

Effectiveness

Board meetings & activity in 2017



Board meetings

The activities undertaken by the Board in 2017 intended to promote the success of the Company, are focused on its role as the leadership and decision-making forum for the Group.

Scheduled Board meeting discussions (set out on the timeline above) focused on four main themes in 2017:

Strategy & execution, including: setting the Group's key strategic targets and monitoring the Group's performance against those targets; reviewing customer experience and monitoring the Group performance against external brand metrics; reviewing and approving key projects aimed at developing the business or rationalising costs; reviewing the approach to mergers and acquisitions; and reviewing the individual strategy of key business lines.

Financial performance and investor relations, including: setting financial plans, annual budgets and key performance indicators ("KPIs"), and monitoring the Group's results against them; considering the Group's reserving position; approving financial results for publication; resetting the Group's dividend policy; approval of catastrophe reinsurance arrangements; motor reinsurance renewal; authorising the Group's planned capital management exercise of issuing of £350 million Fixed Rate Reset Perpetual Restricted Tier 1 notes with a coupon of 4.75% ("Tier 1 notes") to investors, which were primarily used to fund the repurchase of half the Group's £500 million (nominal) 9.25% Tier 2 debt; 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 review on the Group; 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 all regulatory requirements.

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

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 units ensuring that the Board's aims are being correctly disseminated throughout the Group, and that colleagues' views and opinions are reported back to the Board. The NEDs meet with key management outside the Board and Committee fora to get a wider view of the Group's activities.

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 2017, 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 car technology.

Board training

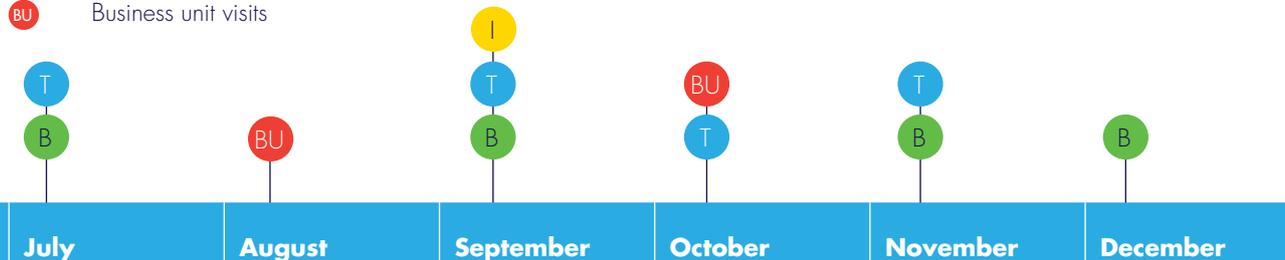
The Board is committed to the training and development of Directors and employees. The Company Secretary is responsible for helping the Chairman regularly review and organise training for the Directors. The Company Secretary also maintains an annual training agenda for the Board and its Committees. In order for our Directors, particularly the NEDs, to discharge their responsibilities, it is essential that they understand our business.

The main Board training activities in 2017 included training on topics such as:

- competition law;
- Solvency II matters;
- the Group's Internal Economic Capital Model ("IECM");
- the Group's investment risk appetite;
- cyber risk and security;
- the upcoming new insurance contracts standard (IFRS 17);
- the outlook for internal audit in 2020;
- EU General Data Protection Regulation ("EUGDPR");
- alternative pricing;
- conduct pricing; and
- motor reinsurance.

Key for Board meetings & activity in 2017

- B Board meetings
- S Strategy day
- T Training
- I Induction
- BU Business unit visits



Business unit visits

The Board visits different business units during the year. During 2017, NED visits to operational business units were arranged to meet the management teams and better understand how the business operates. These included visits to Sales, Customer Operations, Auto Services, Digital, Personal Lines, Data Science, Operational Risk and Commercial teams in Ipswich, Glasgow, Warwick, Doncaster and Bromley.

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.

Danuta Gray's programme focused on the Group's businesses, strategic and transformational priorities, regulatory and governance frameworks, capital and financial management, and risk framework. Given Mike Holliday-Williams' extensive experience of the business, his induction programme focused on his duties and responsibilities as an Executive Director of the Company and corporate governance matters.

Penny James commenced her induction programme in September 2017 which prepared her for her role as an Executive Director and CFO of the Company. The programme was tailored to familiarise Penny with the business, its culture, the market in which it operates and its people.

Board and Committee effectiveness review

In accordance with the principles and provisions of the Code, the Board's intended 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.

The 2016 Board effectiveness review was facilitated by an external consultant, Professor Rob Goffee of London Business School, who is independent and has no other connection with the Company. In 2017, the Board chose to conduct its effectiveness review in-house.

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 stakeholders and preparing reports. The Board and each of its Committees reviewed and discussed the relevant reports.

Building on positive responses to the 2016 effectiveness review, the 2017 questionnaire focused on further opportunities for improvement, including making the best use of the experience and expertise of NEDs in the Board's strategic thinking, the preservation of the Board's culture at a time of changes to its composition and how the supportive and challenging relationship between the Board and the Group's senior management can be preserved and enhanced.

The Committee questionnaire focused on the clarity of each Committee's role and scope, its composition, the resources available to it and the effectiveness of communicating the Committee's proceedings to stakeholders.

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 2017. The Directors are also satisfied that they made significant progress in areas identified for potential improvement in 2016.

Whilst the findings of the 2017 effectiveness review were positive, the Board and each of its Committees will focus during 2018 on opportunities for fine-tuning with the objective of further improving effectiveness.