. All Directors will retire and, excepting Paul Geddes and Clare Thompson, will be submitted for election or re-election at the 2019 AGM. This is in accordance with the UK Corporate Governance Code and the Articles of Association of the Company, which govern appointing and replacing Directors.

The Directors listed on pages 62 and 64 were the Directors of the Company throughout the year apart from Mark Gregory and Gregor Stewart, who were each appointed as Directors on 1 March 2018, and Fiona McBain, who was appointed as a Director on 1 September 2018; Andrew Palmer and John Reizenstein also served during the year, retiring from the Board on 10 May 2018.

The Company's Articles of Association set out the Directors' powers. You can view these on the Company's website at www.directlinegroup.co.uk. The Directors' powers are also subject to relevant legislation and, in certain circumstances, authority from the Company's shareholders. You can find details of the Directors' remuneration, service contracts, employment contracts and interests in the shares of the Company in the Directors' remuneration report on pages 88 to 117.

The Articles of Association of the Company permit it to indemnify the Company's officers, and officers of any associated company, against liabilities arising from conducting Company business, to the extent permitted by law. As such, the Company has executed deeds of indemnity for each Director's benefit, regarding liabilities that may attach to them in their capacity as Directors of the Company or associated companies.

These indemnities are qualifying third-party indemnities as defined by section 234 of the Companies Act 2006. No amount was paid under any of these indemnities during the year. The Company maintains directors' and officers' liability insurance. This provides appropriate cover for legal actions brought against its Directors. The Company has also provided the directors of DLG Pension Trustee Limited with qualifying pension scheme indemnities. This is in accordance with section 235 of the Companies Act 2006. DLG Pension Trustee Limited acts as trustee for two of the Company's occupational pension schemes.

Secretary

Roger Clifton is the Company Secretary of Direct Line Insurance Group plc. He can be contacted at the Company's Registered Office, details of which are on page 196.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 31 December 2018, the Company's share capital comprised 1,375,000,000 fully paid Ordinary Shares of 10 10/11 pence each.

At the Company's 2018 AGM, the Directors were authorised to:

- allot shares in the Company or grant rights to subscribe for, or convert any security into shares, up to an aggregate nominal amount of £50,000,000 and to allot further shares up to an aggregate nominal amount of £50,000,000, for the purpose of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £7,500,000 for cash, without offering the shares first to existing shareholders in proportion to their holdings;
- allot additional shares having a nominal amount not exceeding in aggregate £7,500,000 for the purposes of financing a transaction which the Board of the Company determines to be an acquisition or other capital investment, without offering the shares first to existing shareholders in proportion to their holdings;
- make market purchases of up to 137,500,000 shares in the Company, representing 10% of the Company's issued share capital at the time; and
- allot shares (with the disapplication of pre-emption rights) up to an aggregate nominal amount of £23,250,000 in relation to the issue of solvency II RT1 Instruments.

To date, the Directors have not used these authorities. At the 2019 AGM, shareholders will be asked to renew these authorities. The Company has not held any shares in treasury during the period under review. You can find out more about the Company's share capital and shares under option at as 31 December 2018 in notes 29 and 35 to the consolidated financial statements.

Under the Company's Share Incentive Plan, Trustees hold shares on behalf of employee participants. The Trustees will only vote on those shares and receive dividends that a participant beneficially owns, in accordance with the participant's wishes. An Employee Benefit Trust also operates. The Trustee of this has discretion to vote on any shares it holds as it sees fit, except any shares participants own beneficially; in which case, the Trustee will only vote on such shares as per a participant's instructions.

The Trustee of the Employee Benefit Trust has waived its right to dividends on all shares within the Trust. You can find out more about the number of shares held by the employee share plan trusts in note 35 on page 176. The Company is only aware of the dividend waivers and voting restrictions mentioned above.

Shareholder voting rights and restrictions on transfer of shares

All the Company's issued Ordinary Shares rank equally in all respects. The Company's Articles of Association set out the rights and obligations attaching to the Company's Ordinary Shares.

Employees of the Company and Directors must conform with the EU Market Abuse Regulation and the Company's share dealing rules. These rules restrict particular employees' and Directors' ability to deal in the Company's shares at certain times, and require the employee or Director to obtain permission to deal before doing so. Some of the Company's employee share plans also include restrictions on transferring shares while the shares are held within the plans.

Each general meeting notice will specify the time for determining a shareholder's entitlement to attend and vote at the meeting. This will not be more than 48 hours before the time fixed for the meeting (which may exclude non-working days). To be valid, all proxy appointments must be filed at least 48 hours before the time of the general meeting. In calculating this time period, no account shall be taken of any part of a day that is not a working day.

Where the Company has issued a notice under section 793 of the Companies Act 2006, which is in default for at least 14 days, the person(s) interested in those shares shall not be entitled to attend or vote at any general meeting until the default has been corrected or the shares sold.

There is no arrangement or understanding with any shareholder, customer or supplier, or any other external party, which provides the right to appoint a Director or a member of the Executive Committee, or any other special rights regarding control of the Company.

Articles of Association

Unless expressly specified to the contrary in the Articles of Association, they may only be amended by a special resolution of the Company's shareholders at a general meeting.

Significant agreements affected by a change of control

A number of agreements may take effect, alter or terminate upon a change of control of the Company. None of these agreements is considered significant in terms of its impact on the Group's business as a whole. All the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards would typically vest and become exercisable. This is subject to satisfying any performance conditions, and normally with an additional time-based pro-rata reduction where performance conditions apply, and approval from the Remuneration Committee.

Substantial shareholdings

In accordance with the provisions of chapter 5 of the FCA's Disclosure Guidance and Transparency Rules, the Company has been notified of the following direct and indirect interests in the Company's voting rights. Information provided by the Company pursuant to the FCA's Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the Company's website.

	31 December 2018	4 March 2019
APG Asset Management N.V	3.35%	3.26%
Artemis Investment Management LLP	4.79%	4.81%
BlackRock, Inc.	10.13%	10.14%
Standard Life Aberdeen plc	8.08%	8.32%
T.Rowe Price Associates, Inc	5.79%	4.52%

Political donations

The Group made no political donations during the year (2017: nil).

Employees with disabilities

The Group is committed to promoting diversity and inclusion across every area of the business through initiatives such as the DNA. At recruitment, we adjust and enhance our application and selection process, and guide and provide additional training for interviewers, where necessary.

Our DNA focuses on a number of strands including employees with disabilities. It identifies areas where we can improve and help people to continue working for us. We reasonably adjust employees' working environments and equipment, and roles and role requirements. We also ensure that everyone can access the same opportunities.

Greenhouse gas emissions

In order to comply with the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, the Group has followed the 2013 UK Government environmental reporting guidance for GHG emissions; used the UK Government's greenhouse gas conversion factors; and adopted the financial control approach to setting the organisational boundaries of responsibilities for GHG emissions. In applying the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) we have calculated emissions associated with electricity consumption using both the location-based Scope 2 and market-based Scope 2 calculation methodologies. GHG emissions are classified as direct or indirect, and divided into Scope 1, Scope 2 and Scope 3 emissions. Direct GHG emissions are those from sources that the Group owns or controls. Indirect GHG emissions are those that are a consequence of the Group's activities, but occur at sources owned or controlled by another organisation. The Group has considered the seven main GHGs, reported in tonnes of carbon dioxide equivalent ("**CO_2e**"), and set 2013 as the base year.

Scope 1 – direct emissions including fuels used in office buildings, accident repair centres and owned vehicles.

Scope 2 – indirect emissions resulting from generating electricity purchased for office buildings and accident repair centres.

Scope 3 – includes all other indirect emissions such as waste disposal, business travel and staff commuting.

Total GHG emissions (Scope 1 and Scope 2) in 2018 were 16,219 tonnes (2017: 17399 tonnes), as set out in the table below. This primarily comprised emissions from purchased electricity and natural gas, diesel fuel, and refrigerant gas used. In addition to total emissions, the Group also monitors emissions per £ million of net earned premium. In 2018, this was 5.2 tonnes CO_2e per £ million of net earned premium (2017: 5.5 tonnes). This is a measure of how efficiently insurance products are provided. It allows us to compare our year-on-year performance and performance against other insurance companies. You can find verification statements on the Group's website at www.directlinegroup.co.uk. You can find further information on the Group's approach to energy and the environment in the Responsibility report on page 55.

Global GHG emissions data for reporting year 1 January 2018 – 31 December 2018

Emissions from:	Scope 2 Location-based Tonnes of CO_2e	Scope 2 Market-based Tonnes of CO_2e
Combustion of fuel & operation of facilities (Scope 1)	8,304	8,304
Electricity, heat, steam and cooling purchased for own use (Scope 2)	7,915	10,290
Total (Scope 1 & 2)	16,219	18,594
Intensity metric: tonnes CO_2e/ Million GBP net earned premium (£m)	5.2	6.0
Transmission and Distribution ("T&D") losses from electricity (Scope 3)	675	675
Total (Scope 1, 2 & 3 – T&D Losses)	16,894	19,269
Intensity metric: tonnes CO_2e/ Million GBP net earned premium (£m)	5.5	6.2
T&D losses from electricity, commuting, paper and business travel (Scope 3)	17,809	17,809
Total (Scope 1, 2 & 3)	34,028	36,403
Intensity metric: tonnes CO_2e/ Million GBP net earned premium (£m)	11.0	11.8

Year on year comparison (Scope 2 location-based methodology)

	Tonnes of CO_2e			
Emissions from:	2013	2017	2018	Percentage change (2013 to 2018)
Scope 1	8,429	8,027	**8,304**	-1.5
Scope 2	21,480	9,371	**7,915**	-63.2
Total (Scope 1 & 2)	29,909	17,399	**16,219**	-45.8
Intensity metric: tonnes CO_2e/million GBP net earned premium (£m)	8.5	5.5	**5.2**	-38.2
Scope 3 (Only T&D losses from electricity)	1,774	876	**675**	-62.0
Total (Scope 1, 2 & 3 – T&D losses)	31,683	18,275	**16,894**	-46.7
Intensity metric: tonnes CO_2e/Million GBP net earned premium (£m)	9.0	5.8	**5.5**	-39.2

Going concern

The Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic environment.

The Finance review on pages 32 to 34 describes the Group's capital management strategy, which covers how it measures its regulatory and economic capital needs and deploys capital.

The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. Additionally, note 3 to the consolidated financial statements describes capital management needs and policies. The note also covers insurance, market, liquidity and credit risks which may affect the Group's financial position.

Having made due enquiries, the Directors reasonably expect that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from 4 March 2019 (the date of approval of the financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Disclosing information to the Auditor

Each Director at the date of approving these Annual Report & Accounts confirms that: as far as they are aware, there is no relevant audit information of which Deloitte, the Company's External Auditor, is unaware; and they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that Deloitte is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte has expressed its willingness to continue in office as the External Auditor. A resolution to reappoint Deloitte will be proposed at the forthcoming AGM. You can find an assessment of the effectiveness and recommendation for reappointing Deloitte in the Audit Committee report on page 79.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors must prepare the Group financial statements in accordance with IFRS, as adopted by the EU and Article 4 of the International Accounting Standard ("**IAS**") regulation. The Directors have also chosen to prepare the Parent Company financial statements under IFRS, as adopted by the EU. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the Company's state of affairs and profit or loss for that period.

In preparing these financial statements, IAS 1 requires that Directors: properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and assess the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that: are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, the Company's financial position at any time; and enable them to ensure the financial statements comply with the Companies Act 2006. Additionally, the Directors are responsible for safeguarding the Company's assets and, hence, taking reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Company's website at www.directlinegroup.co.uk. Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 62 to 64, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report (on pages 1 to 59) and Directors' report (on pages 118 to 121) include a fair review of: (i) the business's development and performance; and (ii) the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Board reviewed and approved this report on 4 March 2019.

By order of the Board

ROGER C. CLIFTON
COMPANY SECRETARY

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS