Clare Thompson
Chair of the Remuneration 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,

As the Chair of the Remuneration Committee (the "Committee"), I am pleased to introduce our report on Directors' remuneration for the 2017 financial year.

We have set out this report in the following sections:

Section	Pages
Remuneration at a glance – summarising the remuneration arrangements for Executive Directors	76 to 77
Annual report on remuneration – detailing pay outcomes for 2017 and covering how the Group will implement its remuneration policy in 2018	78 to 93
Summary of policy approved at the 2017 AGM	94 to 99

Consistent with the regulations, our Directors' remuneration policy was resubmitted to the Company's AGM on 11 May 2017 and approved by a significant majority of shareholders (98% voted in favour). We are pleased with the support shown by our shareholders to the work of this Committee and hope that you will equally agree with how we have applied that policy during 2017 and plan to do so in 2018.

Pay outcomes for 2017

Helped by focusing on the value, service and brand propositions we offer to our customers, and maintaining underwriting discipline, 2017 was another strong year for the Group with PBT of £539m. This outturn was ahead of the target thereby leading to a maximum payout for this element under the Annual Incentive Plan ("**AIP**").

Overall, performance on both the customer and people metrics under the strategic measures was also strong, resulting in an achievement of 84%, with an on-target achievement for the personal objective (60%).

The only adjustment from the statutory IFRS basis was to exclude the exceptional in-year costs of the capital management exercises. It is considered best practice to neutralise such transactions and the Committee concluded this was appropriate given the Board's view that this unbudgeted finance cost was in the interests of the Company and shareholders, and that management should not be penalised for it. Given the level of outperformance of the target, this in fact had no impact on the outturn.

We therefore awarded bonuses of 88% 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 ("**DAIP**") award.

Shareholders may recall that, at the time of the approval of the 2016 AIP outturn, the Government had just announced a change in the Ogden discount rate (February 2017) which materially impacted the financial results for 2016. To align the 2016 AIP outturn with the shareholder experience, the Committee significantly reduced the AIP outturn, but agreed, in these exceptional circumstances, to keep its assessment of the 2016 AIP outcome under review until the end of 2017. This would enable the Committee to recalculate the outturn for the 2016 financial year if the Ogden discount rate was raised or the mechanism for setting it was changed during 2017. The Government indeed made announcements in this regard but is proceeding at a slower pace than anticipated and, while it has stated that the mechanism needs reform, no legislation has been forthcoming. A new rate therefore is still to be announced. The Committee noted that, in reducing the AIP outturn in 2016, it operated more conservatively than many of its competitors and, as it remains unclear whether the reduction taken in 2016 was appropriate, it has agreed to extend the review period for the 2016 AIP until the end of 2018.

For the 2018 AIP we will continue with the balanced scorecard of financial and strategic measures. No change will be made to the current weightings and assessment approach.

The Long-Term Incentive Plan ("**LTIP**") has two performance measures: Return on Tangible Equity ("**RoTE**") (60% of the total award) and Total Shareholder Return ("**TSR**") (40% of the total award).

Awards under the LTIP granted in March and August 2014 vested during 2017. The Group achieved an average RoTE of 16.2% over 2014, 2015 and 2016 resulting in 76% of the maximum potential vesting of the RoTE element (45.6% of the total award).

The Company's TSR performance over the three-year vesting period was positioned above upper quintile against its comparator group for the March 2014 awards and slightly below the upper quintile for the August 2014 awards. This resulted in 100% and 83.9% respectively of the maximum potential vesting under the TSR element (40% and 33.6% of the total award).

Overall, 85.6% of the total awards vested in March 2017 and 79.2% in August 2017.

Awards under the LTIP granted in March and August 2015 are due to vest during 2018. This is 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 2017. The three-year average RoTE performance for 2015, 2016 and 2017 was 18.1% 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 2017 was adjusted downwards in order to exclude the favourable impact of the capital management exercises 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, the TSR element of the 2015 awards due to vest during 2018 will be reported separately next year. We have included the RoTE vesting outcomes plus the TSR vestings from the 2014 awards in the single figure remuneration table for the Executive Directors.

Approach to pay in 2018

The policy was renewed at the 2017 AGM and included a number of developments in best practice, including the addition of holding periods to new LTIP awards.

No further change to the overall approach to pay is anticipated for 2018:

- The CEO and MD Personal Lines will be awarded a salary increase of 2.5% from 1 April 2018, in line with the average rate for staff generally. No increase will be awarded to the CFO-designate or the CFO in light of the former's package having just been set and the latter's pending retirement.
- No change will be made to either the weighting or the approach to assessment of the financial metric under the AIP.
- We are not proposing any changes to the performance conditions for the 2018 awards under the LTIP. However, the RoTE scale will be increased from the current range of 15% to 18% to a range of 17.5% to 20.5%. This increased range reflects both the beneficial impact of the capital management exercises and the Group's planned underlying RoTE performance.

The Committee is monitoring potential changes to the Corporate Governance Code, including regarding publishing a ratio of CEO to all-employee pay, and will adopt such practices once the preferred methodology has been confirmed.

Chief Financial Officer

During the year Penny James was appointed to succeed John Reizenstein as Chief Financial Officer and will become the CFO on 1 March 2018. Mr Reizenstein will step down from the Board at the AGM and leave the Group in the autumn.

In setting Ms James' remuneration, the principle we followed was to replicate the value of her previous total remuneration package, including compensating her for awards forfeited on leaving her previous employer. The details are fully set out on page 92 of the report.

For Mr Reizenstein, the Committee noted that he was retiring and, on that basis, confirmed his "good leaver" status without the exercise of any discretion.

Your AGM vote

I hope that, having read the information in this report and considering the performance of the Group during 2017, you will vote in support of the Remuneration resolution at the AGM.

Yours sincerely

Clare Thompson

Clare Thompson
Chair of the Remuneration Committee

Remuneration at a glance

Implementing the policy in 2018

Key feature	Implementation in 2018
Base salary	
• Reviewed annually with any increases taking effect on 1 April • The Committee considers a range of factors when determining salaries, including pay increases throughout the Group, individual performance and market data	• 2.5% salary increase for the CEO to £830,754 • 2.5% salary increase for the MD Personal Lines to £562,584 • No increase was awarded to either the CFO or CFO-designate
Pensions	
• CEO, CFO and CFO-designate contribution rate of 25% of salary • MD Personal Lines contribution rate of 15% of salary	• No change
Annual Incentive Plan (AIP)	
• Maximum opportunity remains at 175% of salary for the CEO and for the CFO-designate, and 150% for the other Executive Directors; 40% of the award is deferred into shares, typically vesting after three years • 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 weighting or measures used for 2018
Long-Term Incentive Plan (LTIP)	
• Awards typically granted as nil-cost options • Awards typically granted every six months 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 • Increase to the level of RoTE required for the 2018 awards to vest from the current range of 15.0% to 18.0% to a range of 17.5% to 20.5%

Find out more on page 94

Executive Directors' total pay

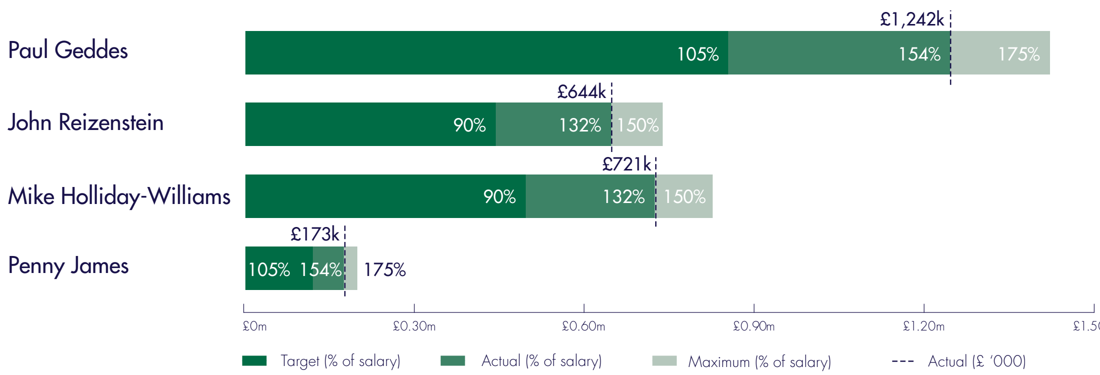
Find out more on page 79

This chart illustrates the total remuneration components received in 2017.

AIP achievement

Find out more on pages 80 to 81

This chart illustrates the actual amounts earned from the AIP and reflecting performance in 2017. 60% of the amount will be payable in March 2018 and 40% will be deferred into shares for three years.



LTIP

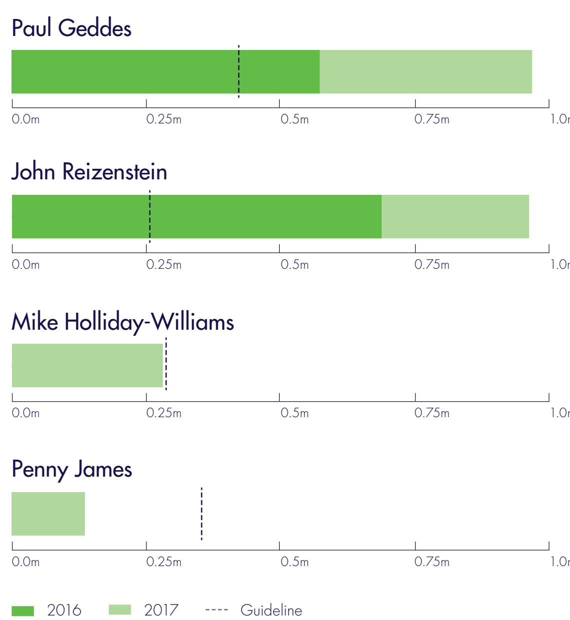
Find out more on page 82 & 85

Release of value

This chart illustrates the total value of the March and August 2014 LTIP awards that vested in 2017.

Shareholding at year end

This chart illustrates the number of shares held at the end of 2017 by the Executive Directors against the share ownership guidelines of 200% of salary.



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 2017. You can find information about each member's attendance at meetings on page 49. You can find their biographies on pages 46 and 47.

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

Note:
1. Appointed to the Committee with effect from 6 March 2017.

Advisers to the Committee

The Committee consults with the Chief Executive Officer, the 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 Human Resources Director are not present when their remuneration is discussed. The Committee works closely with the Chairs of the Board Risk Committee and the Audit Committee, including receiving input from those Chairs regarding target-setting and payouts under incentive plans, and whether it is appropriate to operate malus and clawback. The Chair of the Audit Committee is currently a member of the Remuneration Committee, and the Chair of the Board Risk Committee attended Remuneration Committee meetings on three occasions. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee retains FIT Remuneration Consultants LLP ("FIT") as its independent adviser. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct. The Committee appointed FIT when preparing for the IPO and after considering the firm's experience in this sector.

During the year, FIT advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment and other matters that the Committee was considering. FIT does not provide the Company with other services. The Committee is satisfied that the advice FIT provides is objective and independent.

FIT's total fees for remuneration-related advice in 2017 were £125,633 exclusive of VAT. FIT charged its fees based on its standard terms of business for providing advice.

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

Implementing policy and pay outcomes relating to 2017 performance

Single figure table (Audited)

£'000	Salary[1] 2017	Salary[1] 2016	Benefits[2] 2017	Benefits[2] 2016	Annual bonus[3,10] 2017	Annual bonus[3,10] 2016	Long-term incentives[4,5,6,11] 2017	Long-term incentives[4,5,6,11] 2016	All-employee share plans[7] 2017	All-employee share plans[7] 2016	Pension 2017	Pension 2016	Total 2017	Total 2016
Paul Geddes	807	790	18	19	1,242	594	2,063	2,471	–	–	202	197	4,332	4,071
John Reizenstein	488	478	9	10	644	308	1,248	1,495	1	1	122	119	2,512	2,411
Mike Holliday-Williams[8]	501	–	13	–	721	–	1,001	–	–	–	75	–	2,311	–
Penny James[9]	113	–	2	–	1,014	–	513	–	–	–	28	–	1,670	–

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.
3. Annual bonus – includes amounts earned for performance during the year, but deferred for three years under the DAIP. For more information, see page 87. These deferred awards are not subject to any conditions, except continuous employment. However, awards remain subject to malus and clawback.
4. 2014 LTIP awards RoTE – the expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2014 and reported in 2016 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £3.376 and £3.819 on 26 March 2017 and 29 August 2017 respectively, compared to the three-month average share price of £3.55686 used in reporting this figure in the 2016 remuneration report. The revised figures include the actual number of dividends accrued on this portion of the award at vesting. This results in an adjusted reportable increase of approximately £4,855 for Paul Geddes and £2,938 for John Reizenstein, with a corresponding increase of the single figure for 2016 reflected in the table above.
5. 2015 LTIP awards RoTE – the expected levels of vesting are set out on page 82. The corresponding values under long-term incentives, including the estimated value of dividends accrued to 31 December 2017, are £1,135,614 for Paul Geddes, £687,341 for John Reizenstein and £582,738 for Mike Holliday-Williams, based on a three-month average Company share price to 31 December 2017 of £3.65557. Any shares vesting under the LTIP granted in 2015 will not be delivered until the end of the applicable vesting periods in March and August 2018.
6. 2014 LTIP awards TSR – the level of vesting is set out on page 82. The corresponding values under long-term incentives, including the value of dividends on vesting, are £927,109 for Paul Geddes, £561,141 for John Reizenstein and £418,193 for Mike Holliday-Williams, using the share prices on 26 March 2017 and 29 August 2017 of £3.376 and £3.819 respectively.
7. SIP – includes the value of matching shares under the SIP.
8. Mike Holliday-Williams was appointed to the Board on 1 February 2017. His salary, benefits and pension for the purposes of this table have been pro-rated accordingly.
9. Penny James was appointed to the Board on 1 November 2017 and also became employed on that date.
10. The annual bonus figure for Penny James consists of two elements: £173,250 relates to the pro-rated annual bonus for 2017 determined on the same basis as other Executive Directors, £840,841 relates to an estimated payment in lieu of the bonus forfeited at her previous employer as detailed on page 93. The actual payment will be confirmed in next year's report.
11. The long-term incentive figure for Penny James relates to an estimated amount in respect of the first tranche of her buy-out awards disclosed on page 90 which vests in April 2018, and is subject to performance conditions ending in the 2017 performance year. The value is based on an expected level of vesting of 100% and a three-month average share price to 31 December 2017 of £3.65557. The actual vesting will be confirmed in next year's report.

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

Annual Incentive Plan ("AIP") outcomes for 2017

The Committee established target performance levels at the start of the year. The Committee's approach to setting and assessing PBT targets under the AIP is to set a target level of profit performance and then, at the year end, to assess over- or underperformance by judging overall corporate performance both on an absolute and relative basis. While the Committee does not set a formal threshold to maximum profit range against which performance is formulaically assessed, the Committee's starting point each year has been to look at a range of 10% either side of the targets when discussing the achievement. The Committee again felt this an appropriate basis for its discussions and concluded that the indicative outturn should apply without further adjustment.

The only adjustment from the reported accounting position, as explained in the letter from the Committee Chair, was to exclude the impact of the one-off cost associated with the buying back of the Group's subordinated guaranteed notes which was an unbudgeted initiative to the benefit of the Company and its shareholders. While this, in fact, had no impact on the outturn, given the level of outperformance of the target, it was the correct principle and consistent with best practice and past practice to exclude the impact.

In the table below, we have disclosed the target set for PBT performance. The actual PBT performance includes the adjustment to reported PBT as described above. We have included details of the performance achieved against the non-financial measures to improve transparency for shareholders although some metrics remain commercially sensitive.

The bar chart illustrates the Committee's assessment of the level of achievement under the AIP. The outcomes reflect continuing strong performance during the year as discussed in the Group highlights and Chairman's statement on page 1 and pages 8 to 9 respectively.

Measures		Weight (as a % of max award)	Target performance (£m)	Actual performance (£m)	Performance assessment	Achievement against performance measures (0% Vesting / Target 60% Vesting / Maximum 100% Vesting)
Financial	Profit before tax	55%	479.3	605.1	Maximum	100%
Strategic	A basket of measures – key customer and people metrics	25%	See narrative		Above target	84%
Personal	Including objective shared among all Executive Committee members	20%	See narrative		On target	60%

Executive Director	Achievement under the 2017 AIP
Paul Geddes	88% of maximum
John Reizenstein	88% of maximum
Mike Holliday-Williams	88% of maximum
Penny James	88% of maximum

The Committee also considered performance against the "gateway" criteria outlined on page 91 and determined that it was appropriate to pay a bonus and that it was not necessary to reduce the payment in light of performance against these criteria.

Financial element (55% weighting)

As discussed above, there is no pre-set scale around the PBT target for the 2017 financial year and, in accordance with the AIP terms, the Committee determined the appropriate payout for the performance achieved. The outturn was 26% ahead of the target and, therefore, considerably ahead of the indicative maximum of 10% ahead of target resulting in a maximum payout for this element. As noted in the Chair's letter, PBT performance included the neutralisation of the capital transactions, which had no impact on the outturn.

Strategic element (25% weighting)

The Group's strategy is to make insurance much easier and better value for our customers. We have continued to invest in improving the customer experience and removing the reasons for customer problems. Overall, performance on the customer agenda against our 11 key customer metrics remains very strong, with the Direct Line and Churchill brands performing well in independent customer experience benchmarking studies and good progress on key Net Promoter Score measures and customer journeys.

2017 saw the introduction of a basket of people measures to the AIP scorecard to reflect the importance of this agenda to the success of the Group. Progress on these measures was also considered to be very strong, with key focus areas such as succession strength, diversity and employee engagement showing notable development.

The Committee considered that the Group has made good progress in continuing to improve the customer experience against an already solid performance, as well as advancements in its key people measures against a background of high employee engagement. Having considered performance against targets and an assessment of the quality of performance achieved, the Committee agreed an outturn of 84% under this element for this good performance.

Personal element (20% weighting)

This element relates to an objective that is shared with other Executive Committee members and set by the Committee. The Committee considers the performance against this element together with the Executive's personal performance and leadership over the year.

The Group remains focused on improving its digital offering, customer experience and operational efficiency, and a key focus of management continues to be the level of change the Group is making to its IT infrastructure. 2017 saw the Group make good progress on these plans, executing key planned changes on schedule, increasing confidence in future plans and managing costs, with a significant focus on the stability and security of the IT environment. Whilst there was significant progress on these initiatives, the impact on intangible assets due to a reworking of some elements of capital expenditure resulted in an impairment charge at the year end (and which is included in the outcome under the Financial element).

Taking performance against each Executive Director's individual performance objectives and the above challenges into account, the Committee determined that the Executive Directors should each receive awards of 60% of the maximum available under this element.

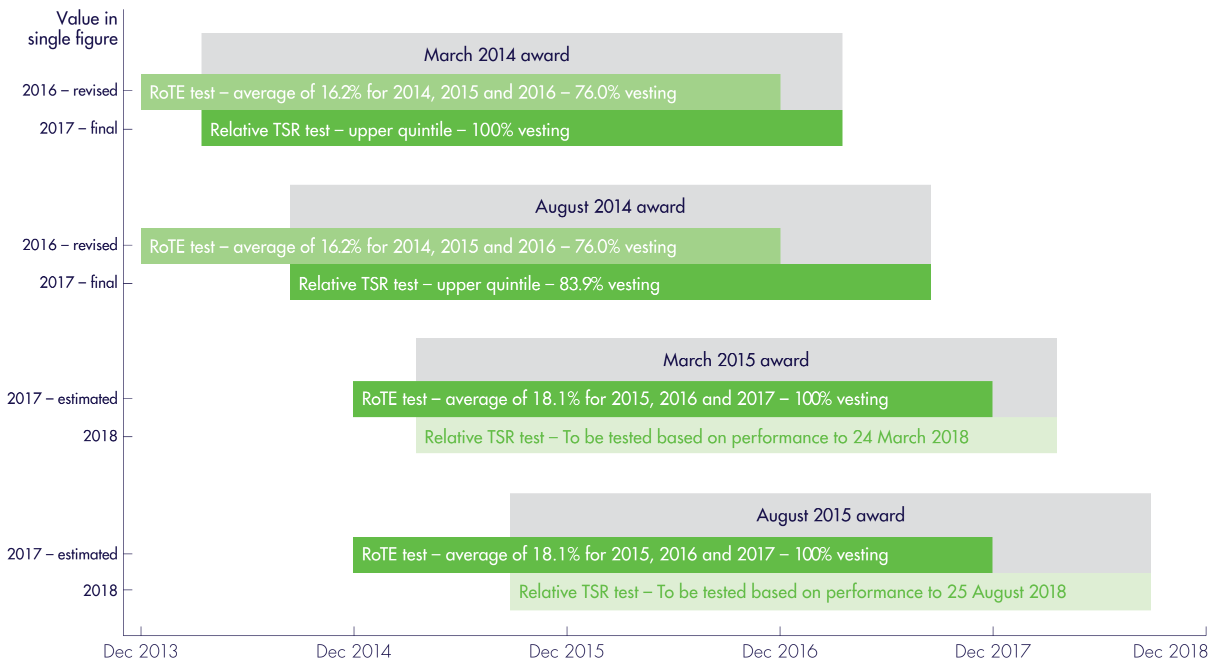
Consequently, the annual incentive awards for Executive Directors for the financial year ended 31 December 2017 were as follows:

(Audited)	Maximum (% of salary)	Target (% of salary)	Actual (% of salary)	Actual £'000 (including cash and deferred elements)
Paul Geddes, CEO	175%	105%	154%	1,242
John Reizenstein, CFO	150%	90%	132%	644
Mike Holliday-Williams, MD Personal Lines	150%	90%	132%	721
Penny James, CFO-designate[1]	175%	105%	154%	173

Note:
1. The annual incentive award made to Penny James represents a pro-rated amount for the period 1 November to 31 December 2017 since joining the Company.

LTIP outcomes for 2017 (Audited)

The following summarises the outcome against performance targets set for the 2014 and 2015 LTIP awards:



Awards under the LTIP granted in March and August 2014 vested during 2017. They were subject to TSR performance over the three-year vesting period, and RoTE performance in 2014, 2015 and 2016. The Group achieved an average RoTE of 16.2% over the three-year performance period. This resulted in 76% of the maximum potential vesting of the RoTE element (45.6% of the total award). The TSR element comprises the other 40% of the total award. For the March 2014 awards, the Company's TSR was positioned above upper quintile against its comparator group; for the August 2014 awards, TSR was slightly below the upper quintile. This resulted in 100% and 83.9% respectively of the maximum potential vesting under the TSR element (40% and 33.6% of the total award). Overall, 85.6% of the total awards vested in March 2017 and 79.2% in August 2017 as the Committee was satisfied that the financial and risk underpins were met at the end of the vesting period.

Awards under the LTIP granted in March and August 2015 are due to vest during 2018. This is 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 2017. The three-year average RoTE performance for 2015, 2016 and 2017 was 18.1% against a maximum target of 17.5%. Awards under the RoTE element are due to vest at 100% of the maximum potential (60% of the total award). We have included these RoTE vesting outcomes plus the TSR vestings from the 2014 awards in the single remuneration figure for the CEO, the CFO and the MD Personal Lines. You can find details of this on page 79. Performance under the relative TSR measure will be assessed at the end of the vesting period in March and August as appropriate.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2016 and 2017. 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 'Benefits' below. The Non-Executive Directors receive no other benefits.

Director	2017 Fees[1] £'000	2017 Benefits[2] £'000	Total 2017 £'000	2016 Fees £'000	2016 Benefits £'000	Total 2016 £'000
Michael Biggs	400	6	406	400	3	403
Danuta Gray[3]	74	–	74	–	–	–
Jane Hanson	115	12	127	115	9	124
Sebastian James	90	–	90	89	–	89
Andrew Palmer	125	–	125	126	–	126
Clare Thompson	110	–	110	108	–	108
Richard Ward	115	–	115	106	–	106

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 'Benefits' above comprise the value of taxable travel and subsistence expenses reimbursed by the Company (including any potential gross-up for tax and National Insurance Contributions due).
3. Danuta Gray was appointed to the Board from 1 February 2017. She was appointed to the Remuneration Committee with effect from 6 March 2017.

Percentage change in Chief Executive Officer's pay for 2016 to 2017

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

	Salary[1]	Benefits[2]	Bonus (including deferred amount)[3,4]
Chief Executive Officer	2.0%	(4.3%)	109%
All employees (average)	3.3%	(5.1%)	22.7%

Notes:
1. Based on the change in average pay for UK employees employed in the year ended 31 December 2017 and the year ended 31 December 2016. Salaries are not adjusted for the number of working hours, therefore the increase partly reflects the increase in working hours for some employees during the year.
2. There were no changes in benefits provision between 2016 and 2017.
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.
4. It should be noted that the bonus shows a high increase as the AIP was depressed in 2016 due to the significant reduction arising from the Ogden discount rate change. This remains subject to review if the rate is subsequently increased following the Government's review.

Chief Executive Officer's pay between 2012 and 2017

The table below shows historical levels of the Chief Executive Officer's pay between 2012 and 2017. It also shows vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity.

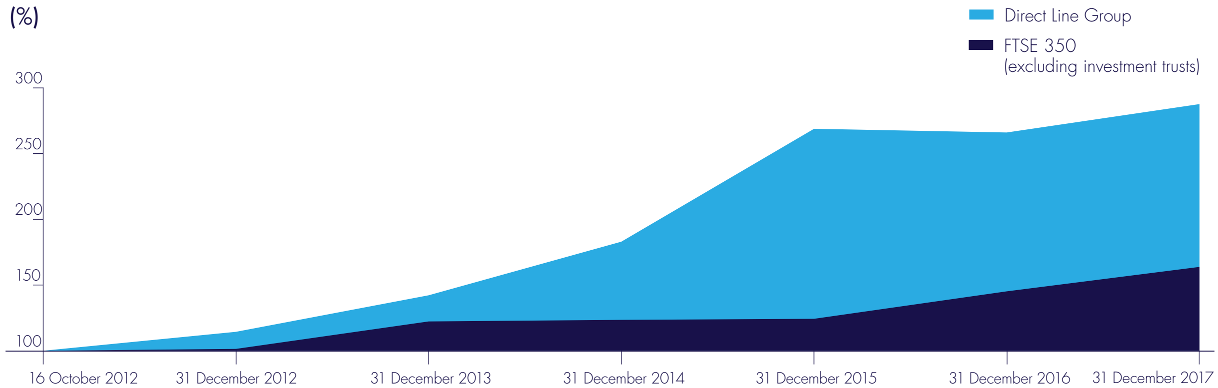
Chief Executive Officer	Single figure of total remuneration £'000	Annual bonus payout (% of maximum)	Long-term incentive vesting (% of maximum)[1]
2017[2]	4,332	88%	99%
2016[3]	4,071	43%	86%
2015	4,795	83%	96%
2014	5,356	75%	88%
2013	2,536	63%	55%
2012	1,908	65%	30%

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 2017 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2015. Any shares under the LTIP granted in 2015 will not be delivered until the end of the applicable vesting periods in March and August 2018. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed.
3. The 2016 single figure has been revised to reflect the actual vesting of the 2014 awards under the LTIP, an increase of £4,855.

Historical performance of TSR

This graph shows 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.

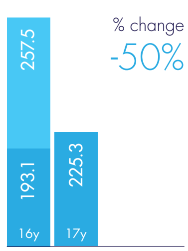
Total Shareholder Return
(%)



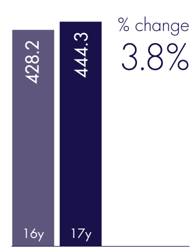
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders for 2016 and 2017.

Dividend (£m)



Overall expenditure on pay (£m)



Note:
There were no special dividends paid in 2017 which reflected the Group's capital position following the implementation of the new Ogden Discount Rate at the beginning of the year. Furthermore, the Group implemented a new policy with regards to capital distributions in 2017 whereby the Board will consider whether or not it is appropriate to pay a special dividend once a year, alongside the full-year results. There have been no share buy-backs since the IPO. The overall expenditure on pay has been taken from note 10 to the consolidated financial statements. 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 Directors' annual remuneration report and remuneration policy, both of which were put to shareholders at the 2017 AGM.

	For		Against		Number of votes withheld (abstentions)	Percentage of votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' remuneration report (2017 AGM)	916,037,366	99.32%	6,285,817	0.68%	6,738,340	0.73%
Approval of Directors' remuneration policy (2017 AGM)	881,046,703	98.29%	15,349,348	1.71%	32,669,059	3.52%

Note:
The percentages of votes for and against are expressed as a percentage of votes cast, excluding votes withheld. The percentage of votes withheld is expressed as a percentage of total votes cast, including votes withheld. The Committee is grateful for the strong vote in favour of the Directors' annual remuneration report and remuneration policy in 2017. The Committee makes itself available to investors to discuss developments in the remuneration aspects of corporate governance generally, and, in particular, changes to the Company's executive pay arrangements.

Shareholdings

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

Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2017[2] (% of salary)
Chief Executive Officer	200%	456%
Chief Financial Officer	200%	756%
MD Personal Lines	200%	195%
Chief Financial Officer-designate	200%	77%

Notes:
1. Executive Directors are expected to retain all the 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. This is calculated after any disposals necessary to pay personal taxes on acquiring such Ordinary Shares.
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.

Using shares

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.

This table shows each Executive Director's total share interests.

			Share plan interests at 31 December 2017		Beneficial share interests	
Director	Share plan awards subject to performance conditions[1]	Share plan awards not subject to performance conditions[2]	Share plan interests vested but unexercised	Share plan interests exercised or released during the year[3,4,5]	Total at 31 December 2017[6,7]	Total at 31 December 2016
Paul Geddes	1,300,488	301,202	1,044	751,325	967,821	572,468
John Reizenstein	787,103	158,404	972,536	436,302	455,831	195,602
Mike Holliday-Williams	738,301	184,644	–	312,598	280,736	112,989
Penny James	1,174,768	–	–	–	135,983	–

Notes:
1. This relates to awards under the Direct Line Group LTIP made to date. As described on page 82, awards made under the Direct Line Group LTIP in March and August 2015 that are subject to the RoTE performance condition, measured to 31 December 2017, are due to vest at 100% of the maximum potential. These shares will be delivered to Executive Directors in March and August 2018. For Penny James this also relates to one-off awards pursuant to Listing Rule 9.4.2 as disclosed on page 90.
2. Includes matching shares held under the SIP which are subject to forfeiture and deferred shares under the Direct Line Group DAIP. For more information, see pages 87 and 90.
3. On 27 March 2017 Paul Geddes exercised a DAIP and an LTIP award granted on 26 March 2014, and on 29 August 2017 exercised an LTIP award granted on 29 August 2014. Following these exercises, 1,044 DAIP shares remain vested but unexercised.
4. On 27 March 2017 John Reizenstein exercised a DAIP and an LTIP award granted on 26 March 2014, and on 29 August 2017 exercised an LTIP award granted on 29 August 2014. Following these exercises, 94,009 DAIP shares and 878,527 LTIP shares remain vested but unexercised.
5. On 4 May 2017 Mike Holliday-Williams exercised an RSP award granted on 27 May 2014, and on 29 August 2017 exercised an LTIP award granted on 29 August 2014.
6. Includes holdings of connected persons, as defined in section 96B(2) of the Financial Services and Markets Act 2000, and free and partnership shares held under the SIP which are not subject to forfeiture and considered beneficially owned.
7. Beneficial share interests include partnership shares John Reizenstein purchased under the SIP and free shares held by the CEO and the CFO under the SIP. At 26 February 2018, the number of shares beneficially held by John Reizenstein has increased to 455,949. There was no change to the number of shares held by Paul Geddes.

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

Director	Shares held at 31 December 2017[1,2]	Shares held at 31 December 2016
Mike Biggs	–	–
Danuta Gray	10,000	–
Jane Hanson	26,190	26,190
Sebastian James	5,000	–
Andrew Palmer	10,475	10,475
Clare Thompson	40,128	38,378
Richard Ward	–	–

Notes:
1. There were no changes to the number of shares held by Directors between the year end and the date of this report.
2. Includes holdings of connected persons, as defined in section 96B(2) of the Financial Services and Markets Act 2000.

Direct Line Group share awards

Direct Line Group Deferred Annual Incentive Plan ("DAIP") awards (Audited)

This table details the awards made to the CEO, the CFO and the MD Personal Lines 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 2017	No. of share options granted during the year[1]	No. of share options vested during the year	No. of dividend shares acquired at vesting	No. of dividend shares added post vesting	No. of share options exercised[2,3]	No. of share options held at 31 December 2017	Vesting date
Paul Geddes										
28-Mar-13	2.0157	380,004	997	–	–	–	47	–	1,044	28-Mar-16
26-Mar-14	2.433667	333,999	125,804	–	125,804	44,568	–	170,372	–	26-Mar-17
25-Mar-15	3.3007	400,000	111,087	–	–	–	–	–	111,087	25-Mar-18
29-Mar-16	3.752	447,996	119,402						119,402	29-Mar-19
27-Mar-17	3.361667	237,715		70,713					70,713	27-Mar-20
			357,290	**70,713**	**125,804**	**44,568**	**47**	**170,372**	**302,246**	
John Reizenstein										
28-Mar-13	2.0157	137,999	89,828	–	–	–	4,181	–	94,009	28-Mar-16
26-Mar-14	2.433667	166,000	62,525	–	62,525	22,150	–	84,675	–	26-Mar-17
25-Mar-15	3.3007	207,200	57,542	–	–	–	–	–	57,542	25-Mar-18
29-Mar-16	3.752	240,800	64,179	–	–	–	–	–	64,179	29-Mar-19
27-Mar-17	3.361667	123,318		36,683					36,683	27-Mar-20
			274,074	**36,683**	**62,525**	**22,150**	**4,181**	**84,675**	**252,413**	
Mike Holiday-Williams										
25-Mar-15	3.3007	239,997	66,651	–	–	–	–	–	66,651	25-Mar-18
29-Mar-16	3.752	270,797	72,174	–	–	–	–	–	72,174	29-Mar-19
27-Mar-17	3.361667	154,030		45,819	–	–	–	–	45,819	27-Mar-20
			138,825	**45,819**	**0**	**0**	**0**	**0**	**184,644**	

Notes:
1. Awards are granted as nil-cost options.
2. Paul Geddes exercised on 27 March 2017 at £3.3434 resulting in an aggregate gain of £569,613.
3. John Reizenstein exercised on 27 March 2017 at £3.3412 resulting in an aggregate gain of £282,916.

Direct Line Group Long-Term Incentive Plan ("LTIP") 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 options at 1 January 2017[1]	No. of options granted during the year[2]	No. of share options vested during the year[3]	No. of options lapsed for performance[4]	No. of dividend shares acquired at vesting[5]	No. of dividend shares added post vesting	No. of options exercised[6,7,8]	No. of options held at 31 December 2017	Vesting date
Paul Geddes											
26-Mar-14	2.433667	759,998	286,261	–	230,435	55,826	101,415	–	331,850	–	26-Mar-17
29-Aug-14	2.9020	759,999	240,064	–	171,745	65,421	77,358	–	249,103	–	29-Aug-17
25-Mar-15	3.3007	760,000	211,066	–	–	–	–	–	–	211,066	25-Mar-18
26-Aug-15	3.517	775,200	220,415	–	–	–	–	–	–	220,415	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
			1,380,145	**446,668**	**402,180**	**121,247**	**178,773**	**0**	**580,953**	**1,300,488**	
John Reizenstein											
07-Nov-12	1.96	460,000	285,961	–	–	–	–	13,310	–	299,271	09-Nov-15
28-Mar-13	2.0157	459,999	288,654	–	–	–	–	13,435	–	302,089	28-Mar-16
28-Aug-13	2.1564	459,999	264,840	–	–	–	–	12,326	–	277,166	28-Aug-16
26-Mar-14	2.433667	460,000	173,263	–	139,474	33,789	61,382	–	200,856	–	26-Mar-17
29-Aug-14	2.9020	459,999	145,301	–	103,950	39,597	46,821	–	150,771	–	29-Aug-17
25-Mar-15	3.3007	460,000	127,750	–	–	–	–	–	–	127,750	25-Mar-18
26-Aug-15	3.5170	469,200	133,409	–	–	–	–	–	–	133,409	26-Aug-18
29-Mar-16	3.7520	469,199	125,053	–	–	–	–	–	–	125,053	29-Mar-19
30-Aug-16	3.6833	480,899	130,562	–	–	–	–	–	–	130,562	30-Aug-19
27-Mar-17	3.361667	480,900	–	143,054	–	–	–	–	–	143,054	27-Mar-20
29-Aug-17	3.854	490,518	–	127,275	–	–	–	–	–	127,275	29-Aug-20
			1,674,793	**270,329**	**243,424**	**73,386**	**108,203**	**39,071**	**351,627**	**1,665,629**	

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of options at 1 January 2017[1]	No. of options granted during the year[2]	No. of share options vested during the year[3]	No. of options lapsed for performance[4]	No. of dividend shares acquired at vesting[5]	No. of dividend shares added post vesting	No. of options exercised[6,7,8]	No. of options held at 31 December 2017	Vesting date
Mike Holliday-Williams											
29-Aug-14	2.9020	787,498	248,750	–	177,958	67,789	80,157	–	258,115	–	29-Aug-17
25-Mar-15	3.3007	393,747	109,351	–	–	–	–	–	–	109,351	25-Mar-18
26-Aug-15	3.5170	393,749	111,956	–	–	–	–	–	–	111,956	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
			684,569	302,482	177,958	67,789	80,157	0	258,115	738,301	
Penny James[9]											
28-Nov-17	3.5673	1,349,984	–	378,433	–	–	–	–	–	378,433	28-Nov-20
			0	378,433	0	0	0	0	0	378,433	

Notes:
The Company's share price on 29 December 2017 was £3.817, and the range of prices in the year was £3.338 to £4.113.

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 2017, applying to 60% of the award, were 15% for 20% vesting, 16% for 40% vesting and 18% 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 92.
3. The closing market price on the dates of the vesting of the awards was £3.368 on 27 March 2017 and 3.819 on 29 August 2017.
4. Awards under the LTIP vested at 85.6% of the maximum potential on 27 March 2017 and 79.2% of the maximum potential on 29 August 2017.
5. Dividends added post-vesting are shown to 31 December 2017, although these are not realised until exercise.
6. Paul Geddes exercised on 27 March 2017 at £3.3412 resulting in an aggregate gain of £1,108,777, and on 29 August 2017 at £3.8019 resulting in an aggregate gain of £947,065.
7. John Reizenstein exercised on 27 March 2017 at £3.3412 resulting in an aggregate gain of £671,100, and on 29 August 2017 at £3.8019 resulting in an aggregate gain of £573,216.
8. Mike Holliday-Williams exercised on 29 August 2017 at £3.8019 resulting in an aggregate gain of £981,327.
9. A full year's award to a total face value of 200% of base salary was made to the CFO-designate on 28 November 2017 as agreed as part of the remuneration package offered on recruitment. The award is subject to the same performance conditions as awards made to the other Executive Directors earlier in the year (except that TSR will be measured over the three years commencing on the date of grant).

Awards made in August and November 2017 also 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 the last tranche of the award made to Mike Holliday-Williams under the Direct Line Group Restricted Shares Plan (RSP) that vested in 2017. This award was made to the MD Personal Lines on recruitment in May 2014 as compensation for the forfeiture of legacy awards granted by his previous employer. Executive Directors do not participate in the RSP and Mike Holliday-Williams will not receive any subsequent grants under this plan.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options as at 1 January 2017	No. of share options vested during the year	No. of dividend shares acquired at vesting	No. of share options exercised	No. of share options held at 31 December 2017	Vesting date
Mike Holliday-Williams								
27-May-14	2.430333	106,667	40,231	40,231	14,252	54,483	–	1-May-17

Note:
1. Mike Holliday-Williams exercised on 4 May 2017 at £3.5752 resulting in an aggregate gain of £194,788.

This table details buy-out awards made to Penny James. These awards were made to the CFO-designate 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 and are subject to performance conditions that, as far as possible, mirror those of the original awards. Performance will be assessed as soon as possible after the normal vesting date and following publication of the performance outturn over the relevant performance period. The awards will accrue dividend equivalent shares until vesting, as per the terms of the legacy awards.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options granted	No. of dividend shares acquired at vesting	No. of dividend shares added post vesting	No. of share options exercised	No. of share options held at 31 December 2017	Vesting date
Penny James								
28-Nov-17	3.5673	500,492	140,298	–	–	–	140,298	3-April-18
Penny James								
28-Nov-17	3.5673	2,340,304	656,037	–	–	–	656,037	1-April-19

For the details of the performance conditions for each award see page 92.

Direct Line Group 2012 Share Incentive Plan ("SIP") (Audited)

During 2017, 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 granted during the year	Matching shares cancelled during the year	Value of matching shares granted[1] £	Balance of matching shares at 31 December 2017
John Reizenstein	252	–	898	742

Note:
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.

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 2018

Executive Directors' salaries in 2018

The salary increase awarded to the Executive Directors, effective 1 April 2018, reflects the average increase awarded to staff generally.

Director	Position	2018 base salary £'000	2017 base salary £'000	Annual change in base salary
Paul Geddes	Chief Executive Officer	831	810	2.5%
John Reizenstein	Chief Financial Officer	491	491	–
Mike Holliday-Williams	MD Personal Lines	563	549	2.5%
Penny James	Chief Financial Officer-designate	675	675	–

AIP 2018

Director	Position	Maximum annual incentive award for 2018 (% base salary)	Deferred under (the DAIP (% bonus)
Paul Geddes	Chief Executive Officer	175%	40%
John Reizenstein	Chief Financial Officer	150%	40%
Mike Holliday-Williams	MD Personal Lines	150%	40%
Penny James	Chief Financial Officer-designate	175%	40%

The AIP measures remain unchanged:

	Measures	Weighting for 2018	Weighting for 2017
Financial	Profit before tax	55%	55%
Strategic	Based on a basket of: • customer measures, including Net Promoter Score and complaints; and • people measures, including measures of gender diversity and engagement	25%	25%
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 reported in next year's report.

The list below sets out the gateway criteria for the AIP for 2018.

Gateway criteria for the AIP for 2018 – 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 payouts and/or operate malus and clawback, the Committee receives appropriate input from the Audit Committee and the Board Risk Committee.

Performance conditions for LTIP awards

LTIP awards to be granted in 2018 will continue to be subject to performance against these performance conditions:

- 60% based on RoTE over a three-year performance period (2018, 2019 and 2020)
- 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 175.

The Committee reviewed the performance targets and, in line with its commitment to both reflect the impact of the capital transactions and to ensure that awards to Executive Directors would only be payable if significant value has been created for shareholders, decided to increase the RoTE target range as follows:

		Performance required for threshold vesting			Performance required for maximum vesting		
Performance measure	Vesting for threshold performance	Awards in 2018	Awards in 2017	Awards in 2015 and 2016	Awards in 2018	Awards in 2017	Awards in 2015 and 2016
RoTE	20% of this element of the award	Average annual RoTE performance of 17.5%	Average annual RoTE performance of 15.0%	Average annual RoTE performance of 14.5%	Average annual RoTE performance of 20.5%	Average annual RoTE performance of 18.0%	Average annual RoTE performance of 17.5%
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 2018. 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.

Pension and benefits

A pension contribution of 25% of base salary will be paid to the CEO, CFO and CFO-designate in 2018. Before his promotion to the Board in 2017, the MD Personal Lines received a pension contribution of 15% of base salary and the level of contribution has not been changed following his appointment to the Board. No Directors participate in any defined benefit pension arrangements operated by the Company.

Benefits comprise providing a company car or car allowance, private medical insurance, life assurance, income protection and health screening. Like all employees, the Executive Directors are also eligible for certain discounted Group products.

New Executive Director

On 1 November 2017, Penny James joined the Board as an Executive Director and was appointed CFO-designate to succeed John Reizenstein. Penny's annual salary is £675,000 with a pension allowance of 25% of salary. She also participates in the Company's Annual Incentive Plan up to a maximum of 175% of salary and the Long-Term Incentive Plan up to 200% of salary.

As explained in the letter from the Committee Chairman, this did not reflect any increase on her package from her previous employer.

On joining she received an LTIP award over 200% of salary on the same terms as the August 2017 grant (except that the vesting dates will run from the date of grant). This was granted at the annual award level as no separate buy-out was made to compensate her for the loss of her 2017 award at her previous employer.

In addition, and as disclosed on page 90, she received one-off awards pursuant to Listing Rule 9.4.2 to compensate for the loss of LTIP awards made by her former employer. Performance conditions and comparator groups for these awards will be identical to those of the original LTIPs, save for the award which vests in 2019 where DLG's TSR performance will replace that of the former employer for the period from 1 November 2017 to 31 December 2018 (post-joining).

Full details of the awards bought out are set out in the relevant section above.

Penny James will also receive an amount in lieu of forfeited bonus opportunity at her previous employer for the period 1 January 2017 to 31 October 2017 and the single figure disclosures on page 79 have included an estimated amount of £840,841. This will only be paid once the Committee has finally determined the amount due. Any change to the estimated amount will be reported in next year's report. The award will be subject to deferral in line with the Group's deferral schedule which is the same as that of the original award.

Change of Executive Director

John Reizenstein, the current CFO, will be retiring in September 2018. He will not seek re-election at the Company's 2018 Annual General Meeting and will accordingly step down from the Board as an Executive Director at that time. The Committee confirmed his "good leaver" status without the use of any discretion. He will, therefore, retain awards granted to him up to the date on which his planned retirement was announced in September 2017 (for details of all awards see pages 87 and 88). John will also be eligible for an award under the AIP for the period to the AGM in May 2018 and will thereafter receive base salary and benefits only until the date of his actual retirement. No salary increase has been given for 2018.

Non-Executive Directors' fees

Position	Fees for 2018 £'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 an annual fee of £22,177. John Reizenstein is a trustee and Director of Farm Africa, for which he receives no fees. 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:

<table>
<tr><th>Director</th><th>Effective date of contract</th><th>Notice period (by Director or Company)</th><th>Exit payment policy</th></tr>
<tr><td>Paul Geddes</td><td>1 September 2012</td><td rowspan="4">12 months</td><td rowspan="4">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.</td></tr>
<tr><td>John Reizenstein</td><td>1 September 2012</td></tr>
<tr><td>Mike Holliday-Williams</td><td>30 January 2014</td></tr>
<tr><td>Penny James</td><td>1 November 2017</td></tr>
</table>

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 26 February 2018.

Clare Thompson

Clare Thompson
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 last year's report.

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 tenth anniversary of grant • Malus and clawback provisions apply to the LTIP. These are explained in the notes to the policy table • Awards under the LTIP may be made at various times during the financial year. 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 payout 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 outturn (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

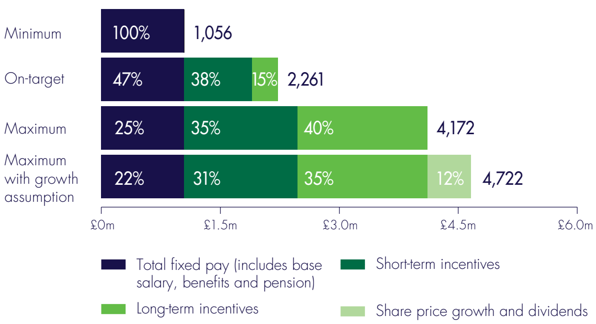
Updated performance scenarios

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

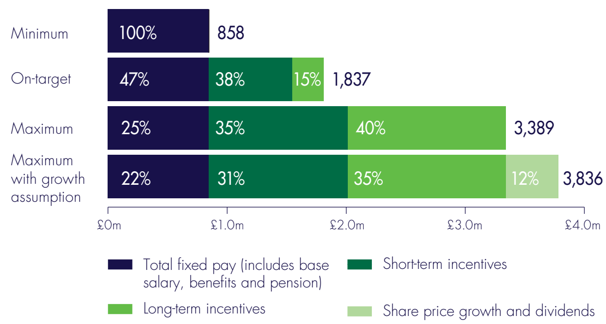
The Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure it would be appropriate in each situation, in the context of the performance delivered and the value created for shareholders.

The following charts show the potential remuneration which Executive Directors may earn under four performance scenarios as set out below.

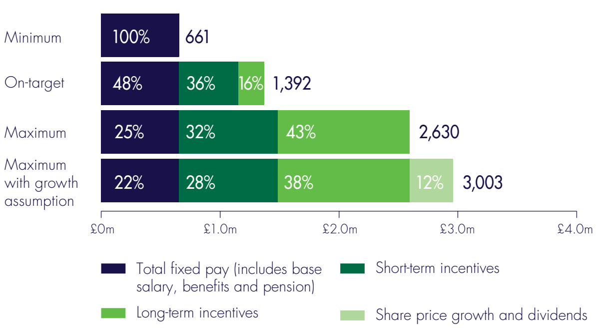
CEO – Paul Geddes (£'000)



CFO-designate – Penny James (£'000)



MD Personal Lines – Mike Holliday-Williams (£'000)



Note:
A chart for John Reizenstein has not been prepared on the basis that he will retire during the course of the year, will cease to be eligible for any AIP from the date of the AGM and will not receive a 2018 LTIP award.

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

Minimum	Consists of fixed remuneration only (base salary, benefits and pension): • Base salary is the salary to be paid from 1 April 2018 • Benefits measured as benefits paid in 2017 as set out in the single figure table on page 79, including the value of matching shares under the SIP where relevant • Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary (25% of base salary for the CEO and CFO-designate, and 15% of salary for the MD Personal Lines)
On-target	Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends): • Fixed remuneration as above • AIP – consists of the on-target bonus of 60% of maximum bonus opportunity • LTIP – consists of the threshold level of vesting (20% vesting)
Maximum	Based on the maximum remuneration receivable (excluding share price appreciation and dividends): • Fixed remuneration as above • AIP – consists of the maximum bonus (175% of base salary for the CEO and CFO-designate, and 150% for the MD Personal Lines) • LTIP – consists of the face value of awards (200% of base salary for all Executive Directors)
Maximum with growth assumption	To reflect the preference of some shareholders, this replicates the maximum assumptions above and also shows combined share price appreciation and dividend roll-up of 10% per annum over the three-year vesting period