Working for all our stakeholders

Danuta Gray
Chair of the Board

In 2020, our resilience and agility enabled us to support our customers and communities, distribute surplus capital and progress building the capability designed to deliver our sustainable strategy.

I would like to start my first statement as Chair by recognising the efforts of all my Direct Line Group (the "**Group**") colleagues in navigating the turbulent conditions that we experienced in 2020.

The resilience and adaptability demonstrated by our people has been commendable. The Covid-19 pandemic has affected all our stakeholders and I am proud of the senior leadership team for responding swiftly and effectively and for addressing the rapidly changing needs of the Group's stakeholders, including our customers, our workforce and the communities we serve.

In the extraordinary market conditions caused by lockdowns and market uncertainty related to Brexit and other global economic factors, our disciplined underwriting model produced a combined operating ratio of 91.0% (2019: 92.2%). Profit before tax was down 11.4% to £451.4 million (2019: £509.7 million) but our strong capital position has enabled us to increase our final dividend to 14.7 pence and commence a share buyback of up to £100 million. This is on top of the £30 million share buyback we made in March 2020 before we prudently cancelled the programme against a background of market volatility.

New leadership and Board changes

I am delighted to have been chosen by my fellow Directors to succeed Mike Biggs as Chair following his retirement from office in August 2020. It was a pleasure to have served with him as an independent Non-Executive Director and, on behalf of the Board, I extend our thanks to Mike for his exemplary stewardship of the Board as Chair since before the Company separated from the Royal Bank of Scotland and listed on the London Stock Exchange in 2012. Mike formed the Board, led it through the IPO and was instrumental in defining the Group's enviable culture and ambition. We are indebted to him for his wisdom, for the contribution of his deep experience, honed over four decades in the financial services sector, and for his legacy of inclusivity and solidarity in the Board's culture. The selection process which led to my appointment as Chair is summarised in the Governance report on page 91.

> **"The resilience and adaptability demonstrated by our people has been commendable."**

We announced in December that Jane Hanson, who was appointed as an independent Non-Executive Director in December 2011, will be stepping down from the Board at the conclusion of the Annual General Meeting in May 2021. On behalf of the Board, I would like to thank Jane for her energetic leadership of the Board Risk Committee and for her hard work as a member of the Audit, Investment and Sustainability Committees.

Adrian Joseph OBE joined the Board as an independent Non-Executive Director on 1 January 2021. As the business is transformed into a technology- and data-led company, with the customer at its heart, Adrian's deep experience of digital, artificial intelligence and data will be an important addition to the Board's capabilities.

We are committed to our diversity and inclusion agenda, including our target of increasing female representation in our senior leadership team. Details about the progress we are making on Board diversity appear in our Nomination and Governance Committee report on pages 106 to 108 and further information about changes to the Board and its Committees is set out on page 91.

Strategy

Our vision is to create a world where insurance is personal, inclusive and a force for good. Our purpose is to help people carry on with their lives, giving them peace of mind now and in the future. We have worked exceptionally hard to deliver against that purpose throughout the challenging events of 2020.

Our strategic objectives aim to ensure that we build technological and organisational capability to continue providing products which meet our customers' changing needs and are available through multiple channels, to continue providing outstanding customer service and value for money, to create value for our investors, to support our communities and to protect the environment.

Dividend and capital management

The Group's solvency capital ratio as at 31 December 2020, prior to any proposed dividends or incremental capital returns, was 213%.The Board has recommended a final dividend of 14.7 pence per share, an increase of 2.1% on the special interim dividend of 14.4 pence announced with our interim results, which reflected a full catch up of the cancelled 2019 final dividend.

Reflecting the strength of the Group's capital position, and in line with our dividend policy to return capital to shareholders which is expected to be surplus to the Group's requirements for a prolonged period, the Group intends to commence a share buyback programme. The Board has approved a share buyback programme of up to £100 million, with an initial tranche of up to £50 million expected to be completed by the time of the half-year results.

After the proposed final dividend and £100 million share buyback, the estimated solvency capital ratio was 191% as at 31 December 2020. The Group has outstanding Tier 2 debt issued in 2012 with nominal value of £250 million and a first call date during the first half of 2022. Excluding this debt, the Group's solvency ratio after the proposed final dividend and share buyback would be 172%. In February 2021, the Group acquired the head lease of its Bromley office site, which reduced the Group's coverage ratio by an additional 6 percentage points.

Assuming a return to more normal circumstances, the Group intends to move towards the middle of its risk appetite range of 140% to 180% of its solvency capital requirement, consistent with its previously stated target.

Our customers

Customer experience is at the heart of everything we do, and it is the central element that connects all our people regardless of role. We recognise that the Covid-19 pandemic has had a huge, in some cases devastating, effect on many of our customers and we have sought to respond with sensitivity to customers whose travel plans have been disrupted, who find themselves under financial strain, or who have experienced bereavement. The Board oversees the Group's conduct, aiming to ensure that the Group acts in our customers' best interests and that there is an active and constructive dialogue with its insurance regulators on customer conduct matters.

Linking remuneration to performance

We remain focused on ensuring that executive pay is aligned with the Group's strategy of targeting sustainable shareholder and customer value, that it reflects investor experience and, particularly in respect of 2020, that it reflects the way in which the business has interacted with its customers, its people and its communities.

A significant proportion of executive remuneration is delivered through shares and shareholding requirements and our incentive schemes' performance measures are aligned with the long-term performance measures considered important by investors.

> **"We have responded with sensitivity to the huge disruption that Covid-19 has caused to many of our customers."**

The Group's share price on 31 December 2020 was 319.0 pence (2019: 312.5 pence). Total shareholder return ("**TSR**"), which includes dividend payments, increased by 9.0 percentage points for the year (2019: 7.0 percentage point increase). During 2020, the Group's share price grew by 2.1% (2019: 1.9% decrease), reflecting increased investor confidence following the Capital Markets Day at the end of 2019 and the delivery of strong financial results in March 2020. This was partially offset by concerns over margin contraction in Motor and Home following the publication of the FCA's Pricing Practices Report ("**PPR**") which put pressure on UK Personal Lines stocks.

In April 2020, the Group took the difficult decision to cancel the 2019 final dividend of 14.4 pence and the £150 million share buyback programme, in recognition of heightened uncertainty in the macroeconomic environment due to Covid-19, although its solvency position was strong. At the time of the interim results in August 2020, the Group's financial resilience in the face of Covid-19 enabled it to declare a regular interim dividend and catch-up on the cancelled 2019 final dividend. We are grateful to our shareholders for their understanding during this challenging period.

Over the past three years, the Group has delivered a TSR of 7.9% compared to the FTSE 350 (excluding investment trusts) reduction of 5.0%, having returned £1.2 billion to shareholders during the period.

More information on the Group's remuneration policy and share awards is disclosed in the Directors' remuneration report on pages 113 to 139.

Sustainability and culture

In December 2020, we published our first Task Force on Climate-related Financial Disclosures Report and our first Sustainability Report. These set out the progress the Group has made against its Environment, Social and Governance agenda, including the Group's intention to set Science Based Targets which will strengthen our disclosures across Scope 1, Scope 2 and Scope 3 emissions, as well as the actions we took in response to the Covid-19 pandemic to support our people, customers and communities. For definitions of terms used, please see the glossary on pages 224 to 226.

Climate-related risks and opportunities have grown in importance for us as a business. As an insurance company, understanding and managing risk is of fundamental importance, and we recognise that climate change poses material long-term risks to the business.

We are embracing the sustainable practices that we believe underpin a better corporate culture, offering products that meet our customers' needs and providing greater long-term sustainability for investors.

The Board believes that working for all our stakeholders is the foundation needed for delivering long-term sustainability. The Board recognises the importance of setting the tone of the Group's culture and embedding it throughout the organisation. More information about this can be found in the Governance introduction on page 76.

In November 2019, we set out our vision for building a world where insurance is personal, inclusive and a force for good. At that time, we could not have anticipated the extraordinary events of 2020 and now more than ever, it is essential that we live up to that ambition and play our part in supporting the communities we serve. The DLG Community Fund of £3.5 million is being used to support the communities where our largest sites are based as well as several national charities.

Our People

We pride ourselves in having an empowering culture that celebrates difference and authenticity, and encourages each colleague to bring their whole self to work. The Group's success and resilience is due in no small part to the contribution of its people. In a year which could have produced very different outcomes, the Board and I are grateful for the hard work, initiative and commitment of our people, who have continued to live the Group's values and to demonstrate dedication to serving our customers.

I would also like to thank each member of the Board for their significant contribution, commitment and service and I look forward to my first full year as Chair of the Board working with them in supporting and encouraging our management team in the execution of the Group's ambitious strategy.

DANUTA GRAY
Chair of the Board

Section 172(1) statement

Direct Line Group is a leading motor, home and commercial insurer which depends on its reputation for high standards of business conduct and on the trust and confidence of its stakeholders to operate sustainably in the long term. The Group seeks to put its customers' best interests first, continually invests in and engages with its employees, supports the communities in which it operates and strives to generate value for shareholders.

The Directors of Direct Line Insurance Group plc (the "**Company**") have been subject to the duties codified in law, which include the duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, having regard to the stakeholders and matters set out in Section 172(1) of the Companies Act 2006 ("**Section 172(1)**").

The Board recognises that the Group has a range of stakeholders with diverse interests and an analysis of its principal stakeholders can be found on pages 48 to 61 and on page 86.

Section 172(1) considerations are embedded in decision-making at Board-level and are demonstrated throughout its governance framework.

The underlying principles of promoting the success of the Company for the benefit of its members as a whole, and of considering stakeholders when making decisions that could affect them, is understood by the senior leadership team and consideration and respect for stakeholders is demonstrated throughout the Group.

The Group has adapted to a change of working practices throughout the year and keeps engagement mechanisms under review so that they remain effective and so that the Board understands the evolving needs of its stakeholders.

In taking decisions, the Directors carefully consider the balance of interests of the stakeholders who might be affected. The Board and its Committees discuss stakeholders and their interests during the cycle of Board meetings, and in 2020 we increased both the frequency and length of meetings, not least to focus on stakeholder needs as a result of the Covid-19 pandemic.

We are committed to ensuring that the Group takes action both to protect the business and to reduce its direct and indirect impact on the environment.

In March 2020, the Board considered it prudent to cancel its share buyback programme and, in April 2020, to cancel the 2019 final dividend as a result of the volatile conditions arising from the Covid-19 pandemic, although an interim and a special interim dividend were paid later in the year when conditions stabilised and on the basis of a strong capital position. See pages 86 to 87 for more detailed examples of how the Board considered Section 172(1) when making decisions that affected its stakeholders.