Our Governance

Danuta Gray
Chair of the Board

Dear shareholders and other stakeholders,

On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 31 December 2020.

I have been very impressed by the way the Group has responded to the challenge presented by Covid-19. I am extremely proud of our people who have played such an important part in continuing to deliver much needed services throughout the crisis. I am pleased to report that our governance operated well in a different working environment.

As Chair, it is my role to provide leadership of the Board to ensure that it operates effectively. In the light of the impact of Covid-19 and the unprecedented level of uncertainty for the business, the Board held a number of unscheduled meetings to consider significant operational matters, as well as to monitor the Group's solvency through a period of market volatility.

Your Board is committed to underpinning all of the Group's activities with the highest standards of corporate governance. This section of our Annual Report & Accounts explains how your Board seeks to ensure that we have effective corporate governance in place to help support the creation of long-term sustainable value for all our shareholders and other stakeholders.

The Board endorses the UK Corporate Governance Code 2018 (the "**Code**"), which applied to our 2020 financial year, and the related FRC Guidance on Board Effectiveness. We seek to ensure that our governance framework remains aligned with best practice, consistent with the Code. Throughout the year ended 31 December 2020, the Company complied with the Principles and Provisions set out in the Code.

Sustainability is at the heart of how we think about our business. We have always been conscious of our broader role in society, giving something back to our local communities and fostering social mobility. Further information on our sustainable business model can be found in the Strategic report.

There is a duty, enshrined in the Companies Act 2006, for your Directors to act in the way each of us considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to various matters identified in the legislation. In this Annual Report & Accounts, we have detailed the stakeholders and issues which the Directors considered when discharging this duty throughout the year. Our formal statement in relation to Section 172(1) of the Companies Act 2006 appears on page 10.

I would like to thank you for your support and look forward to hearing your views as we prepare for our forthcoming AGM on Thursday, 13 May 2021.

Purpose, culture and values

The Board recognises the importance of its role in setting the tone of the Group's culture, aligning it with our purpose, values and strategy, and embedding it throughout the Group. The Board aims to foster an open and collaborative culture based on our vision and purpose, supporting decisions that are best for our shareholders, whilst having regard to the interests of our other stakeholders. Our vision, purpose, values and Code of Business Conduct are central to the Group's culture. We encourage our people to be curious, to be aligned on outcomes, to build trust, encourage simplicity, empower their teams and continually test, learn and adapt.

Communication with our shareholders and other stakeholders is extremely important to us. During 2020, directors attended virtual meetings with major investors to ensure their views were considered and our objectives were understood. For the safety of our shareholders and colleagues, we held a closed AGM in 2020 and encouraged shareholders to submit questions in advance of the meeting. In 2021, acknowledging that restrictions on public gatherings may remain in place, we plan to enable shareholders to participate in our AGM electronically. Shareholders are encouraged to contact us by email at ShareholderEnquiries@directlinegroup.co.uk.

For more on communication with major investors, see page 88.

"The Board recognises the importance of its role in setting the tone of the Group's culture and embedding it throughout the Group."

Succession planning and Board changes

There have been changes to our Board since last year's AGM. I succeeded Mike Biggs as Chair in August 2020 and Adrian Joseph OBE joined as an independent Non-Executive Director in January 2021.

Jane Hanson has served as a Non-Executive Director for over nine years and will step down from the Board at the conclusion of the 2021 AGM.

The Board recognises the benefit of recruiting leaders who live the Group's culture and values and represent a diversity of gender, ethnicity, cognitive strengths and socio-economic, educational and professional backgrounds. For a wider understanding of the skills and experience of our Board, see pages 78 to 80 and pages 106 to 108.

The Nomination and Governance Committee continues to review succession plans both for the Board and at executive level each year.

In early 2021, three levels of the emergency succession plan were invoked to provide cover for Tim Harris's leave of absence while he cared for a member of his family receiving medical treatment: Neil Manser stepped up as Acting Chief Financial Officer; Jasvinder Gakhal as Acting Chief Strategy Officer and Rebecca Clapham as Interim Managing Director of Direct Line for Business.

Further information on our diversity policy, our approach to succession planning and Board appointments can be found in the Nomination and Governance Committee report on pages 106 to 108.

Effectiveness and evaluation

As Chair, one of my principal objectives is to ensure that the Board includes a body of Non-Executive Directors with the skills and experience to be able to support and challenge our Senior Management in developing and executing an ambitious strategy for the benefit of our shareholders and other stakeholders. In accordance with the Code, we conduct evaluations of the effectiveness of the Board and its Committees annually, including an externally facilitated review every third year. The 2019 review was facilitated by Robert Goffee, Professor of Organisational Behaviour at the London Business School, who had no other connection with the Company or any individual Director.

In 2020, having recently been appointed as Chair, I chose to conduct the effectiveness review myself. Building on themes identified by Professor Goffee, this year's review focused on the value capable of being added by Non-Executive Directors from their experience, the emphasis on strategic issues on the Board's agenda, the Board's ability to challenge executive performance based on the quality of information provided, and the external sources of insight available.

As part of the annual evaluation process, all Non-Executive Directors were assessed as being independent and able to provide a valuable and effective contribution to the Board. Suggestions for further improving effectiveness that were raised during the review process have been taken into consideration by the Board. Further details can be found on page 94.

Remuneration

The Board has delegated responsibility to the Remuneration Committee for the remuneration arrangements for the Chair, Executive Directors and Senior Management. The Remuneration Committee also reviews workforce remuneration and related policies and the alignment of incentives and rewards with the Group's culture.

The Group's Remuneration Policy was approved at the 2020 AGM and the current Policy will remain in place for a further two years.

Further details on the work of the Remuneration Committee can be found in the Directors' remuneration report which begins on page 113.

Annual General Meeting

Direct Line Insurance Group plc's 2021 AGM will be held on Thursday 13 May 2021 at 11.00 am. Full details including the resolutions to be proposed to our shareholders can be found in the Notice of AGM which will be made available on our corporate website.

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

Yours sincerely,

Danuta Gray
Chair of the Board

Our Code of Business Conduct

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

UK Corporate Governance Code 2018

Danuta Gray
Chair of the Board N R

Appointed: February 2017

Biography

Danuta is Chair of the Nomination and Governance Committee and was appointed as Chair of the Board in August 2020. The Board benefits from her previous experience as Chair, Chief Executive and NED (including two positions as Chair of Remuneration Committees), significant experience in sales, marketing, customer services and technology and in leading and changing large businesses.

Danuta was Chair of Telefónica in Ireland until 2012, having previously been its Chief Executive from 2001 to 2010. During her nine-year tenure as Chief Executive, she increased the customer base from just under 1 million to over 1.7 million. Before working at Telefónica, Danuta held various senior positions within BT Group from 1984 to 2001. Until 2018, Danuta was a NED and Chair of the Remuneration Committee at both PageGroup plc and Old Mutual plc.

Current external appointments

- Senior Independent Director of Aldermore Group plc (standing down March 2021)
- Non-Executive Chair of St Modwen Properties plc
- Non-Executive member of the Ministry of Defence Board

Penny James
Chief Executive Officer S

Appointed: November 2017

Biography

Penny was CFO of Direct Line Group until her appointment as CEO in May 2019. The Board benefits from Penny's deep understanding of our sector as well as her leadership skills, financial and risk expertise, strategic thinking and cultural alignment.

As CEO, Penny is leading both the delivery of the Group's short-term strategic imperatives, including technological and business transformation, and the development of the next stage of our strategy of targeting long-term sustainability.

Penny was previously Group Chief Risk Officer and Executive Director at Prudential, where she was responsible for leading risk oversight globally. Before this, she was Director of Group Finance at Prudential. Penny was previously Group CFO at Omega Insurance Holdings Limited and CFO, UK General Insurance, at Zurich Financial Services. She was a NED of Admiral Group plc from 2015 to 2017. She is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments

- Member of the Association of British Insurers Board
- Deputy Chair of the FCA Practitioner Panel
- Member of the Build Back Better Business Council

Tim Harris
Chief Financial Officer I

Appointed: October 2019

Biography

The Board benefits from Tim's many years of experience as a finance director in the insurance industry, his detailed knowledge of capital markets and his track record of successfully leading finance transformation programmes.

Tim was Deputy Chief Executive and Group Finance Director of the Royal London Group until July 2019. He joined Royal London as Group Finance Director in 2014 and was additionally appointed as Deputy Chief Executive in 2018. Before joining Royal London, Tim had been Group CFO of Torus Insurance, Deputy Group CFO and Chief Capital Officer of Aviva plc and a Partner in the Global Capital Markets practice of PricewaterhouseCoopers. Tim is also a Fellow of the Institute of Chartered Accountants in England and Wales and a Chartered Insurance Practitioner.

In January 2021, we announced that Tim would be taking a temporary leave of absence. During the interim period, Neil Manser is Acting Chief Financial Officer.

Current external appointments

- Member of the Association of British Insurers Board
- Chair of the Prudential Financial and Taxation Committee of the Association of British Insurers
- Member of the PRA Practitioner Panel

Key for Committee membership

A Audit Committee
R Board Risk Committee
I Investment Committee
N Nomination and Governance Committee
R Remuneration Committee
S Sustainability Committee

Mark Gregory

Non-Executive Director A R I

Appointed: March 2018

Biography

Mark Gregory is Chair of the Investment Committee and interim Chair of the Remuneration Committee.

The Board benefits from his previous extensive experience and knowledge of the financial services sector, particularly in life and general insurance, gained through his roles at Legal & General. Additionally, he has a detailed understanding of the retail sector and customer service.

Mark previously held the role of Group CFO and Executive Director at Legal & General until 2017, and was CEO of Merian Global Investors from January 2019 to August 2020.

During his 19-year career at Legal & General, he held a variety of senior roles including CEO of the Savings business, Managing Director of the With-Profits business, and Resources and International Director. Before joining Legal & General, Mark held senior financial and business development roles at ASDA and Kingfisher. Mark is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments

- Chair of Remuneration Committee and Non-Executive Director of Entain plc

Jane Hanson

Non-Executive Director A I R S

Appointed: December 2011

Biography

Jane Hanson is Chair of the Board Risk Committee.

Jane has extensive experience of risk management, corporate governance and internal control. She also has wide experience of developing and monitoring customer and conduct risk frameworks and overseeing IT and transformation programmes.

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

Jane has her own financial sector consulting business and is also a magistrate.

Current external appointments

- Non-Executive Director of William Hill plc
- Non-Executive Director of Rothesay Life plc
- Non-Executive Director of Welsh Water
- Honorary Treasurer of the Disasters Emergency Committee
- Chair and Non-Executive Director of Reclaim Fund Limited

Sebastian James

Non-Executive Director N R S

Appointed: August 2014

Biography

Sebastian James is Chair of the Sustainability Committee.

The Board benefits from Sebastian's extensive experience in retail and consumer practice at large groups, his detailed understanding of the UK's consumer markets, products and brands as well as his strategic and operational experience running Dixons Carphone plc and Boots.

Until 2018, Sebastian was Group Chief Executive of Dixons Carphone plc, having previously held the role of Group Chief Executive of Dixons Retail plc from 2012. Before this, he was CEO of Synergy Insurance Services Limited, a private equity backed insurance company, and was previously Strategy Director at Mothercare plc. Sebastian has a degree in law from the University of Oxford and an MBA from INSEAD. He began his career at The Boston Consulting Group.

Current external appointments

- Managing Director of Boots UK, subsidiary of Walgreens Boots Alliance, Inc
- Senior Vice President of Walgreen Boots Alliance, Inc
- Trustee of the Museum of Modern Art Limited

Fiona McBain

Non-Executive Director A R I

Appointed: September 2018

Biography

The Board benefits from Fiona's profound knowledge of the financial services industry and her previous extensive experience as both a business leader and an auditor makes her well suited to her role as a member of the Audit, Board Risk and Investment Committees.

Fiona has over 30 years' experience in retail financial services, both in the industry and as an auditor, in the UK and the USA. She is an Associate Member of the Institute of Chartered Accountants in England and Wales, qualifying as an accountant early on in her career at Arthur Young (now Ernst & Young). Until January 2019, she was Vice-Chair of Save the Children UK and a Trustee Director of the Humanitarian Leadership Academy. Previously, Fiona served as CEO of Scottish Friendly Group for 11 years, before which she was Scottish Friendly Group's Finance Director.

Current external appointments

- Chair of Audit Committee and Non-Executive Director of Dixons Carphone plc
- Chair and Non-Executive Director of the Scottish Mortgage Investment Trust plc
- Chair of Audit Committee and Non-Executive Director of Monzo Bank Limited

Gregor Stewart

Non-Executive Director A R

Appointed: March 2018

Biography

Gregor Stewart is Chair of the Audit Committee.

The Board benefits from his wide-ranging experience of the financial services sector, and in particular, significant experience gained in the insurance and investment management sectors. His career and experiences at Ernst & Young and Lloyds, in particular, make him suitable to chair the Audit Committee.

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

Current external appointments

- Chair and Non-Executive Director of Alliance Trust plc
- Chair and Non-Executive Director of FNZ (UK) Limited
- Non-Executive Director of FNZ Group

Dr Richard Ward

Non-Executive Director and Senior Independent Director R R N

Appointed: January 2016

Biography

Richard's previous experience as a Chief Executive, a Non-Executive Director and a Chair makes him well suited to the role of Senior Independent Director of the Company. The Board benefits from his experience in the insurance industry and his insight into prudential regulation.

Richard was Chief Executive of Lloyd's of London from 2006 to 2013. He was Non-Executive Chair of Brit Syndicates Limited and Executive Chair of Cunningham Lindsey from 2014 to 2018. He was a Non-Executive Director of Partnership Assurance Group plc, now part of Just Group plc, between 2013 and 2016. Before becoming Chief Executive of Lloyd's of London, Richard was previously Chief Executive, later Vice Chair, of the International Petroleum Exchange, rebranded ICE Futures. Before this, he held a range of senior positions at British Petroleum and was a research scientist for the Science and Engineering Council. Richard was also a Non-Executive Director of London Clearing House, a member of the PwC Advisory Board and a Board member of the Geneva Association.

Current external appointments

- Member of the Executive Committee of the Ardonagh Group

Adrian Joseph OBE

Non-Executive Director S

Appointed: January 2021

Biography

Adrian Joseph joined BT Group in February 2020 as Managing Director, Group Data and Artificial Intelligence. Prior to this he was a senior Partner at Ernst & Young for three years and the Head of the UK Data and Analytics practice for Financial Services. He joined Ernst & Young with over ten years' cloud, digital, platform, data science and analytics experience gained in senior leadership roles at Google, and a further 15 years in industry and consultancy. This included two years as the main Board member responsible for Sales and Marketing at Trafficmaster Plc.

Adrian was a Non-Executive Director at the Home Office from 2016 to 2020, where he sat on the Home Office Data Board and advised on data science, digital transformation, and diversity and inclusion. From January 2012-2017, Adrian was Chair of the Race Equality Board, the race campaign of Business in the Community charity. In 2014 he was appointed to the main Board of Business in the Community and he continues to serve as an Advisor. He was awarded an OBE for services to equality and diversity in business in the 2019 New Year's honours list and was announced as the most influential black, Asian and minority ethnic technology leader in the UK by the Financial Times and Inclusive Boards in 2018.

Adrian's expertise in data analytics, AI and automation, as well as his passionate advocacy for diversity and inclusion, benefit the Board as it oversees the execution of a strategy of which these issues are a fundamental part.

Current external appointments

- Member of HM Government's AI Council

Key for Committee membership

A Audit Committee

R Board Risk Committee

I Investment Committee

N Nomination and Governance Committee

R Remuneration Committee

S Sustainability Committee

Executive Committee

Penny James chairs the Executive Committee. In addition to Penny James and Tim Harris, the Committee comprises the following:

Mark Evans
Managing Director, Marketing & Digital

Joined: 2012

Experience and qualifications

Mark joined Direct Line Group in 2012 and is Managing Director of Marketing & Digital. He is responsible for leading the Group's Marketing and Digital functions. Before joining the Group, Mark held roles at HSBC, 118 118 (now 118 118 Money) and Mars Inc. He is Chair of the Advertising Association's Front Foot and a NED of LearnEtAl, an EdTech digital learning company. Mark is also co-founder of the School of Marketing which encourages more school children to consider a career in Marketing.

Mark is a member of Save the Children's Digital Advisory Board and also a Fellow of the Marketing Society.

Jonathan Greenwood
Managing Director, Commercial

Joined: 2000

Experience and qualifications

Jonathan joined the Group in 2000 and is Managing Director, Commercial.

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

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

Steve Maddock
Chief Operating Officer

Joined: 2010

Experience and qualifications

Steve joined the Group in 2010 and is Chief Operating Officer.

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

Steve's previous roles include Director of Strategic and Technical Claims at RSA, Director of Claims and Customer Service at Capita, and Director of Operations at AMP. Steve is also Chair of the Motor Insurers' Bureau and a member of the Association of British Insurers' General Insurance Committee.

Neil Manser
Chief Strategy Officer and Acting Chief Financial Officer

Joined: 2011

Experience and qualifications

Neil joined Direct Line Group in 2011 as Director of Investor Relations and was instrumental in the Group's successful IPO in 2012. He has worked in a number of roles within the Group, in Finance including Strategy and within the business, as Managing Director of NIG. Neil was appointed Deputy CFO in August 2018 before becoming Chief Strategy Officer in March 2020. He is now responsible for leading the Group's corporate strategy.

On 11 January 2021, it was announced that Neil would be Acting Chief Financial Officer during Tim Harris's leave of absence.

Neil has extensive industry and capital markets experience prior to joining the Group having previously worked at Brit Insurance and as an equity analyst at Merrill Lynch and Fox-Pitt, Kelton. He qualified as a Chartered Accountant with Ernst & Young and is an Associate of the Institute of Chartered Accountants in England and Wales.

Gus Park
Managing Director of Motor, Pricing And Underwriting

Joined: 2011

Experience and qualifications

Gus joined Direct Line Group in 2011 and is Managing Director of Motor, Pricing & Underwriting. He is responsible for leading the Group's Personal Motor business across all brands, as well as the Pricing and Underwriting function across all consumer products.

Gus joined the Direct Line Group as Strategy Director before becoming Commercial Director for the Group's Motor insurance business. Following this he was Managing Director of Motor Insurance and Business Development.

Gus has over 25 years' experience in a wide range of sectors and roles, having started his career as a civil servant for the Home Office. After this he moved into strategy consulting for the Boston Consulting Group, and then into retail banking for Bradford & Bingley.

In February 2020, Gus became a Non-Executive Director of Five AI Inc.

Kate Syred
Managing Director of Household, Partnerships And Data

Joined: 2000

Experience and qualifications

Kate joined Direct Line Group in 2000 and is Managing Director of Household, Partnerships & Data. Kate has over 20 years' experience of the insurance industry. Kate is responsible for delivering the strategy and developing products for the Group's Home, Pet, Travel, Life and Private Businesses as well as leading the Partnerships division. She is Chair of the Group's Diversity Network Alliance.

Previously, Kate was Commercial & Marketing Director for Privilege and launched Direct Line for Business in 2007. Before joining the Group, Kate held roles in Calvin Klein Cosmetics, Moore Stephens – Vladivostok and qualified as a Chartered Accountant with the National Audit Office. She is also an Associate of the Royal College of Science.

Humphrey Tomlinson
General Counsel

Joined: 2011

Experience and qualifications
Humphrey joined the Group in 2011 and is General Counsel.

Humphrey has over 30 years' experience as a solicitor. He is responsible for the Group Legal function and oversees a range of areas of legal advice and services. He has been a Non-Executive Director of The Floow Limited since July 2014.

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

José Vazquez
Chief Risk Officer

Joined: 2012

Experience and qualifications
José joined the Group in 2012 and is Chief Risk Officer.

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

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

Vicky Wallis
Chief People Officer

Joined: 2020

Experience and qualifications
Vicky is Chief People Officer at Direct Line Group and has a wealth of experience in building HR functions, developing cultural frameworks and enhancing people capabilities.

Vicky joined the Group having worked previously at Santander where she was the HR Director for five years. Having operated in international organisations with global roles and projects in India, Romania, EMEA and the US, Vicky has experience in finance, retail and mobile telecommunications.

Vicky is accredited by the Chartered Institute of Personnel Development and holds a Master's degree in Organisational Leadership.

Jasvinder Gakhal
Acting Chief Strategy Officer

Joined: 2005

Jasvinder attends the Executive Committee meetings in her capacity as Acting Chief Strategy Officer, and as such she is leading the Group Strategy and Group Communications and Sustainability functions.

Experience and qualifications
Jasvinder joined Direct Line Group in 2005. In January 2021, it was announced that Jasvinder would be Acting Chief Strategy Officer whilst Neil Manser took on the role of Acting Chief Financial Officer.

Before stepping into the Acting Chief Strategy Officer role, she was Managing Director of Direct Line for Business, leading the growth of the direct Commercial Insurance business.

Prior to this Jasvinder has held roles leading the Pet Insurance portfolio, Head of Direct Line Home and across the Partnerships business.

Before joining Direct Line Group, Jasvinder was a maths teacher.

Corporate governance report

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

Corporate Governance Statement
This Corporate Governance Statement explains key features of Direct Line Insurance Group plc's (the "**Company**") governance structure and how it measures itself against the standards set out in the UK Corporate Governance Code 2018 (the "**Code**"). The Code set by the Financial Reporting Council (the "**FRC**") applied to the financial year ended 31 December 2020. For more information about the Code, visit the FRC's website at www.frc.org.uk. This Corporate Governance Statement fulfils the requirements of the FCA's Disclosure Guidance and Transparency Rule 7.2 ("**DTR 7.2**"). For full details refer to the Directors' report on pages 140 to 144.

The Company complied with all of the principles and provisions of the Code throughout the financial year and up to the date of this Annual Report & Accounts.

Further details of how the Company applied the Code's principles and complied with its provisions can be found in the following sections of the Annual Report & Accounts.

Board leadership and company purpose

The Board

The Board receives regular updates on the views of the Company's shareholders from the Group's brokers and directly from institutional shareholder meetings with senior executives and the Chair. The Board has regard to the interests of a range of stakeholders including customers, employees and suppliers when agreeing the Group's strategic and financial plans and in all other decision-making. Illustrations of the breadth and depth of the Board's regard to stakeholders' interests are contained in the Sustainability section of the Annual Report & Accounts on pages 44 to 68.

There is a Schedule of Matters Reserved for the Board, which contains items reserved for the Board to consider and approve, relating to strategy and management, material contracts, financial reporting and controls, internal controls and risk management, Board membership and succession planning, corporate governance, structure and capital, and delegation of authority.

In addition to the Schedule of Matters Reserved for the Board, each Board Committee has written terms of reference defining its role and responsibilities. The terms of reference of the Board Committees can be found on our corporate website. Further details regarding the role and activities of the Board and its Committees can be found below and in the Directors' remuneration report which begins on page 113.

The role of the Board

Pages 89 and 90 summarise the role of the Board, its Committees and the responsibilities of the Chair, the Senior Independent Director, the Non-Executive Directors, the Executive Directors and the Executive Committee. Whilst some of the key areas of the Board responsibility are summarised in the following paragraphs, these are not intended to be an exhaustive list.

Leadership

The Board is the main decision-making body of the Company. It provides leadership within a framework of prudent and effective controls. The Board has clear divisions of responsibility and seeks the long-term sustainable success of the Group. Information on how opportunities and risks to the future success of the business have been considered and addressed, and about the sustainability of the Company's business model, is set out in the Strategic report which begins on page 1.

Acting fairly between members and engagement methods

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

The Group seeks to ensure that it acts fairly between all members and considers all types of investors (including our institutional investors and private shareholders) when making decisions that impact them.

The Group ensures that it communicates the information that its investors require, using: traditional methods, such as annual report & accounts, RNS newswires and corporate and press releases; in person; and, (wherever possible) by virtual means. In 2020, virtual engagement included investor meetings attended by the Chair, CEO and CFO and broker attendance at Board meetings. Where appropriate, communication with investors is fed back to the Board.

For more information on how shareholders will be able to participate in the 2021 AGM see page 223 and for further information on communication with major investors see page 88. Additional information on how the Board has regard for the Group's wider stakeholders and other relevant matters can be found on pages 86 to 87.

Operations

The Board is responsible for overseeing the implementation of a robust control framework to allow effective management of risk. The Board supervises the Group's operations, with a view to ensuring they are effectively managed, that effective controls are in place, and that risks are assessed and managed appropriately.

Financial performance

The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results against them. The Board is accountable to investors for financial and operational performance.

Strategy

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

Vision and purpose

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.

Board meetings and activity in 2020

The activities undertaken by the Board in 2020 were intended to help promote the long-term success of the Company. Scheduled Board meetings focused on four main themes, as detailed below:

Themes	Description
Strategy and execution Strategic alignment 1 2 3 4 5	– Approving and overseeing the Group's key strategic targets and monitoring the Group's performance against those targets; – Reviewing customer experience and trends and monitoring the Group's performance against external brand metrics; – Reviewing and approving key projects aimed at developing the business or rationalising costs; – Considering growth opportunities; and – Reviewing the individual strategy of key business lines.
Financial performance and investor relations Strategic alignment 2 5	– Setting financial plans, annual budgets and key performance indicators and monitoring the Group's results against them; – Considering the Group's reserving position, approving the Solvency II narrative reports and approving financial results for publication; – Approving reinsurance programmes and renewals; – Approving the issuance of £260 million of Tier 2 debt in June 2020; – Reviewing broker reports on the Group, alongside feedback from investor meetings; and – In March 2020, the Board considered it prudent to cancel the share buyback programme and, in April 2020, to cancel the 2019 final dividend as a result of the volatile conditions arising from Covid-19. The Board subsequently declared a 2020 interim dividend of 7.4 pence alongside a further special dividend of 14.4 pence to replace the cancelled 2019 final dividend.
Risk management, regulatory and other related governance Strategic alignment 4	– Reviewing and agreeing the Group's policies; – Setting risk appetites; – Approving the Own Risk and Solvency Assessment ("**ORSA**"); – Seeking to ensure that the Group complies with its regulatory obligations; – Reviewing the Group's solvency position and forecast; – Reviewing the Group's ESG initiatives; and – Reviewing and approving the Group's TCFD and Sustainability reports.
Board and Board Committee governance Strategic alignment 6	– Receiving reports from the Board's Committees; – Updating the Schedule of Matters Reserved for the Board; – Updating terms of reference for the Board Committees; – Receiving corporate governance updates; – Overseeing Board and executive succession planning; – Conducting the annual review of the Board and Board Committees' effectiveness; – Approving the Company's Code of Business Conduct and conducting an annual review of the Group's governance framework; and – In addition to routine business, 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 2020, the Board held a session to set and monitor progress against the Group's strategy and to discuss the Group's long-term sustainability and its future opportunities as well as the strategic implications of Covid-19.

Link to strategy

1	Be best at direct
2	Win on price comparison websites
3	Extend our reach
4	Be nimble and cost efficient
5	Have technical edge
6	Empower great people

Board activity and stakeholder priorities

Our stakeholders are at the root of both our strategy and our values. By engaging with our stakeholders we are able to understand who they are and what matters to them. This meant that the Group was able to react swiftly in challenging circumstances in 2020 while still planning for the long-term sustainable success of the Company.

The Group's Section 172(1) statement is part of the Chair's statement in the Strategic report on page 10 and is supported by the Group's five-pillar sustainability strategy on pages 44 to 45 and the TCFD statement on pages 62 to 63.

The table below provides an insight into decisions taken by the Board during 2020 which directly affect its stakeholders. In all cases, the Board considers the likely consequences of any decision in the long term.

Stakeholder Group	Decision of the Board	Considerations	Further information
Customers, suppliers and other business relationships a c	**Customer metrics form part of Annual Incentive Plan targets.** The Board approved the following: – Code of Business Conduct; – Group pricing approach and associated governance and control framework; – Prompt Payment Practice Report; and – Covid-19 support measures for customers and suppliers.	– Urgency of settling claims – Financial difficulties of customers – Product offering (range and price) – Ease of communication – Customer service – Prompt payment – Supply chain management	– Sustainability – Customers
People a b	**People metrics form part of Annual Incentive Plan targets and a people update is presented at each Board meeting.** The Board approved the following: – Covid-19 response to employees; – Agile working transformation; – Modern slavery statement; – Code of Business Conduct; – Whistleblowing procedures; – Buy As You Earn Plan; and – Free share award.	– Culture – Employee wellness – Human rights – Employee satisfaction – Employee development	– Sustainability – People – Directors' remuneration report
Society a d	**The Board gives its full support to the Force for Good Initiative and the DLG Community Fund.** The Board approved the following: – Code of Business Conduct; – Modern slavery statement; and – Board diversity statement.	– Responsible investing – Human rights – The welfare of the communities in which we operate	– Sustainability – Society
Planet a d	**The Board actively supports initiatives to reduce the Group's impact on the environment and manage climate change risks.** The Board approved the following: – New measures for the investment portfolio to help the Group to achieve net zero carbon emissions by 2050; – Publication of commitments to setting Science-Based Targets and becoming a 100% carbon-neutral business from 2020; – Approval of climate change-related stress testing; and – TCFD Report.	– ESG factors – Climate change – Emissions targets – Environmental practices	– Sustainability – Planet
Investors a f e	**The Board considers feedback from investors communicated directly and through its brokers.** The Board approved the following: – The methods by which surplus capital should be returned to shareholders; – Termination of 2020 buyback programme and cancellation of 2019 final dividend; – Subsequent approval of the interim and special interim dividend; and – Annual Report & Accounts.	– Financial performance – Strategic delivery – Capital returns – FRC recommendations	– Corporate governance report

Link to S172(1) Companies Act 2006

a	the likely consequences of any decision in the long term
b	the interests of the company's employees
c	the need to foster the company's business relationships with suppliers, customers and others
d	the impact of the company's operations on the community and the environment
e	the desirability of the company maintaining a reputation for high standards of business conduct
f	the need to act fairly between members of the company

Board and Committee meetings

The Board and Board Committees held a number of scheduled meetings in 2020 at which senior executives, external advisers and independent advisers were invited to attend and present on business developments and governance matters. The Company Secretary attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings.

The table below sets out attendance at the scheduled meetings in 2020[1]. Additional Board and Committee meetings were convened during the year to discuss ad hoc business development, governance and regulatory matters and in response to Covid-19.

	Board	Audit Committee	Board Risk Committee	Sustainability Committee[2]	Investment Committee	Nomination and Governance Committee	Remuneration Committee
Chairs							
Mike Biggs[3]	6 of 6	–	–	–	–	3 of 3	2 of 2
Danuta Gray	9 of 9	–	–	–	–	4 of 4	3 of 3
Senior Independent Director							
Richard Ward	9 of 9	–	5 of 5	–	–	4 of 4	–
Non-Executive Directors							
Mark Gregory	9 of 9	5 of 5	–	–	4 of 4	–	3 of 3
Jane Hanson	9 of 9	5 of 5	5 of 5	4 of 4	4 of 4	–	–
Sebastian James	9 of 9	–	–	4 of 4	–	–	3 of 3
Fiona McBain	9 of 9	5 of 5	5 of 5	–	–	–	–
Gregor Stewart	9 of 9	5 of 5	5 of 5	–	–	–	–
Executive Directors							
Penny James	9 of 9	–	–	4 of 4	–	–	–
Tim Harris	9 of 9	–	–	–	4 of 4	–	–
Executive Committee Member							
Simon Linares[4]				1 of 1			

Notes:

1. Attendance is expressed as the number of scheduled meetings attended out of the number of such meetings possible or applicable for the Director to attend.
2. Formerly the Corporate Responsibility Committee.
3. Mike Biggs stepped down from the Board on 4 August 2020.
4. Simon Linares stepped down from the Sustainability Committee on 21 April 2020.

The Board and culture

The Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture, overseeing its conduct and affairs, and for promoting the success of the Company for the benefit of the members and all the stakeholders.

The Board recognises that culture and capability are key enablers for achieving the Group's strategic objectives and encourages an open and inclusive culture and an environment in which people can be themselves.

During the year the Board championed the Group's culture through:

- Assessing and monitoring culture and satisfying itself that the Group's purpose, values and strategy are aligned with its culture;
- Reviewing the Code of Business Conduct to ensure that it reflects the Group's purpose and sustainability strategy;
- Reviewing means, for the workforce, to raise concerns in confidence and, if they wish, anonymously ("**Whistleblowing**"). Further details on the Group's Whistleblowing arrangements can be found on page 105;
- Seeking feedback from our people through the 'DiaLoGue Survey', a tool to measure engagement, which this year included questions on inclusivity and culture;
- NEDs' engagement with Employee Representative Body ("**ERB**") activities. The NEDs have an active interest in the workings of the ERB and in the normal course of business attend the meetings on a rotation basis so all NEDs participate and engage with the workforce. Whilst circumstances during the year have made active participation difficult, our NEDs have been kept fully informed by the Chief People Officer and Chief Executive Officer, and the Chair has attended a virtual ERB conference;
- Investing in and rewarding our workforce. During the year, the Group further built on its commitment to ensure that all of our people are rewarded fairly and have an interest in the success of the Group. See page 117 of the Remuneration Committee report for more detail;
- Supporting the Strategic Leadership Development Programme, the aim of which is to create a pipeline of diverse talent for development into future senior leaders;
- Enabling our employees to benefit from the Group's success. All eligible employees can participate in the Group's Buy As You Earn ("**BAYE**") Plan which provides a cost-effective way for all employees to acquire shares in the Company; and
- Supporting management's emphasis on employee wellbeing, including mental health awareness and financial wellbeing. For more information please see the People section of the Sustainability Pillars on page 50.

Communication with major investors

The Group is committed to keeping investors informed of its strategy and progress and to ensuring appropriate channels of communication are in place. We believe that actively engaging with investors is fundamental to our business. Having an active dialogue and ongoing engagement is vital for keeping in touch with opinions and provides the opportunity to address questions and concerns. The Chief Executive Officer and Chief Financial Officer frequently meet investors and the Board is also kept up to date on investor views by the Group's corporate brokers who regularly attend Board meetings. The Chair is also available to, and has engaged with, institutional shareholders. For more information on engagement with investors, see page 86.

Despite the challenges that we saw with physical meetings in 2020, the Chief Executive Officer and/or Chief Financial Officer had the following direct engagements with investors during 2020:

- attended 15 sell-side investor events;
- met 141 investors during 2020; and
- had 53 interactions with the top 25 largest investors.

Conflicts of interest

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

Each Director has a duty to avoid conflicts of interest. They must declare any conflict of interest that could interfere with their ability to act in the Group's best interests. The Board has authorised certain potential conflicts of interest in this way including in relation to Directors' external directorships and their interests in securities of other financial service institutions. Accordingly, the Board deals with any actual conflict of interest or duty that might arise. This usually would involve making sure a Director does not participate in a relevant Board or Committee discussion or decision. To do this, the Company Secretary maintains a register of conflicts and any conflicts that the Board has authorised. The Board reviews this register at each scheduled Board meeting to ensure that each Director applies independent judgement.

Division of responsibilities

Governance framework and structure

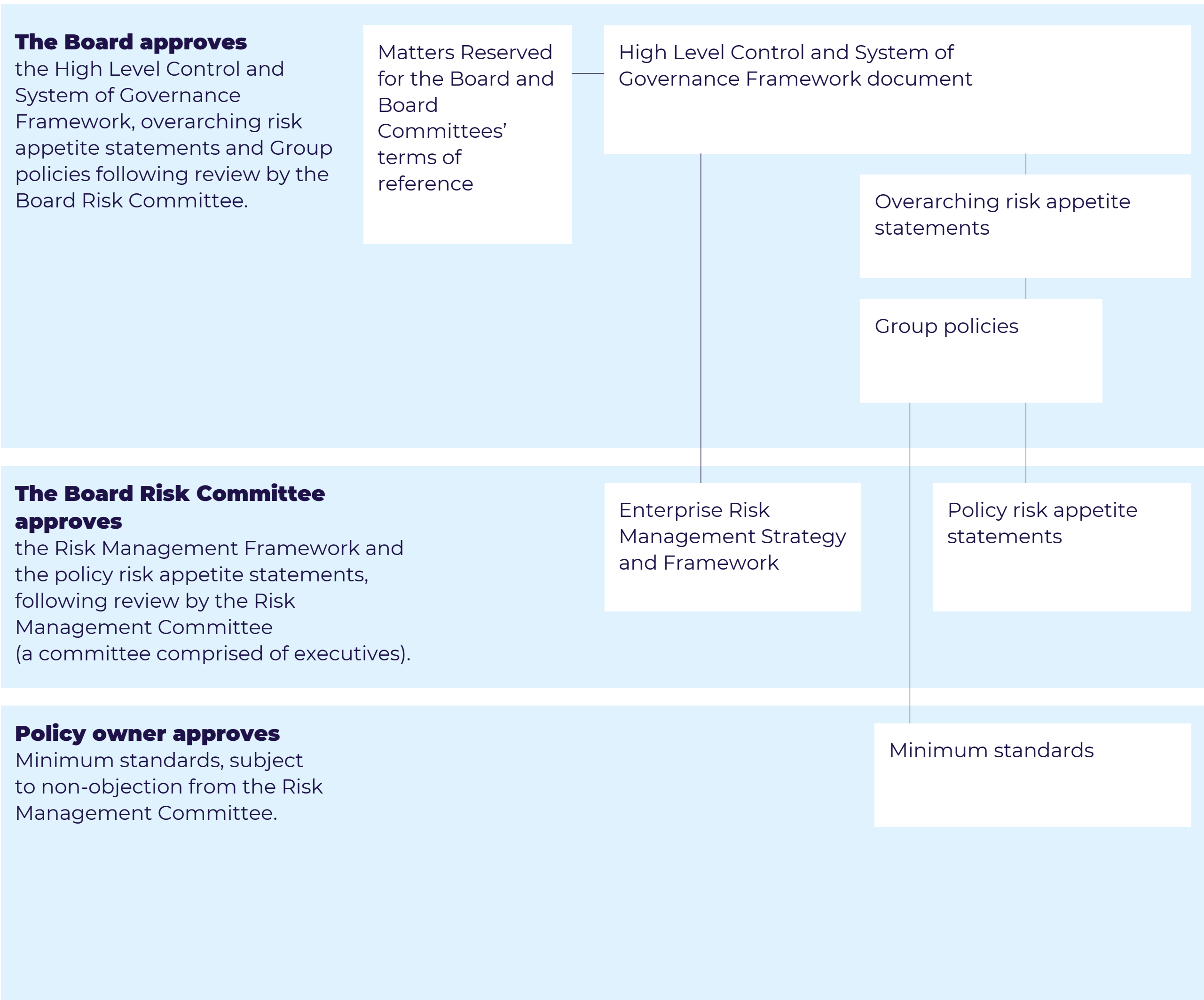
The Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound Risk Management Framework. The Board has established a risk management model that separates the Group's risk management responsibilities into three lines of defence. An explanation of these responsibilities can be found on page 69.

The Group's governance framework is detailed in the Group's High Level Control and System of Governance Framework document. This document details how the Group meets Solvency II and the Prudential Regulation Authority ("**PRA**") requirements to identify key functions and to have and maintain a Responsibilities Map in respect of the PRA and FCA's Senior Managers and Certification Regime requirements. The Board reviews this document annually.

The core elements of the governance framework are the:

- Matters Reserved for the Board and the Board Committees' terms of reference;
- High Level Control and System of Governance Framework document;
- Risk appetite statements, which are described on page 70;
- Enterprise Risk Management Strategy and Framework, which is described on page 69;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business how it needs to conduct its activities to remain within risk appetite; and
- Minimum standards, which interpret the Group policies into a set of requirements that can be implemented throughout the Group.

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



Structure of the Board, Board Committees and executive management

The following chart sets out the structure of the Board and its Committees and highlights the responsibilities of the Chair, the Senior Independent Director, the Non-Executive Directors, the Executive Directors, the Company Secretary and the Executive Committee. The role descriptions for CEO and Chair are set out in writing and the profiles clearly define their respective roles and responsibilities and ensure that no one person has unlimited powers of decision making.

The Board and Board Committees have unrestricted access to management and external advisers to help discharge their responsibilities. Each Committee plays a vital role in helping the Board to operate efficiently and consider matters appropriately.

The Board and Board Committees are satisfied that, in 2020, sufficient, reliable and timely information was received in order for them to perform their responsibilities effectively.

The reports by each Board Committee are given in this Annual Report & Accounts. The terms of reference for each Committee can be found on the corporate website at: www.directlinegroup.co.uk/en/who-we-are/governance/board-committees.

Roles and responsibilities of the Board

Board of Directors

Each Director brings different skills, experience and knowledge to the Company, and the NEDs contribute additional independent thought and judgement. Depending on the business needs, the NEDs and the Chair commit at least two days a month and two days a week respectively to discharging their duties effectively in accordance with their letters of appointment. Biographies of the full Board can be found on pages 78 to 80.

Board Committees

Full details of membership, responsibilities and activity of each Committee throughout the year can be found on pages 97 to 139.

Audit Committee	Board Risk Committee
Investment Committee	Nomination and Governance Committee
Remuneration Committee	Sustainability Committee[1]

The Executive Committee

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

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

Biographies of the Executive Committee can be found on pages 81 to 82.

Chair

- Guides, develops and leads the Board
- Plans and manages the Board's business
- Oversees the governance framework

Senior Independent Director

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

Non-Executive Directors

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

Executive Directors

- The CEO and CFO are members of the Board with delegated responsibility for the day-to-day operation of the Group and delivering its strategy
- The CEO delegates certain elements of her authority to the Executive Committee members to help ensure that senior executives are accountable and responsible for managing their business and functions

Company Secretary

- Ensures the Directors receive accurate, timely and clear information
- Alongside the Chair, oversees the governance framework

Note:

1. Formerly the Corporate Responsibility Committee.

Composition, succession & evaluation

Board composition

As at the date of this report, the Board comprised the Chair, who had previously served as an independent Non-Executive Director and was independent when appointed as Chair; two Executive Directors; and seven independent Non-Executive Directors, including the Senior Independent Director. The current Directors served throughout all of 2020, except for Adrian Joseph who joined the Board as an independent Non-Executive Director on 1 January 2021. The Board has previously announced that Jane Hanson will retire at the conclusion of the AGM to be held in May 2021, having completed nine years of service.

Mike Biggs, our previous Chairman, stepped down from the Board on 4 August 2020.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 78 to 80.

Board succession

The Nomination and Governance Committee continues to review succession plans both for the Board and at executive level each year. Further information on our diversity policy, our approach to succession planning and Board appointments can be found in the Nomination and Governance Committee's report on pages 106 to 108.

Chair succession

In March 2020, we announced that our former Chair, Mike Biggs, had decided, after having served as Chair, to step down from the Board later in the year.

As a first step in the process of searching for and selecting a successor, Non-Executive members of the Board were asked whether they might consider submitting themselves as candidates. Danuta Gray was the only existing member of the Board who wished to be considered. Richard Ward, Senior Independent Director, was asked to lead the selection process.

A Selection Board was constituted, consisting of all Board members except Mike Biggs, the outgoing Chair, and Danuta Gray, the internal candidate. The framework for the thorough and rigorous selection process, and the terms of reference for the Selection Board, were defined with the assistance of the Company Secretary. The Selection Board authorised Richard Ward and Penny James to appoint an executive search firm to assist in ensuring that a thorough review of both internal and external candidates was carried out.

Following presentations by shortlisted firms, Russell Reynolds, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, and has no other connection with the Company or any of its Directors, was selected. Russell Reynolds' team was led by Julia Budd and Laura Sanderson.

In a series of interviews with Richard Ward and Russell Reynolds, each member of the Selection Board indicated the skills, experience and characteristics that they thought would be important in a new Chair. Based on the criteria defined as a result of consultation with Selection Board members, Russell Reynolds proposed a list of eligible external candidates, which the Selection Board refined into a shortlist of candidates to be approached.

The Selection Board acknowledged from the outset that Danuta Gray was an extremely strong, well-qualified and highly regarded candidate. Following approaches to external candidates, interviews by members of the Selection Board and the resulting further refinement of the shortlist, the Selection Board invited Danuta Gray to present her proposed approach to the role of Chair.

In March 2020, the Selection Board resolved unanimously that Danuta was the preferred candidate, subject to regulatory approval and to confirmation of the timing of succession. In May 2020, having obtained regulatory approval for Danuta Gray's proposed appointment, the Board made its decision to appoint Danuta as Chair and we announced that she would succeed Mike Biggs as Chair with effect from 4 August 2020.

Board induction and training

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.

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

The Company Secretary maintained the training agenda for the Board and its Committees during the year. Training topics during the year included the Senior Managers and Certification Regime, the IT transformation programme, data privacy, cyber and operational resilience and the Internal Economic Capital Model.

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

NED Independence

On behalf of the Board, the Nomination and Governance Committee assesses the NEDs' independence, skills, knowledge and experience annually. The Nomination and Governance Committee concluded that every current NED was independent, continued to contribute effectively, and demonstrated they were committed to the role. Each current Director will submit themselves for election or re-election at the 2021 AGM, except for Jane Hanson, who is retiring from the Board.

You can find out more about the activities of the Nomination and Governance Committee's work during the year on pages 106 and 108.

Information and support

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

The Board's approach to diversity and inclusion

The Board and executive management are dedicated to building a diverse and inclusive organisation, in which everyone is treated fairly, irrespective of their racial or ethnic origin, age, disability, gender, sexual orientation, belief or religion, or educational or professional background.

Supporting equality of opportunity and building a culture that values difference has a strong correlation with our values, both at Board level and within the wider workforce.

The Code encourages diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The Board understands that diversity includes but is not limited to gender and aims to increase demographic and philosophical differences at Board level and throughout the Group. The Group has a Board-approved diversity policy which is reviewed annually.

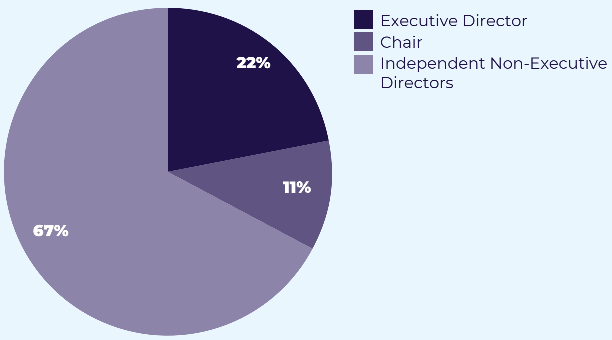
Whilst all appointments are based on merit and objective criteria, we are proud to be able to demonstrate a Board that not only boasts a female Chair and Chief Executive Officer but also a broader range of diversity characteristics.

The Board advocates the importance of cultural and ethnic diversity and aims to increase it at Board and Executive Committee level, as well as across the Group.

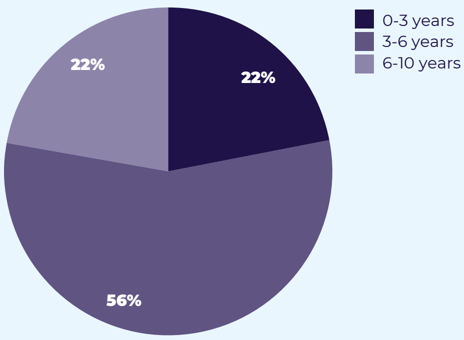
The charts below provide an overview of the Board independence and tenure, along with a summary of the Board and Executive Committee gender as at 31 December 2020.

Board composition

Board independence

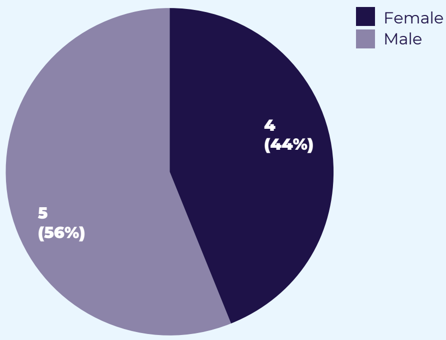


Chair and NED tenure

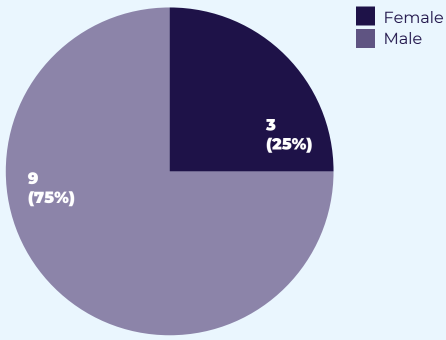


Board and Senior Management[1] gender

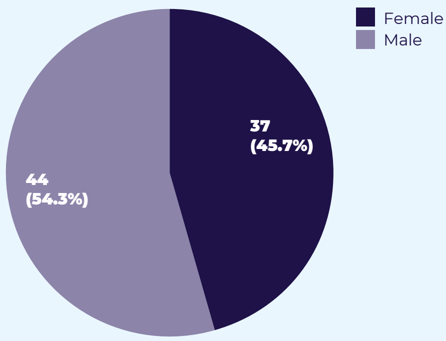
Board gender



Executive Committee gender



Executive Committee and direct reports



Note:

1. Senior Management is defined as the Executive Committee and direct reports (excluding administrative and support staff) as at 31 December 2020.

The Board is pleased to have appointed Adrian Joseph as a Non-Executive Director from 1 January 2021. Adrian has deep experience of data strategy and artificial intelligence and is a respected thought leader in diversity and inclusion.

Beyond the Board and into Executive Committee and the wider workforce, we are pleased with the progress that has been made in embedding principles and practices to promote diversity and to champion the benefits of a diverse and inclusive workforce.

The Board and Executive Committee continue to support the Diversity Network Alliance which champions diversity and inclusion within our organisation through strands relating to gender, ethnicity, social mobility, disability and neurodiversity, sexual orientation, generations, families and carers and belief.

The Board has oversight of diversity and inclusion initiatives carried out through the remit of the Sustainability Committee. Further details on diversity inclusion initiatives can be found in the Strategic report, in the Sustainability Committee report and in the Nomination and Governance Committee report on pages 106 to 108.

Board skills, experience and knowledge

Our Nomination and Governance Committee has an active and dynamic process of understanding and identifying the skills, experience and knowledge of its board members. The principles of the Code are embodied in the Committee's approach to board evaluation and succession planning and the Chair of the Committee goes through a continuous process of evaluating the skill and experience required on the Board. The principles and practices set by the Board and the progress made with the diversity of the Board include:

1. Maintaining at least 33% female representation on the Board

The Board aims to maintain female representation of at least 33% and remains committed to seeking to improve further its position on gender diversity when appropriate opportunities arise. The Board will continue to appoint the most appropriate candidates based on knowledge, skills, experience and, where necessary, independence. As at the date of this report (5 March 2021), female representation on the Board was 40% which exceeds the target set in Lord Davies' Women on Boards Review Five Year Summary to be achieved by 2020 and exceeds the Hampton-Alexander Review's recommendation for a minimum of 33% of women's representation on boards by 2020. The Group ranked 44th in the FTSE 250 for female Board representation in the Hampton-Alexander review.

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

In its search for candidates, when using executive search firms, the Board will only engage those who are signatories to the Voluntary Code of Conduct for Executive Search Firms as recommended by Lord Davies.

Executive Committee gender diversity

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

The Group is a signatory to the Women in Finance Charter which aspires to see gender balance at all levels across financial services firms. As at 31 December 2020, the Group exceeded its target set the previous year of achieving at least 33% female representation at senior leadership team level, with 45.7% of Executive Committee and direct report positions held by women. For a breakdown of the Executive Committee, please see biographical details on pages 81 to 82.

The Board continues to support Group-wide diversity initiatives, including succession planning programmes, to broaden and strengthen female talent at middle management level. For more information on the Group's diversity and inclusion strategy please see the People section on page 50.

Board and Committee effectiveness review three-year Board evaluation cycle

The Board conducts an annual review of the effectiveness of the performance of the Board, its Committees, the Chair and individual Directors with the input of an external facilitator at least every third year. The effectiveness review in 2020 was managed internally.

The Board recognises that a continuous and constructive review of its performance is an important factor in achieving its objectives and realising its full potential.

The 2020 evaluation focused on both the preservation of the strengths identified in the 2019 and earlier evaluations and on themes for sustaining effectiveness suggested by Professor Goffee, including building Board cohesion, making space for strategic discussion, and equipping the Board to monitor the delivery of organisational transformation and to balance challenge with support.

2019 External	2020 Internal	2021 Internal

Evaluation process

Step 1: with the assistance of the Company Secretary, the Chair identified the effectiveness priorities for discussion.

Step 2: The Chair interviewed members of the Board and Senior Management team.

Step 3: Reports were prepared for the Board and for each Committee for discussion.

Step 4: An action plan was defined following discussion of the reports.

Evaluation outcome

The Chair prepared a report for discussion by the Board and each of the Board Committees.

In addition, the Senior Independent Director discussed the Chair's performance with the Non-Executive Directors (except the Chair) to enable him to provide constructive feedback. No Director was involved in the review of their own performance.

The review concluded that, during the year, the Board, its Committees and individual members of the Board had performed effectively. Progress was found to have been made on the actions suggested in the 2019 review, as summarised in the table below. Suggestions for fine-tuning the effectiveness of Committees, including strengthening the membership of the Remuneration Committee and clarifying the role and authority of the Sustainability (formerly the Corporate Responsibility) Committee, were addressed during the year.

The table below illustrates the areas of focus that resulted from the 2019 review and the actions taken in 2020 as a result.

Focus areas from the 2019 review	Action taken during 2020
Build Board solidarity around key strategic challenges facing the Group.	The Board has built on its cohesion by creating opportunities for NEDs to add value based on their experience and by focusing on strategy in post-Covid-19 markets, the impact of the FCA pricing practices review, the pace of organisational and technological change, the cost base, capital strategy and growth.
Make space for strategy	The number and length of Board meetings have been increased to allow time for deeper discussion of strategic topics including costs, capital structure, growth, technology, digitalisation, the Agile operating model, data strategy, ethics and governance, investment in, and realising the benefits of, talent management, and succession planning.
Refresh the Board	The Board has focused on strengthening its experience and diversity to enhance its ability to monitor the delivery and performance of technological and other change. Criteria for new Non-Executive Directors have reflected these priorities, resulting in the appointment of Adrian Joseph OBE as a Non-Executive Director on 1 January 2021.

The table below illustrates the areas of focus that resulted from the 2020 review and the actions that are proposed for 2021.

Focus areas from the 2020 review	Proposed action for 2021
Use of Non-Executive Directors' experience	Opportunities for the Non-Executive Directors to interact directly with the business in a remote working environment should continue to be found until site visits can be reinstated.
The Board's agenda and information flow	The sequence of strategic topics on the Board's agenda to be aligned with the executive programme, taking the opportunity of longer meetings, when necessary, to allow for deeper and more regular strategic discussion. The early sharing of thinking on key strategic topics should continue. Key topics for 2021 to include the FCA's pricing practices review, capital strategy, driving the benefits of investment in data and technology and growth.
External expertise	Regular broker updates to be obtained during a time of market volatility and increased M&A activity, as well as from thought leaders on future trends in the industry.

Audit, Risk & Internal Control

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

- how the Board has assessed the Group's longer-term viability and the adoption of the Going Concern basis in the financial statements is on page 74 and page 143;
- The Board has delegated responsibility to the Audit Committee to oversee the management of the relationship with the Company's External Auditor. You can find details of the Audit Committee's role, activities and relationship with the External Auditor in the Committee report which starts on page 97.

Responsibility for preparing the Annual Report & Accounts

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

You can find an explanation from the Directors about their responsibility for preparing the financial statements in the Statement of Directors' responsibilities on page 143. The Group's External Auditor explains its responsibilities on page 153.

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

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

Assessing emerging and principal risks

The Board determines the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Directors robustly assessed the emerging and principal risks facing the Company, including risks that would threaten its business model, future performance, solvency or liquidity. You can find a description of these risks, and their management or mitigation, on pages 71 to 72.

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

Risk management and internal control systems

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

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

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

The Group operates a Three Lines of Defence model. You can find out more about this in the Risk management section on page 69.

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

The Board was also supported in its review of the annual Internal Risk and Control Assessment. This process involved each function completing a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attesting to the status of the effectiveness of the risk management and internal control systems. The Risk function reviewed and challenged these findings and the Group Audit function provided an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The Group then combined the overall findings into a Group-level assessment, which the CEO approved. The process included reporting on the nature and effectiveness of the controls, and other management processes that manage these risks.

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

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

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

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

Remuneration

The Board is mindful at all times that remuneration policies and practices must be designed to support strategy and promote the long-term sustainable success of the Group. It delegates responsibility to the Remuneration Committee to ensure that there are formal and transparent procedures for developing policy on executive remuneration and determining Director and Senior Management remuneration. The Remuneration Policy was approved by the shareholders in the 2020 AGM and was drafted to include provisions and principles in the Code.

In his report on pages 113 to 139, the Remuneration Committee Chair provides an overview of the Committee's work in setting an appropriate framework for remuneration of the Executive Directors, Executive Committee and other senior managers as well as the wider workforce to ensure fair pay for all our colleagues.

For details on how the Company has applied Provision 40 of the Code in determining Executive Director remuneration policy and practices, see the summary on page 121.

Audit Committee Report

Gregor Stewart
Chair of the Audit Committee

Committee membership

- **Gregor Stewart**
  Chair
- **Mark Gregory**
  Independent Non-Executive Director
- **Jane Hanson**
  Independent Non-Executive Director
- **Fiona McBain**
  Independent Non-Executive Director

Committee meeting attendance can be found on page 87.

Key responsibilities

- Oversee the integrity of the Group's financial statements
- Oversee and challenge the effectiveness of the Group's systems of financial and other internal controls, and financial and regulatory reporting
- Oversee the actuarial reserving process
- Oversee the work and effectiveness of the Group's internal and external auditors
- Oversee the Group's financial and non-financial disclosures, including any climate-related financial disclosures

Areas of focus in the reporting period

- Financial reporting: reviewed and challenged the key accounting and actuarial estimates and judgements made by management to support the financial statements, and gave due consideration to the increased level of uncertainty in respect of Covid-19, with reference to the Financial Reporting Council's guidance issued on this matter.
- Subordinated Tier 2 Notes: oversaw certain matters in relation to the issue of £260 million Subordinated Tier 2 Notes at a 4.0% coupon in June 2020.
- Actuarial and Finance Transformation: received updates from management on: the progress of the transformation programme, including oversight of the budget; IFRS 17 accounting policies; and the general ledger migration.
- TCFD Report: reviewed and challenged the Group's first Task Force on Climate-related Financial Disclosures Report.
- Insurance reserves: reviewed the Group's insurance reserves to obtain assurance that they remained appropriate for discharging expected liabilities. In doing so, the Committee challenged the actuarial best estimate of technical provisions and the prudential margin for IFRS 4 'Insurance Contracts'.

Committee skills and experience

In line with the UK Corporate Governance Code 2018 (the "**Code**"), all members of the Audit Committee are independent and the Committee as a whole is deemed to have competence relevant to the insurance and financial services sectors in which the Group operates.

All Committee members are members of the Institute of Chartered Accountants in England and Wales, with the exception of the Chair, Gregor Stewart, who is a member of the Institute of Chartered Accountants of Scotland.

Each member has recent and relevant financial experience gained in a number of different financial services businesses including insurance, enabling them to contribute diverse expertise to the Committee's proceedings.

To keep their skills current and relevant, members of the Committee received training during the period on matters including IFRS 17, the Internal Economic Capital Model and Solvency II technical provisions and have a schedule of technical updates planned for 2021.

Main activities during the year

The agendas for the meetings taking place during the year are agreed by the Chair of the Committee and detail the matters to be discussed and considered at each meeting. An analysis of the activity of the Committee during the year identified that it had discussed all intended matters during the year.

At each scheduled Committee meeting, the Committee received reports on financial and non-financial reporting, insurance reserves, internal controls and Group Audit.

Having reviewed the Committee's terms of reference during the year, the Committee has included the additional responsibility of reviewing the Group's Task Force on Climate-related Financial Disclosures Report ("**TCFD Report**") on behalf of the Board on an annual basis.

Financial reporting

The Committee followed a review process before recommending the Annual Report & Accounts and Half Year report to the Board, which focused on the choice and application of significant accounting policies, emphasising those requiring a major element of estimation or judgement. Further information on the significant matters considered is provided in the table on page 99.

The Committee also considered: the Financial Reporting Council's guidance on the Strategic Report; the UK Corporate Governance Code 2018; Section 172(1) of the Companies Act 2006 (as previously defined); the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018; the Financial Reporting Council's 2020 year-end letter to Audit Committee Chairs; and guidance issued by the Financial Reporting Council during the year on Covid-19 disclosures.

Subordinated Tier 2 Notes

In order to strengthen the Group's long-term finances further, the Committee was asked to oversee certain matters regarding the issue of £260 million Subordinated Tier 2 Notes at a 4.0% coupon to be listed on the General Exchange Market (GEM) of Euronext Dublin. The Committee reviewed the approach to the production and verification of the Listing Particulars and agreed that the listing would improve the financial flexibility and liquidity of the Group during the heightened uncertainty in the macroeconomic environment.

For more information on the Subordinated Tier 2 Notes see page 221.

Reserves

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

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

Actuarial and Finance Transformation

During the year, the Committee continued to receive reports on progress against key milestones in the Actuarial and Finance Transformation programme. Updates included in respect of the migration of the general ledger, which was completed successfully in May 2020, an overview of the technology solution design for IFRS 17 and progress on accounting policy choices. The Committee also reviewed the findings of a third party assurance review and approved the budget for the programme.

TCFD Report

The Group is aware that investors, regulators and other stakeholders expect transparent and high quality disclosure on matters relevant to climate change and expect companies to provide details on their approach to the risks and opportunities associated with climate change. At the end of 2020, the Group published its first TCFD Report, which highlighted the Group's response to the issues of climate change and how the TCFD framework has been used to enhance the Group's reporting in this area. The Committee discussed how production of the report had been integrated into the existing financial reporting control framework, reviewed the report on behalf of the Board and recommended its approval to the Board. A summary of the TCFD report is included in the Sustainability section which starts on page 44, and this also includes a link to the full report which can be found on the Group's website.

Going concern and viability statement

The Committee also considered the going concern assumptions and viability statement in the 2020 Annual Report & Accounts, valuation of assets and impairment reviews, non-recurring period-specific transactions and clarity of disclosures. The Committee reviewed and concluded that the Annual Report & Accounts taken as a whole were fair, balanced and understandable and provided sufficient information to enable the reader to assess the Group's position and performance, business model and strategy.

When considering the 2020 Annual Report & Accounts, the Committee focused on the significant judgements and issues which could be material to the financial statements. These included the matters set out in the table on page 99 and also included a detailed review of the impact of Covid-19, ensuring that the disclosure on matters relevant to the financial statements was fair, balanced and understandable in the context of the Group's operations.

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

For more information on the Viability statement see page 74.

Significant judgements and issues

Matter considered	Description	Action
Insurance reserves valuation	The Committee reviewed the level of insurance reserves of the Group. Insurance reserves relate to outstanding claims at the balance sheet date, including claims incurred but not reported at that date. By their nature, insurance reserves require analysis of trends and risks and the application of management judgement, knowledge and experience. Further information on reserves is provided on pages 30 to 32.	In 2020, the Committee reviewed and challenged the level of insurance reserves and monitored developing trends that could materially impact them. On an ongoing basis it received updates from the Actuarial Director on how estimates of reserves compared to claims paid. The Committee also obtained insight from an independent actuarial review of the reserves.
Valuation of investments not held at fair value and investment property	The Committee considered reports on the estimates and judgements applied to the carrying value of the Group's investments that are not held at fair value and the basis for the valuation. These assets are principally comprised of infrastructure loans, commercial real estate loans and private placement bonds held within the investment portfolio. In addition the Group also holds a portfolio of investment properties. Information was provided to the Committee on a regular basis to support the value recognised in the accounts.	In 2020, the Committee considered major accounting estimates and judgements in respect of assets not held at fair value and the investment property portfolio and was satisfied with the carrying value of investments and the basis for their valuation. The Committee considered the impact of Covid-19 on the investment property portfolio and noted the year-end independent valuation reflected factors in relation to the impact of Covid-19 on certain sectors of the portfolio, primarily in relation to the retail and hospitality sectors.
Impact of Covid-19 on financial statements	Accounting estimates and judgements made in the Group's financial statements are subject to increased levels of uncertainty as a result of Covid-19. The Committee referred to the Financial Reporting Council's guidance on this matter, which encourages companies to explain the significant estimates and judgements made in accounting for the impact of Covid-19. As part of its review, the Committee: evaluated the going concern basis used to prepare the half-year 2020 and full-year 2020 results; reviewed the impact on principal risks and uncertainties; and assessed whether the pandemic could trigger an impairment of assets.	The Committee reviewed and challenged the reports presented by management and was satisfied that the financial statements of the Group presented the impact of Covid-19 in sufficient detail to enable users to understand the impact of the pandemic on the Group's position and financial performance.
Migration of general ledger system	In 2020, the Group migrated to a new general ledger system. This involved a process of key risk assessments and mitigation plans following a decision to go live whilst most staff were working remotely. Detailed plans covering areas such as testing, dry runs, data migration, reconciliation and business user training were managed and implemented remotely and the migration was successfully completed in May 2020.	The Committee received regular reports on the general ledger migration, in particular with reference to the overall progress of the project and the migration of data from the previous general ledger to the new ledger. The Committee was satisfied that the data migration had been performed in a controlled manner and that appropriate reconciliations had been performed to ensure the integrity of the Group's financial data.

Internal control and Group Audit

During the year, the Committee reviewed the adequacy and effectiveness of the Group's internal control systems. The Group's financial reporting control framework is part of the wider internal controls system and addresses financial reporting risks. The Board delegates supervision of the framework to the Committee while the CFO is responsible for the framework's operation on a day-to-day basis. During 2020, the Committee received regular reports on any control deficiencies, compensating controls and the mitigating actions taken by management.

The Committee is responsible for overseeing the work of Group Audit and for ensuring industry best practice is adopted appropriately.

In February, we welcomed Mark Stock to the Group who was appointed as Group Head of Audit. The Group Head of Audit's primary reporting line is to the Chair of the Committee. The secondary reporting line, for day-to-day administration, is to the CEO.

Group Audit has continued to build on the improvements suggested in the 2018 PwC External Quality Assessment as part of an ongoing Continuous Improvement Plan. In line with recommendations from PwC, the Chair of the Committee, along with the Group Head of Audit, promoted the adoption of new tooling and training to enhance the insight delivered by Group Audit function reviews through the greater use of data analytics. PwC was appointed this year by Group Audit to provide insight and challenge to the function's vision and strategy, as well as taking on Quality Assurance activity. The Committee approved the Group Audit Charter, which is reviewed annually.

During the year, Group Audit provided the Committee with independent and objective reports on the adequacy and effectiveness of the Group's governance, risk management and internal controls. The Committee approved Group Audit's annual plan and received quarterly reports detailing internal audit activity, key findings, management responses, and proposed action plans. Group Audit also monitored progress so as to be able to confirm that the most significant actions were completed. There were no significant failings or weaknesses reported to the Committee in the year.

As a direct response to Covid-19, the Committee was asked to approve the rescheduling of the internal audit plan. The Committee assessed the resources available and those required to complete the Group Audit Plan. Following assessment by the Committee during the year, it concluded that the Group Audit function was effective.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2020 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the reporting period, the Actuarial Director, external actuarial advisers, External Auditor and Group Head of Audit met privately with the Audit Committee, in the absence of management.

The Chair of the Committee also reported on matters dealt with at each Committee meeting to the subsequent Board meeting.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was conducted as part of the wider review of the Board and the Board Committees by the Chair of the Board. The review found that the Committee functions effectively and that issues are dealt with in a thoughtful and rigorous manner.

The activity of the Committee was reviewed during the year against the Committee's terms of reference. The Committee terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/governance/board-committees.

External audit

Deloitte LLP ("**Deloitte**") has served as the Company's Auditor since 2000. Before listing in 2012, the Group was audited by Deloitte as a division of RBS Group. The Committee is responsible for overseeing the External Auditor and agreeing the audit fee, as well as approving the scope of the External Auditor's annual plan.

The audit partner is Colin Rawlings, FCA, who was first appointed for the 2016 audit. Following conclusion of the 2020 audit, Colin will have completed five years as lead audit partner and, in compliance with the Group's minimum standard on independence of the External Auditor, will complete his engagement with the Group. During the year, the Committee confirmed the appointment of a new partner proposed by Deloitte and are satisfied that Adam Addis, ACA, can be appointed to the audit for 2021.

External Auditor tenure

During the year, the Committee again discussed the position on its external audit services contract and examined a number of options regarding the timing of tendering for the external audit, including the mandatory rotation of the Group's audit firm. This took into account the reforms of the audit market by the Competition and Markets Authority and the EU, under which Deloitte can continue as the Company's External Auditor until 31 December 2023. As Deloitte was appointed as Auditor to the Company in 2000 (when it was a subsidiary of The Royal Bank of Scotland Group plc), under the transitional provisions of the legislation, the firm may not re-engage for the audit after 17 June 2023. The Committee considered whether it was appropriate to tender the external audit contract for the year ending 31 December 2021 and concluded it was not appropriate.

When considering the timing of the external audit tender, the Committee took into account the Group's ongoing change programmes including the implementation of a new general ledger system, the use of consultants employed by auditing firms in connection with those programmes, audit partner rotation, the impact of IFRS 17 and the best interests of all stakeholders including potential investors and shareholders. The Committee will review the position on an annual basis, but currently anticipates tendering the audit contract after the implementation of IFRS 17 to ensure the broadest choice of firms. The Committee also confirmed that it will continue to comply with the regulations governing auditor rotation.

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

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

Auditor independence and non-audit services

The Group has a minimum standard in relation to the independence of the External Auditor. This establishes parameters for preventing or mitigating anything that compromises the External Auditor's independence or objectivity. The minimum standard includes a formal process for the approval of certain non-audit-related services by the External Auditor. The minimum standard has been revised and updated in light of the Financial Reporting Council's review of its Ethical Standard for Auditors which was published in December 2019.

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

During the year, the Committee approved fees of £0.6 million to Deloitte for services unrelated to audit work. The following is a breakdown of fees paid to Deloitte for the year ended 31 December 2020.

	Fees £m	Proportion %
Audit fees	2.1	72
Audit-related assurance services	0.2	7
Non-audit services	0.6	21
Total fees for audit and other services	**2.9**	**100**

Audit-related assurance services were in respect of the Group's Solvency II reporting and the review of the Half Year Report 2020 and non-audit services primarily related to assurance activities on IT projects in relation to the development of new systems where Deloitte was chosen to provide the non-audit services because of its expertise and insight in this area. The engagement with Deloitte for this activity was compliant with the transitional rules of the Financial Reporting Council's revised Ethical Standard and this engagement is now coming to an end. To guard against any independence issues, appropriate safeguards were discussed and agreed by the Committee and Deloitte. In addition, Deloitte also undertook procedures to support the Group's issue of £260 million of Tier 2 debt in May 2020. They were considered to be an appropriate choice of service provider as their understanding of the Group was deemed relevant for the service. The Committee determined that the services provided would not affect the independence of the External Auditor. Further information in respect of audit fees paid to Deloitte is disclosed in note 10 to the consolidated financial statements.

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

In 2020, the Committee assessed the External Auditor's effectiveness. This was in addition to regularly questioning the External Auditor during its meetings. The Committee assessed the External Auditor through:

i. a detailed questionnaire completed by key stakeholders;
ii. discussing matters with the CFO;
iii. formally reviewing the External Auditor's independence;
iv. assessing the key risks identified by the External Auditor, the quality controls put in place to deliver the audit and whether the agreed audit plan was fulfilled; and
v. private meetings with the External Auditor in the absence of management.

In addition, through regular interaction with the External Auditor, the Committee was satisfied that the External Auditor continued to demonstrate professional scepticism and challenged management's assumptions.

The quality of the audit was assessed through review and discussion of the External Auditor's report to the Committee at each meeting and from the challenges and insights brought to significant areas of judgement in the Group's financial statements.

After taking into account all of the information available and considering FRC Audit Quality: Practice aid for audit committees, the Committee concluded that Deloitte had performed its obligations effectively and appropriately as External Auditor to the Group.

The Committee recommended to the Board that the Group re-appoint Deloitte as External Auditor, to which the Board agreed. A resolution regarding the reappointment of Deloitte as auditor of the Group will be put to shareholders at the 2021 AGM.

The Board reviewed and approved this report on 5 March 2021.

Gregor Stewart
Chair of the Audit Committee

Board Risk Committee Report

Jane Hanson
Chair of the Board Risk Committee

Committee membership

- **Jane Hanson**
  Chair
- **Fiona McBain**
  Independent Non-Executive Director
- **Gregor Stewart**
  Independent Non-Executive Director
- **Dr Richard Ward**
  Senior Independent Director

Committee meeting attendance can be found on page 87.

Key responsibilities

- Provide oversight and advice to the Board in relation to current and emerging risk exposures of the Group and the strategic approach to managing risk, including determination of risk appetite and tolerance
- Promote a risk-aware culture within the Group
- Review the design and implementation of the Enterprise Risk Management and Strategy Framework, risk appetite and tolerances

Areas of focus in the reporting period

- Considered the Group's approach to pricing practices, aiming to ensure that they are delivering fair and appropriate outcomes for its customers.
- Proactively monitored the impacts and risks of the Covid-19 global pandemic.
- Oversaw change risk arising from the Group's multi-year transformation programmes.
- Reviewed and understood the Group's climate-related risks.
- Monitored the progress of the Group's proactive operational resilience programme.

Further detail on these areas can be found in the body of the Committee report.

Covid-19

At the heart of the Group's strategy is the vision to become a force for good and so it has been a key focus for the Group to support its customers, people and wider society through the Covid-19 pandemic. The Committee was supportive of the Group's move to homeworking to protect the lives of its people and their families, to maintain the Group's ability to service its customers, to safeguard its business for the longer term and to support the Government in protecting the country. The Committee took a proactive approach in monitoring the impacts and risk of the Covid-19 pandemic.

The Committee received regular updates and challenged management on the actions being taken across the business to support customers during the pandemic with a particular focus on factors such as public perception, affordability and the importance of doing the right thing for the Group's financially distressed customers. The Committee also closely monitored and challenged management on the impact that Covid-19 was having on colleague morale and wellbeing, travel and business interruption claims, the supply chain of goods, operational resilience, the Group's technology and business transformation programme timelines, market risk, solvency capital requirements and risk appetite range and the Strategic Plan. Details of stress testing in relation to Covid-19 can be found in the financial risk section of the Committee report.

The Committee held an ad hoc meeting and received regular updates on cyber mitigation planning to manage cyber risk appetite which was being monitored closely by the Risk function. The Committee probed to ensure that risks were being managed appropriately and compensating controls and mitigating actions were in place to manage the Group's transition to homeworking for all of its in-house and outsourced operations, including in the UK and offshore in South Africa and India. The Committee subsequently reviewed plans for the re-opening of offices, gaining assurance from management on their plans for the return of limited numbers of staff and the measures taken to ensure social distancing was maintained.

The Committee sought assurance and was satisfied with the Risk function's review of the governance of the key Covid-19-related decisions made during the year and the management actions recommended by Group Audit following its consultative exercise of the lessons learnt from the crisis management response to the initial phases of Covid-19.

Customer and conduct

Customer and conduct risk has continued to be a principal focus of the Committee in 2020. During the period, the Committee devoted significant time to considering, challenging and supporting management on its approach to managing these risks and sought assurance that fair pricing and outcomes were being achieved for customers across all Direct Line Group products. The Committee received reports and probed management on the Group's pricing strategy and governance and control framework, the process taken to review and manage conduct thresholds and margins and pricing transparency, the methods used for pricing for vulnerable customers, protected characteristics and the approach to data ethics. In October 2020, the Committee held a risk strategy session and discussed in detail the Group's use and governance of pricing factors, key customer judgements being applied in pricing, customer outcomes illustrating the effectiveness of the Group's pricing approach as well as initial thoughts on the FCA's General Insurance Pricing Practices Market Study and its impact on the Group.

The Group has a management-level Customer Conduct Committee, which reviews, challenges and oversees customer and conduct matters for all of the Group's brands and channels with the aim of promoting customers' best interests and ensuring that the Group's business activities are consistent with the best interests of its customers. The Customer Conduct Committee's findings and any recommendations for improvement are regularly reported both to the Board and the Committee.

Compliance and regulatory risk

As part of the Chief Risk Officer's ("**CRO**") report submitted to each meeting, the Committee reviewed regular updates on key ongoing regulatory developments and interactions with the PRA and FCA. Areas on which the Committee focused included pricing practices, operational resilience, Brexit, the status of cyber risk and travel and business interruption claims as a result of the pandemic, the implementation of the Insurance Distribution Directive to improve customer demands and needs and the approach to assessing customer affordability.

During the year, the Committee considered the Group's compliance with regulatory requirements including those relating to conduct and financial crime. The Committee approved the annual Compliance Plan setting out the compliance activities to be undertaken in the coming year with the objectives of ensuring compliance, maintaining an open and co-operative relationship with regulators and ensuring the Board and colleagues understand their regulatory responsibilities. The Committee reviewed and challenged the outputs from conduct and compliance assurance reviews, including in relation to Solvency II compliance. The Committee received data privacy updates and a report on the Group's adherence to privacy and data protection legislation during 2020, including actions taken to respond to data information requests to comply with the General Data Protection Regulation and the Information Commissioner's Office guidelines. The Committee reviewed the actions being undertaken to ensure compliance with the regulators' Senior Managers and Certification Regime, which included a comprehensive review of the Group's High Level Control and System of Governance Framework and Management Responsibilities Map.

During the period, the Group continued to work on its proactive operational resilience programme aligned to the expectations set by the Bank of England, PRA and FCA, aiming to address business process, organisational, third-party and technological resilience as well as prioritising the prevention of, and recovery from, financial and other shocks to the business. Through receipt of regular updates, the Committee challenged and supported management on the key indicators and management information which would be used to provide the Board with oversight of the Group's operational resilience, the impact tolerances to be set and the suitable strategies, processes and systems for identifying important business services.

Operational risk

The oversight of change risk was a central focus for the Committee as the Group made good progress on its strategic transformation, continuing major technical deliveries in the remote working environment, whilst also focusing on business transformation to take advantage of the tools being built.

The Committee received updates at each of its meetings on the developing, testing and implementation of releases under the Group's technological transformation programmes, on interdependencies between programmes and on the overall management of the Group's change portfolio, reviewing and challenging the operational and financial risks and controls and the potential impact on customers, people and the Group's strategic and financial plan. Each report was accompanied by an update from the Risk function on its assurance activity, which included reviewing and challenging programme plans, testing methodology and performance, and reviewing preparations for implementation. Reasonable assurance on the Group's technology re-platforming programme, "Best for Customer", was provided to the Committee by Deloitte, who had been engaged to conduct a number of deep dive reviews of a range of programme stages and risks focusing on planning methodology and approach, testing, technical readiness for business volume increases and programme closedown.

The Committee reviewed updates during the year on the progress the Group had made to deliver stable desktop, telephony and mainframe platforms. The Committee challenged management on the lessons learned from other firms' IT migration programmes and sought assurance that the Group had appropriate mitigating controls and actions in place to prevent occurrence of such issues which could have a detrimental impact on the Group and its customers.

The Committee received updates on the progress of the Group's transformation of its operating model and challenged how the risk framework had been adapted to align with the new model as well as on the mitigating actions in place to address the key impact risks of the programme.

Financial risk

As an insurance company, Direct Line Group understands the importance of managing climate-related risk and recognises that climate change could pose material long-term financial impacts to the business. During the year, the Committee received regular climate-related updates as part of the CRO's report and examined and monitored management's 2020 and 2021 plans to protect the Group from climate-related financial risks and address the PRA's climate change expectations. The Committee recognised the progress that had been made, including the development of a governance framework and workstreams to manage climate-related risks and the publication of the TCFD Report in December 2020. As part of a strategy session in October 2020, the Committee also considered the potential financial risks and impacts from climate change, including an external view on regulatory expectations in the context of the sustainability agenda. Further details on the risks due to climate change faced by the Group can be found on pages 58 and 74.

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

The Committee reviewed and challenged the stress and scenario testing plan with a particular focus on certain scenarios including in relation to the potential financial, operational and reputational impacts of Covid-19, the potential financial risks of climate change, the potential impacts to the business following a rapid reduction of motor in-force polices and premiums as well as the impacts of a potential hard Brexit combined with economic implications resulting from the end of the furlough scheme and further lockdown periods in 2020 and 2021.

Throughout the year, the Committee received reports on the internal model, including independent validation results and the internal model owners' report. This outlined the scope of the capital model, key outputs, risk drivers, significant parameters, expert judgements and key assumptions. As a result of reviewing the internal model owners' report, the Committee challenged management on its approach to diversification risk.

During the year, the Committee also scrutinised the Group's risk appetite guidance for affirmative and non-affirmative cyber underwriting risks and challenged the actions taken to mitigate such risks.

Risk monitoring and oversight

At each scheduled meeting, the Committee received a report from the CRO which provided an overview and assessment of the Group's risk profile. It detailed the key activities undertaken by the Risk function to further embed risk management across the Group and, provided outputs of regular risk monitoring and details of specific risk issues, including in relation to Covid-19 and Brexit. The Committee also received and discussed details of the Group's current and forward-looking solvency position.

The Committee received regular reports regarding the three strategic risk appetite statements: maintain capital adequacy; stable and efficient access to funding and liquidity; and maintain stakeholder confidence. The Committee monitored the Group's exposure against these risk appetite statements and the lower level risk appetite statements, considered key risk indicators and assessed the key drivers that affected status against risk appetite. The Committee reviewed and questioned the justification of the assessment of certain risks and the robustness of management action plans to address areas close to or outside of tolerance.

Risk management and controls

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

Assessment of risk behaviours and attitudes

The Committee reviewed the annual Assessment of Risk Behaviours and Attitudes undertaken jointly by the Risk and Group Audit functions, which covered areas including tone from the top, decision-making and the Risk Management Framework as well as the Group's response to Covid-19 and the implementation of the Group's new ways of working as part of the business transformation programme. The Committee discussed the outputs of the assessment, as well as areas for further improvement, seeking to ensure the appropriateness of the actions identified.

Principal and emerging risks

The Committee assessed the principal risks facing the Group, which are listed on pages 71 and 72, through reviewing and challenging the matters listed in the Group's Material Risk Register in the context of the Group's risk appetite and through consideration of the risk assessment contained in the CRO's report received at each scheduled meeting.

The Committee assessed the Group's emerging risks. It challenged the assumption that management had identified all possible significant emerging risks during the year and the Risk function's role in ensuring that such risks were being monitored and managed appropriately. The most notable emerging risks identified included those relating to climate change and ethical use of data. Further details regarding such risks can be found on pages 71 to 72.

Whistleblowing

As delegated by the Board, the Committee routinely reviewed the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ("**whistleblowing**") during the year. The Committee also reviewed reports relating to whistleblowing, including anonymised, individual cases, to ensure arrangements were in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Committee probed management and was satisfied that the whistleblowing process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements. This was supported by Group Audit's review of the Group's whistleblowing arrangements during the year which concluded that whistleblowing procedures and controls were fit for purpose and operating effectively.

Financial Crime and anti-bribery and corruption

The Group has a fraud and financial crime policy, which includes the requirement that all employees of the Group comply with an anti-bribery and corruption minimum standard. The aim of the standard is to ensure compliance with applicable anti-bribery and corruption legislation and regulation and that employees act responsibly and ethically at all times when conducting and awarding business.

The Committee considered the Group's actions to prevent financial crime through its review of the annual Financial Crime Report. Annually, the Committee considers an anti-bribery and corruption report, which includes a risk assessment of the level of anti-bribery and corruption risk to the Group. The Group's annual anti-bribery and corruption risk assessment was completed, noting that no allegations or suspicions of bribery or corruption had been identified or reported in 2020. Following review and challenge, the Committee was satisfied that the Group's policies and procedures on anti-bribery and corruption were fit for purpose and that anti-bribery and corruption risks were managed appropriately.

Risk governance

During the reporting period, with the aim of balancing efficiency and appropriate ownership and oversight, the Committee reviewed the Group's most significant policies. The Committee reviewed and challenged each of these policies as part of the Group's Solvency II requirements and recommended them for approval by the Board.

The Committee also considered the results of the annual Group assessment of the effectiveness of the internal controls environment undertaken by each business division, as well as monitoring controls on an ongoing basis. The Committee considered, challenged and approved the annual risk operational plan and the adequacy and objectivity of the Risk function's resources.

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2020 it received sufficient, reliable and timely information to perform its responsibilities effectively. In addition to monthly one-to-one meetings with the Chair, the Chief Risk Officer also met privately with the Committee without management being present. The Chair also reported on matters dealt with at each Committee meeting to the subsequent Board meeting.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was conducted as part of the wider review of the Board and the Board Committees by the Chair of the Board. The review found that the Committee functions effectively and that issues are dealt with rigorously and in a considered manner.

The activity of the Committee was reviewed during the year against the Committee's terms of reference. The Committee terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/governance/board-committees.

The Board reviewed and approved this report on 5 March 2021.

Jane Hanson
Chair of the Board Risk Committee

Nomination and Governance Committee Report

Danuta Gray
Chair of the Nomination and Governance Committee

Committee membership[1]

- **Danuta Gray – appointed as Chair 26 October 2020**
  Chair
- **Sebastian James – appointed 26 October 2020**
  Independent Non-Executive Director
- **Dr Richard Ward**
  Independent Non-Executive Director

Committee meeting attendance can be found on page 87.

Key responsibilities

- Review Board composition
- Lead the process for Board appointments and make recommendations to the Board
- Ensure orderly succession plans are in place for the Board
- Oversee executive succession planning at a high level to ensure the development of a diverse Senior Management talent pipeline
- Oversee and monitor the corporate governance framework of the Group
- Monitor developments in governance and investor ESG expectations

Note:

1. Mike Biggs was a member of this Committee until he retired from the Board on 4 August 2020.

Areas of focus in the reporting period

- Reviewed the skills and experience of the Board with regard to the oversight of the Group's strategy and led the search for a new Non-Executive Director, which resulted in the appointment of Adrian Joseph on 1 January 2021.
- Monitored progress on executive succession planning, both for members of the Executive Committee and for new roles in the Agile operating model adopted by the Group during the year.

Main activities during the year

Board and Senior Management succession planning

The Committee regularly monitors the composition of the Board and its Committees to ensure that they have a suitable balance of skills and experience to oversee and challenge the delivery of the Group's strategy and to discharge the Committee's responsibilities effectively.

The process adopted by the Board which culminated in my selection as Mike Biggs' successor as Chair of the Board is described in detail in the Corporate Governance report on page 91.

In October 2020, the Company announced my appointment as Chair of the Nomination and Governance Committee; Mark Gregory became Interim Chair of the Remuneration Committee; and Sebastian James was appointed as a member of the Nomination and Governance Committee.

New appointments

We engaged Heidrick and Struggles, which is a signatory to the Voluntary Code of Conduct for executive search firms, to assist in the search for a new independent NED in 2020. Heidrick and Struggles has no other connection with the Company or any individual Director. Shortlisted candidates were interviewed by members of the Committee and the preferred candidate subsequently met all other members of the Board.

Following the Committee's recommendation, the Board agreed, in December 2020, that Adrian Joseph OBE would be appointed as an independent Non-Executive Director with effect from 1 January 2021.

At the Committee's recommendation, the Board also agreed that, from 1 January 2021, Adrian would join the Sustainability Committee, Richard Ward would become a member of the Remuneration Committee and Fiona McBain would become a member of the Investment Committee.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2020 AGM, the Committee reviewed the independence of the Non-Executive Directors and concluded that all Non-Executive Directors remained independent in judgement and character and met the criteria for independence set out in the Code. The then Chair, Mike Biggs, was independent at the time of his appointment as Chair and was not involved in his own review.

Special attention was paid to the Non-Executive Directors' external responsibilities and it was concluded that all Directors had sufficient time to dedicate to their respective roles. The Board considered and approved Jane Hanson's new roles as a Non-Executive Director of Welsh Water and Rothesay Life PLC, concluding that she would continue to have sufficient time to devote to her role as a Non-Executive Director of the Company. The Committee recommended to the Board and shareholders that all serving Directors be submitted for election or re-election at the Company's 2020 AGM.

With the exception of Jane Hanson, who will be stepping down from the Board after having served as a Non-Executive Director for over nine years, all current Directors will submit themselves for election or re-election at the Company's 2021 AGM.

Diversity and inclusion

The Board believes that an effective Board with a broad strategic perspective embraces a diversity of gender, race, skills and experience, as well as of regional, socio-economic, educational and professional backgrounds, amongst other differences. The individual experience of each Director is recognised and forms a valuable part of the decision-making process at Board level. The annual evaluation of the Board considers its composition and diversity.

In its search for candidates, the Board aims only to engage with executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms.

The Board's diversity policy is available to view on the Company's website at www.directlinegroup.co.uk/en/who-we-are/governance/other-policies. This policy, which is annually reviewed and monitored by the Committee, is presented to any executive search firm engaged to assist with the selection and appointment process for Board positions. The objective of the diversity policy is to seek to ensure that individual differences, which contribute to the success of the Company and represent the diversity of our customers and colleagues, are reflected at Board level.

Further information on the Board diversity policy and the Group's diversity initiatives can be found in the Corporate Governance report on page 92.

The Board supports the recommendations set out in the Parker Review and was delighted to welcome Adrian Joseph as a member as of 1 January 2021. Adrian brings a wealth of experience in data strategy and analytics and has a history of commitment to diversity and inclusion initiatives. The Board looks forward to benefiting from his knowledge and experience, particularly in these fields, which are central to its strategy.

Diverse pipeline

During the year, the Committee reviewed the Group's management succession planning and talent development initiatives, with the objective of building a diverse and inclusive talent pipeline and identifying potential in the senior leadership population.

The Group has a detailed diversity and inclusion plan which is supported by the Board and overseen by the Sustainability Committee, and which includes the objectives both of encouraging diversity in our succession planning and of fostering a culture of growing inclusivity. The Group also supports the empowerment of its senior managers through its Emerge development programme.

The Committee recognises the importance of thorough contingency planning and in January 2021, it reviewed both emergency cover and longer-term succession planning for all Executive Committee roles, along with plans for developing senior leaders in new roles in the Group's Agile operating model.

Gender of Board and Senior Management

The Board supports the targets set in the Hampton-Alexander Review. As at 31 December 2020, female representation on the Board was 44.4%.

In August 2020, the Board was proud to mark a historic moment when it became one of only four FTSE 250 companies with both a female CEO and female Chair.

The Board remains committed to progressing women into senior roles and aims to increase female representation at executive level through associated development programmes for high-potential females. As at 31 December 2020, female representation at Executive Committee level and their direct reports was 45.7%.

Board effectiveness review

In accordance with our three year cycle of Board effectiveness evaluation, the review was facilitated internally in 2020.

Further information on the evaluation process, including the outcomes and actions proposed, can be found in the Corporate Governance report on page 93.

Committee effectiveness review

During the year, I conducted an internal evaluation of the effectiveness of the Committee as part of the wider review of the Board and its Committees. The review found that the Committee functions effectively and that issues are dealt with in a thoughtful and rigorous manner.

The activity of the Committee was reviewed during the year against the Committee's terms of reference and found that the Committee had discharged its responsibilities effectively in 2020. The Committee's terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/governance/board-committees.

Corporate governance

The Committee monitors emerging governance matters, compliance with the Corporate Governance Code and ESG standard and subsidiary governance. It will continue to monitor consultations, developments and reforms which affect the Group's corporate governance obligations.

The Board reviewed and approved this report on 5 March 2021.

Danuta Gray
Chair of the Nomination and Governance Committee

Sustainability Committee Report

Sebastian James
Chair of the Sustainability Committee

Committee membership

- **Sebastian James**
  Chair
- **Penny James**
  Chief Executive Officer
- **Adrian Joseph – appointed 1 January 2021**
  Independent Non-Executive Director
- **Jane Hanson**
  Independent Non-Executive Director

Committee meeting attendance can be found on page 87.

Key responsibilities

- Provide oversight and advice on how the Group conducts its business in a responsible and sustainable manner that reflects the Group's vision and purpose
- Monitor the progress of the Group's initiatives under its sustainability pillars

Areas of focus in the reporting period

- Oversaw the Group's efforts to be a force for good in response to the Covid-19 pandemic.
- Monitored the Group's sustainability activity through regular updates on each of the five pillars of the sustainability strategy.
- Challenged the robustness of management decision-making relating to the five pillar sustainability strategy.
- Received updates on the development of the Group's first Sustainability Report.
- Reviewed ethical matters including the Group's Modern slavery statement.
- Agreed to expand its remit to ensure alignment with the Group's sustainability strategy; and vision to be a force for good.
- Changed its name from Corporate Responsibility Committee to Sustainability Committee.

Main activities during the year

Customers

During 2020, the Committee monitored steps taken to earn customers' trust by demonstrating how the Group acts in their best interests. The Committee reviewed management's initiatives to support customers in the light of the challenges presented by the Covid-19 pandemic including supporting our customers with roles in the NHS by offering a fast track claims service, free personal possession, home emergency and rescue cover. The Committee was supportive of other initiatives to assist customers in financial difficulty as a result of Covid-19 such as providing "Mileage MoneyBack" refunds, offering to waive cancellation fees, payment deferrals, and adding flexibility to motor and rescue policies.

The Committee received updates on the work to understand the reasons behind the marginalisation of certain customer groups from various rights, opportunities and resources that are normally available to others, defined by management as social exclusion. The Committee reviewed and challenged reasons proposed by management as explanations for social inclusion which included access, affordability and data availability. The Committee acknowledged that action to reduce social exclusion would be explored alongside the Group's response to the FCA's Market Study on General Insurance Pricing Practices.

People

The Committee considered management's mission to build a culture that celebrates difference and empowers people so that they can thrive. The Committee and Board regard diversity and inclusion as an integral aspect of ensuring that people can thrive at the Group, and the Committee was pleased to receive updates on management's progress against its diversity and inclusion priorities. The Group's first diversity and inclusion survey as well as insights from the Group's Diversity Network Alliance were incorporated into a new diversity and inclusion strategy, setting targets for progress.

The Committee received updates on measures to protect people during Covid-19 including remote working arrangements, safeguarding roles and remuneration, and on efforts to support mental health and wellbeing. The Committee noted the increased frequency of engagement with employees through regular employee pulse surveys and impactful internal communications campaigns such as #WeCare.

The Committee was supportive of management's commitment to continue building a great place to work despite the challenges of Covid-19 through the Agile transformation programme. The Committee was pleased to see management's focus on empowering employees to self-organise and provide solutions for customers as quickly as possible and noted progress updates regarding upskilling and the development of Agile behaviours.

Planet

During the year, the Committee oversaw management actions towards protecting the business from the impact of climate change and giving back to the planet more than it takes out. The Committee monitored progress against the Group's climate targets for reducing energy consumption and greenhouse gases and environmental initiatives and was pleased to see that at Half Year the Group had:

– exceeded its target to reduce Group-wide emissions on a like-for-like basis by 2020 against a 2013 baseline by 57%; and
– met its target for a 30% like-for-like reduction in the Group's energy use by 2020 against a 2013 baseline.

The Committee also received updates on the Group's work to set science-based carbon targets for Scope 1 and 2 emissions, and Scope 3 emissions under the Group's control, and submit them in line with the Science-Based Targets Initiative framework. More information regarding the Group's greenhouse gas emissions data can be found on page 61 of the Strategic report.

The Committee considered the Group's progress towards achieving its carbon neutrality ambitions in 2020. The Group agreed a three-year commitment with the Carbon Trust to offset carbon emissions by investing in high impact projects that both reduce carbon emissions and support global communities.

Society

During 2020, the Committee monitored how the Group used its expertise to improve outcomes for our society and the communities it served. The Committee received updates on the Group's Community Fund, created to support communities during Covid-19 in areas where Direct Line had a presence. The Committee was pleased to see £3.5 million of assistance given to vulnerable groups, small, local charities and charitable projects supporting public policy areas.

The redevelopment of Shotgun, the Group's initiative aimed at reducing young driver accidents, continued during 2020. Despite the delayed relaunch of Shotgun, the Committee noted management's conviction in the core aims of the mobile application to: reduce young driver accidents; and have a positive influence on young drivers' behaviours on our roads.

Additional ethical matters

The Committee recognises that respecting human rights is self-evidently the right thing to do and is committed to ensuring that the Group conducts its business in a manner which is ethical and sustainable.

In December 2020, the Committee reviewed the Group's policy on compliance with the Modern Slavery Act 2015 and how third-party suppliers complied with the Act's requirements.

The Committee challenged the Procurement function and concluded that processes and policies in connection with the Modern Slavery Act were robust, effective in being embedded in supply chain processes, and had appropriately responded to unprecedented circumstances presented by Covid-19.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was conducted as part of the wider review of the Board and the Board Committees by the Chair of the Board. The review found that the Committee functioned effectively and that the refreshed scope of the Committee allowed sustainability issues to be addressed creatively and thoughtfully. The Committee's terms of reference were reviewed during the year against the activity of the Committee. At the time of reviewing the Committee's Terms of Reference, the Board agreed that its name should be changed from the Corporate Responsibility Committee to the Sustainability Committee.

The Committee's Terms of Reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/governance/board-committees.

The Board reviewed and approved this report on 5 March 2021.

Sebastian James
Chair of the Sustainability Committee

Investment Committee Report

Mark Gregory
Chair of the Investment Committee

Committee membership

- **Mark Gregory**
  Committee Chair
- **Jane Hanson**
  Independent Non-Executive Director
- **Tim Harris**
  Chief Financial Officer
- **Fiona McBain – appointed 1 January 2021**
  Independent Non-Executive Director

Committee meeting attendance can be found on page 87.

Key responsibilities

- Provide oversight of the Group's investment strategy
- Oversee the management and performance of the Group's investment portfolio

Areas of focus in the reporting period

- Understood the potential risks and monitored the financial consequences for investment assets from the economic downturn driven by the Covid-19 global pandemic.
- Considered how the investment portfolio started to respond proactively to the global challenge to reduce greenhouse gas emissions and support the transition to a low carbon economy.
- Monitored developments and progress towards a trade agreement between the EU and the United Kingdom and any attendant impact on investment assets.
- Ensured investment activities continued always to provide sufficient access to liquidity to meet a stress insurance or market event.
- Monitored market developments in response to the planned discontinuation of the London Inter-Bank Offered Rate ("**LIBOR**") after 2021 and the progress made by the Group to ensure it is ready for the changes.

Main activities during the year

Covid-19

The April meeting, which took place against a background of lockdowns around the world and fiscal and monetary responses by governments and central banks being implemented at pace, considered a comprehensive paper confirming the levels of diversification within the asset portfolios, the quality of assets held and exposures to sectors most adversely affected by lockdowns and social distancing. The paper detailed exposure to those assets at the lower end of the Company's risk appetite and, therefore, more susceptible to being downgraded outside of risk appetite. At the same meeting the Committee reviewed waivers agreed by management with asset managers for fixed income holdings already outside risk appetite, the waivers allowing the asset managers a longer timeframe in which to consider when to dispose of such assets in view of improving market conditions. The Committee received regular updates on the waiver positions between scheduled meetings until all waivers were closed later in the year.

In July, the Committee considered the findings and recommendations resulting from a detailed review of the investment property portfolio. The review examined the business case for continuing to hold each property asset in the portfolio against the medium-term changes expected to impact the commercial property market as a result of the move to increased working from home and online shopping. At the meeting, the Committee also sought assurances from the asset manager that tenants were being offered flexibility, where necessary, regarding finding mutual solutions for rent payments due in situations where the tenant's cash flows had deteriorated markedly due to the pandemic.

The financial consequences of the pandemic on the Company's budgeted investment result and changes in assets valuations were reported at each meeting.

Responsible investing – climate change

In 2020, the Committee approved new measures for the corporate bond portfolios (75% of the total investment portfolio benchmark) to help achieve the Group's ambition to limit its impact on the climate and to achieve net zero carbon emissions by 2050. In summary, a commitment was given to set a target to reduce the Green House Gas ("**GHG**") Emissions Intensity[1] across the relevant portfolios by 50% before the end of 2030 (benchmarked against the end of 2020 GHG emissions intensity). In addition, the Committee agreed that asset managers should be encouraged to allocate capital increasingly towards companies demonstrating an intent to decarbonise through the following guideline changes and restrictions:

- A preference for companies with carbon reduction targets approved by the Science-Based Targets Initiative;
- A preference for companies with at least a 2°C carbon performance alignment with the Transition Pathway Initiative;
- The exclusion of any companies with a carbon transition score indicating assets could be economically stranded;
- The exclusion of any mining companies that generate >5% of revenues from thermal coal production and electricity generators that derive >5% of revenues from thermal coal power generation (unless, in either case, the company has an approved Science-Based Targets Initiative Plan); and
- The exclusion of any companies that are developing new thermal coal mines or coal burning power plants.

The Committee will continue to monitor the results of the responsible investing framework in place and seek updates on market developments and trends. The Committee expects management to recommend further adjustments to the framework over the next two to three years.

The Committee recognised that it was important for the Group to seek to comply with the recommendations made by the Task Force on Climate-related Financial Disclosures ("**TCFD**") and to carry out climate change scenario stress testing.

Further information about the Group's approach to TCFD can be found on pages 62 to 63.

Market developments

At each scheduled meeting, the Committee received a market update from the Director of Investment Management and Treasury. The updates covered: economic conditions in the UK, the US and the Eurozone; market levels for key asset classes (notably credit); the outlook for interest rates and inflation; and developing issues viewed as appropriate to be brought to the attention of the Committee. The Committee also monitored the development of interest rate policies set by the Bank of England, the US Federal Reserve and the European Central Bank and the impact of non-sterling assets held on hedged yields.

Suitability of investment strategy

The annual studies examining stressed liquidity requirements and asset and liability matching were presented to the Committee during the year. Such work informs strategic benchmark allocations and provides part of the context for the addition of new asset classes or disposing of a holding. During the year, the Committee agreed amendments to the existing strategic benchmark which entailed reductions in benchmark allocations to assets supporting liquidity and infrastructure debt and net increases in allocations to investment grade credit and Commercial Real Estate ("**CRE**") loans.

Monitoring investment activity and performance

The Committee received a comprehensive report at each scheduled meeting covering: the financial results of investment activity; aggregate portfolio positioning against strategic benchmarks; performance of each individual portfolio against benchmark; adherence to operational controls; performance of suppliers; and compliance with an agreed framework of risk limits. During the year the Committee invited the managers responsible for the investment property portfolio, the CRE loans portfolio and the private placements portfolio to present updates on their respective portfolios.

Committee evaluation

During the year, an internal evaluation of the effectiveness of the Committee was conducted as part of the wider review of the Board and the Board Committees by the Chair of the Board. The review found that the Committee functions effectively and that issues are dealt with in a thoughtful and rigorous manner. The Committee's terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/governance/board-committees.

The Board reviewed and approved this report on 5 March 2021.

Mark Gregory
Chair of the Investment Committee

Note:

1. Greenhouse gas (GHG) emissions intensity = metric tonnes CO_2e (CO_2 equivalent) GHG emissions/million $ sales

Directors' Remuneration Report

Mark Gregory
Chair of the Remuneration Committee

Committee membership[1]

- **Mark Gregory – appointed Chair on 26 October 2020**
  Chair
- **Danuta Gray**
  Chair of the Board
- **Sebastian James**
  Independent Non-Executive Director
- **Dr Richard Ward – appointed 1 January 2021**
  Senior Independent Director

Key responsibilities

- Determines the policy for rewarding Directors and senior leadership for results that are generated within the risk appetite set by the Board and oversees how the Group implements its Remuneration Policy;
- Oversees the level and structure of remuneration arrangements for senior executives, approves share incentive plans, and recommends them to the Board and shareholders; and
- Reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture.

Note:

1. Mark Gregory was appointed to the Committee on 29 May 2020 and as Chair on 26 October 2020. Mike Biggs was a member of this Committee until he retired from the Board on 4 August 2020.

Dear Shareholders,

I am pleased to introduce my first Directors' Remuneration Report (the "**Report**") as Chair of the Remuneration Committee (the "**Committee**"), for the 2020 financial year. I would like to thank Danuta Gray for her stewardship of the Committee over the last few years and congratulate her on being appointed as Chair of the Board.

The Committee is immensely proud of the ways in which our people continued to provide exceptional service, value and flexibility to our customers in 2020, aligning with our desire to make insurance personal, inclusive and a force for good. We offered extra value to all our customers and further support to those in financial difficulty in response to the unexpected impact of the Covid-19 pandemic. Many measures were introduced across the business to achieve this, including payment deferrals, waiving cancellation fees, mileage refunds and free roadside assistance to key workers.

During 2020, we have sought to balance the needs of our different stakeholders, by caring for our people, looking after our customers, protecting the business for the long term, and supporting the national effort and our local communities. After reinstating our ordinary dividend as soon as possible in August (along with a 2020 special dividend, reflecting a full catch-up of the cancelled 2019 final dividend) we have also delivered to our investors. We had voluntarily withdrawn our ordinary dividend to indicate restraint and consistency with the PRA when it asked insurers to consider the protection of policyholders. As a result of the Covid-19 pandemic, and delivering on our desire to be a force for good, the Group also established our first Community Fund which distributed £3.5 million to 250 charities supporting over 200,000 people, and we have extended this by a further £1.5 million for 2021 to serve our local communities. More information on these initiatives can be found on page 57.

Through the year and into 2021, the health, safety and wellbeing of our people has never been more crucial. Despite the challenges the pandemic has presented, the Group provided stability and security of pay for our entire workforce. We did not seek or receive any government support and did not furlough any colleagues. Just before and as we moved into the initial lockdown in March 2020, we moved 9,000 people to work from home and continued to pay all of our employees their usual pay, including fixed-term contractors, regardless of whether they were fully or partially working, or temporarily not able to work. The Group also initially suspended the structural workforce changes, previously announced in February 2020, to provide further job security at this challenging time. A gradual implementation of the planned structural changes has now begun. There have been no redundancies as a result of the impact of the Covid-19 pandemic. Furthermore, through a combination of employee redeployments and alterations to the timing of planned changes, fewer than anticipated exits have occurred as part of the planned structural changes. Penny James also voluntarily donated the value of her salary increase from 1 April 2020 to FareShare, a charity that redistributes surplus food to other charities that turn it into meals for those in need. These measures demonstrate our understanding that these are challenging times for everyone and that we will continue to make the decisions needed to protect the long-term interests of the Group for the good of all of our stakeholders.

Further details of decisions which the Committee has made in respect of key components of executive remuneration as a consequence of Covid-19 are summarised on pages 115 and 116.

The Group has had a good year, in difficult circumstances, demonstrating financial resilience and making significant progress against our key strategic aims despite the challenges we faced in 2020. Our objective is to turn the Group's potential into growth through combining our customer-focused philosophy, strong brands and technology transformation to become a simpler, leaner and more agile organisation. Therefore, we are committed to being a home for capable people who celebrate difference and challenge the status quo to deliver to our customers. We can only do this by empowering and developing the best people.

We also know from regular engagement surveys that our employees have remained exceptionally engaged during the challenges that Covid-19 has brought in 2020.

With this in mind I am pleased to provide an overview of our work in relation to the remuneration of both the Executive Directors and the wider workforce for the year ended 31 December 2020.

The Committee's objectives include:

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

The Report is set out in the following sections:

Remuneration Policy

In last year's report, we presented an updated Directors' Remuneration Policy (the "**Policy**") to be submitted for shareholder approval at the AGM on 14 May 2020. The updated Policy included relatively minor changes to align with regulatory and governance updates, such as the introduction of a post-cessation shareholding requirement, an increase in the shareholding requirement for the CEO, and changes aimed at simplifying the remuneration structure, such as adopting a straight-line performance schedule for the Annual Incentive Plan ("**AIP**") between threshold and maximum (consistent with the Long-Term Incentive Plan ("**LTIP**")). The updated Policy was approved by shareholders, with 97.55% of votes cast in favour, and the Committee has implemented this Policy during 2020. During the year, the Committee has taken full account of the 2018 Corporate Governance Code (the "**Code**") in our discussions and remuneration practices. The full Policy can be found on the Direct Line Group website, under the 'Results and Reports' heading of the Investors page, and on pages 128 to 138 in the 2019 Directors' Remuneration Report. In our Remuneration at a glance section on page 119, we summarise the performance outcomes against our remuneration framework, in the context of how the Policy was applied in 2020.

Covid-19 trigger factors

The Committee proactively considered the impact of Covid-19 throughout the year, beginning in late March when the Committee established a set of principles to assess its decisions. These were developed with the key overarching aim of ensuring that pay decisions for 2020 were set at a reasonable level and appropriate with reference to all our stakeholders and the external economic backdrop. They were set, and continue to be referred to, as follows:

Principle	Description	Committee end of year assessment
Dividends and shareholder experience	The Committee would consider the extent to which cash dividends have been paid over 2020, and hence the alignment of pay decisions with shareholder experience.	Following consultation with the PRA, the Group re-started dividends following the HY2020 results and also paid a catch-up dividend in respect of the cancelled 2019 final dividend. 2019 and 2020 pay outcomes are therefore aligned with the experience of our shareholders.
Regulatory factors	The Committee would be mindful of the PRA's request that insurers consider the need to protect policyholders and "maintain safety and soundness" when making decisions on variable remuneration.	The Group consulted with the PRA before re-starting dividends and concluded that the Group was financially strong. Decisions on pay outcomes for senior leadership and the wider workforce for 2020 reflect the Group's performance.
Direct government support	The Committee would consider whether the Company had used any direct government support, such as the Coronavirus Job Retention Scheme, VAT deferral, or business interruption loans.	The Group has not sought or received any direct government support during the year.
Wider workforce	The Committee would consider whether the Company has made (or intends to make) any staff redundancies as a result of Covid-19, or other impacts on the wider workforce such as salary freezes, the scaling back of salary increases or incentive opportunity reductions. The Committee would ensure that management are treated consistently with the approach for the general workforce.	No staff redundancies were made as a result of Covid-19, and the Committee supported the Group's decision to delay planned redundancies as a result of the restructuring programme to provide job security for colleagues. The Committee noted that the number of redundancies was reduced as a result of re-deploying some employees. Management outcomes are consistent with the wider workforce – the AIP outcome is the same across the Group and senior leadership salary increases are nil for 2021 (the wider workforce received increases of between 1.5% to 2%).
Non-financial impact	The Committee would consider any adverse impact in respect of customer experience, reputation or regulatory relationship during 2020.	The Group has provided exceptional service to customers during the year, as illustrated in the outturn of the Customer element of the AIP. The Committee is proud of the measures the Group took to support customers and local communities.
Shareholder expectations	The Committee would consider the expectations of institutional shareholders and proxy voting agencies.	The Committee carefully considered the expectations of shareholders and proxy agencies in determining 2020 remuneration outcomes and is satisfied that the decisions are consistent with these expectations.

Covid-19 impact on executive remuneration

The following table summarises the key components of executive remuneration and the decisions made by the Committee:

Committee decision	Rationale
2019 bonus (AIP)	
To pay the bonus in the normal manner with no adjustment.	The 2019 bonus reflected the Company's good performance in a challenging year of change, before the impact of Covid-19. All eligible employees received their 2019 bonuses. At the time that 2019 bonuses were paid, it was expected that the 2019 ordinary final dividend would be paid in May 2020. It was agreed in April 2020 that Executive Directors would not be considered for any further bonuses until dividends for ordinary shareholders resumed (which was announced in August). The Company's balance sheet and liquidity remain strong.
2020 salary rises	
To increase the level of base salary of the CEO in line with the average rise made to all employees. The CEO voluntarily donated the increase to charity for the 2020 financial year. The CFO did not receive an increase, due to his joining date in the final quarter of 2019.	The Company made its commitment to all eligible employees to receive a salary increase for the 2020 financial year, prior to the impact of Covid-19, and felt it was important to meet this commitment to our hard working colleagues. During the year, we have made a commitment not to furlough any employees as result of Covid-19.
2020 bonus (AIP)	
The Committee has used the performance conditions and weightings agreed at the start of the year. However, in relation to the People metric, the set of indicators was refined to refocus on a few key indicators given the external circumstances and wider impact of Covid-19.	The Company committed publicly to the operation of a bonus plan for all eligible employees for 2020. The Company performance conditions are the same for employees and Executive Directors. A formulaic assessment of achievement against the financial and strategic elements was carried out. Profit before tax performance was above the maximum level set at the start of the financial year. However, the Committee recognises that the pandemic has had both positive and negative results on our financial performance. Examples include direct effects arising from reduced claims frequencies, refunds as a result of offering customers the opportunity to adjust their policy terms as well as the Group's charitable donations and community actions. After rigorous debate, the Committee determined that it was appropriate to apply a discretionary downward adjustment of 10% to the financial outturn of the AIP to 90% of maximum. The overall AIP outturn is 82% of maximum.
2017 LTIP vesting	
The Committee approved the vesting of the March and August 2017 LTIP awards without adjustment during 2020.	The 2017 LTIP measured performance over three years (up to 31 December 2019 for RoTE, and up to the vesting date for TSR). The value of the shares on vesting reflected the share price experience of shareholders.
2020 LTIP grant	
The Committee approved the grants of the 2020 LTIP awards on the normal timetable and made no changes to the performance conditions and targets agreed with shareholders. The Company followed its normal practice of using the three-day average share price immediately before the date of grant to determine the number of shares awarded.	The LTIP performance conditions are based on the long-term RoTE and TSR and therefore remain appropriate. Despite the initial decline experienced in our share price in March 2020, similar to the declines experienced across the market, overall the Company's share price has been less adversely affected by Covid-19 than that of many other companies and recovered well during the year. 'Windfall gains' were considered before granting the March and August 2020 LTIPs. The Committee also took the opportunity to agree and document certain circumstances that might trigger the Committee to commence a 'windfall gains' review at vesting, including reviewing share price analysis over time versus the sector and our peers. The Committee will assess the value of the 2020 LTIP awards at vesting and will ensure that the final outturns reflect all relevant factors, including consideration of any 'windfall gains.'

Wider workforce engagement and pay considerations for 2020

The Committee has consistently considered wider employee pay as context for the decisions it makes. Every year we review and act on the outcome of our DiaLoGue People Survey. The Chair of the Committee has attended meetings of the Group's Employee Representative Body ("**ERB**") since 2018, at appropriate times during the year. However, given the unprecedented activity of the ERB during 2020, it was not possible for the Remuneration Committee Chair to attend directly, but I have been kept abreast of matters by the Chief People Officer and Chief Executive Officer throughout the year. Our existing workforce engagement is strengthened through internal social networking, "town halls" and other forums. To supplement this, the Committee receives papers setting out details of all-employee pay and workforce policies across the Group at each meeting. We found that this standing agenda item gave us further valuable insight and context for framing executive pay and policies.

The Committee considers it important to monitor and assess internal pay relativities and takes these into account when determining Executive Director remuneration. Early adoption of the CEO pay ratio disclosure in 2018 emphasised the Committee's intention to do so. Option A was adopted to report the employee pay ratio last year to better reflect the diverse range of job roles across the business, (see page 129), and the Committee continues to review the annual CEO pay ratio disclosures.

During 2020, the Group further built on its commitment to ensure that all of our people are rewarded fairly and have an interest in the success of the Group, with a minimum salary increase of £500 in 2020, bringing the minimum salary across the Group to £19,500 in the UK.

We are also pleased that, through our continued focus on building an inclusive organisation, we have maintained our female representation in senior jobs in line with the Women in Finance Charter target of 30% during 2019 and 2020, and we will continue with the programmes underway to further reduce our gender pay gap. The Group's Gender Pay Gap Report can be found at www.directlinegroup.co.uk.

Performance and incentive outcomes for 2020

During 2020, the management team has worked extremely hard to launch the refocused strategy and is proud of the Group's performance in the past year.

The Group delivered good results in a challenging market with a strong capital position supported by our successful customer-focused strategy and our investment in future capabilities. This performance is reflected in the incentive outcomes for our Executive Directors. No adjustments to the performance targets set at the beginning of the year were made as a result of Covid-19. When assessing the formulaic outcome of the 2020 AIP, the Committee agreed that a discretionary downward adjustment to the financial metric was appropriate. Further details are set out in the following section. No discretion was exercised in respect of LTIP awards vesting during the year, which reflect the Group's strong performance over the last three years.

AIP

Financial resilience, whilst supporting our customers, people and local communities during this extraordinary period, has helped us to achieve strong underlying results in 2020, exceeding the financial plan for the year. This has led to a profit before tax of £451.4 million, which formulaically results in a maximum performance outturn for this element. However, the Committee recognises that the Covid-19 pandemic has acted both positively and negatively on our financial performance. Some of these influences relate to macro market trends, whereas others can be more directly linked to Covid-19 either as direct effects (for example, reduced motor claims frequencies, as a result of reduced travel during national lockdowns, and reduced motor premiums due to refunds offered to customers for reduced mileage expectations), or through choices the Group has made to manage through the pandemic (such as our charitable donations and supporting colleagues working from home). Therefore, after rigorous debate, the Committee determined that it was appropriate to apply a discretionary downward adjustment of 10% to the financial outturn of the AIP to 90% of maximum.

The Committee is pleased to report this year that performance across the Customer measures was extraordinary and awarded a maximum outturn for this element. The People measures were assessed as being between target and maximum. Although management has made significant progress on successfully landing much of the major technology transformation elements in 2020, there has been slower than expected progress on the cost reduction agenda on which the Shared objective was measured. Therefore the Committee awarded an outturn of 50% of maximum for this element. The overall AIP outcome for the Executive Directors for 2020 (after the application of downward discretion) was therefore 82% of maximum. In line with the Policy, 40% of any AIP award will be deferred for three years under the Deferred Annual Incentive Plan ("DAIP"). Full details on the outcomes for the year are included on pages 123 to 126.

LTIP

The Group grants LTIP awards in two tranches each year. RoTE performance (60% of the award) is measured over three financial years. Relative TSR performance (40% of the award) is measured over the three-year period from the date of grant. All LTIP awards granted to Executive Directors in August 2017 or later are subject to a two-year holding period after vesting. The March 2017 and August 2017 LTIP awards (which vested during 2020) were granted before the appointment of Penny James and Tim Harris; however, the outcomes of these awards are relevant to certain former Directors. The overall outcome of the March 2017 and August 2017 LTIP awards was 70.8% and 78.0% of maximum respectively. Performance under each metric was as follows:

- As disclosed last year, average RoTE performance of 20.4% over 2017, 2018 and 2019 was above the maximum target level of 18.0%, leading to a maximum payout for this element. In calculating the RoTE achievement, the reported RoTE for 2018 was adjusted downwards to exclude the favourable impact of the capital management exercises executed in the 2017 financial year on the outcome for these awards. Consistent with the regulation, the value in respect of this element was disclosed in last year's Report.

- Relative TSR performance was above the threshold performance level for both the March and August 2017 LTIP awards (based on performance over the three-year period from the date of grant of each award), leading to vesting of 26.9% and 45.1% of maximum respectively for this element.
- Penny James joined the Group in November 2017 and was granted an LTIP award at that time in respect of 2017. The RoTE performance was assessed over the same three-year period as the March and August 2017 LTIP awards. Relative TSR performance was above threshold (based on performance over the three-year period from the date of grant), leading to vesting of 51.5% of maximum for this element. The overall outcome for this award was therefore 80.6%.

The March and August 2018 LTIP awards are due to vest in 2021, subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period. These awards were granted before Tim Harris's appointment, and have the following characteristics:

- Average RoTE performance of 20.7% over 2018, 2019 and 2020, is above the maximum target level of 20.5%, and therefore this element will vest at the maximum level (subject to the above underpins). In calculating the RoTE achievement, the reported RoTE for 2018 was adjusted downwards to exclude the favourable impact of the capital management exercises executed in the 2017 financial year on the outcome for these awards.
- As performance under the relative TSR element is based on the three-year period from the date of grant, the outcomes in respect of this element are not yet known. Consistent with the regulations, as the performance period for the TSR elements of the 2018 LTIP is not yet complete, the outcome will be reported separately next year. Accordingly, we have included an estimated value of the RoTE vesting outcomes for the 2018 LTIP awards, plus the TSR vestings from the 2017 LTIP awards, in the single figure remuneration table for 2020 for the Executive Directors.

Committee decisions on outcomes

As mentioned, the Group has delivered a good performance this year in extremely challenging circumstances and the overall outcomes for the annual bonus resulted in a payout (after application of downward discretion) of £1,166,296 for the CEO and £767,725 for the CFO, which the Committee believes is appropriate in the context of the Group's performance in 2020. The Committee believes that the application of downward discretion to the profit before tax outturn of the AIP was appropriate and balanced in light of the positive and negative effects of Covid-19 on our financial performance. This demonstrates that the Policy (which provides the Committee with such discretionary powers) operated as intended during the year.

The level of vesting of the LTIP awards made in 2017 was considered appropriate in the light of the Group's performance over the three-year performance period, and therefore no discretion was exercised in relation to these awards.

Approach to pay in 2021

No change to the overall approach to pay is anticipated for 2021. Neither the CEO nor CFO will be awarded a salary increase, consistent with the approach we have taken across our senior leadership population given the challenging external economic climate. Salary increases will be awarded for the wider workforce population, in recognition of their hard work during this challenging period. The wider workforce will receive increases of between 1.5% and 2%.

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

We are not proposing any changes to the performance conditions for the 2021 awards under the LTIP. Likewise, the target RoTE scale of 17.5% to 20.5% will remain at the same level as in 2020 and reflects an appropriate performance range in the context of the Group's planned underlying RoTE performance.

As part of the wider Committee oversight on all-employee pay matters, the Committee can confirm that the Group will maintain the minimum salary level across the Group, that is 5% above the Living Wage Foundation rate outside London, and 15% higher than the Government's current National Minimum Wage. We continue to want our employees to have direct interest in the ownership of the Group. As such, the Committee approved a grant of free shares (under the Company's Share Incentive Plan) to all employees in 2021 to recognise their invaluable contribution to the business and the desire to strengthen shareholder alignment across the Group. In addition, a £400 one-off 'thank you' bonus will be awarded in April 2021 to everyone who is not usually eligible for a bonus as part of their contract.

Committee performance

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work.

Your AGM vote

The Committee welcomes investor feedback on an ongoing basis and this Report seeks to describe and explain our remuneration decisions clearly. At this year's AGM you are being asked to vote on a resolution for the Directors' Remuneration Report. I hope that, having read the information in this Report, and considering the performance of the Group during 2020, you will vote in support of the Directors' Remuneration Report at the AGM.

Should you have any questions about my Committee's Report please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or one of my colleagues at Direct Line Group will respond to you.

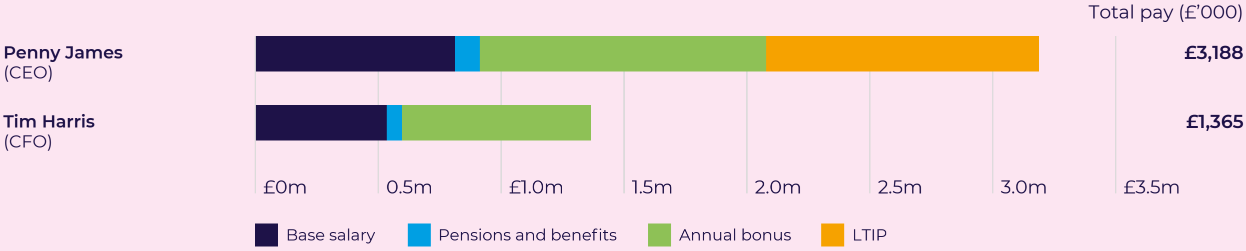
Yours sincerely,

MARK GREGORY
Chair of the Remuneration Committee

Remuneration at a glance

Remuneration outcomes for 2020

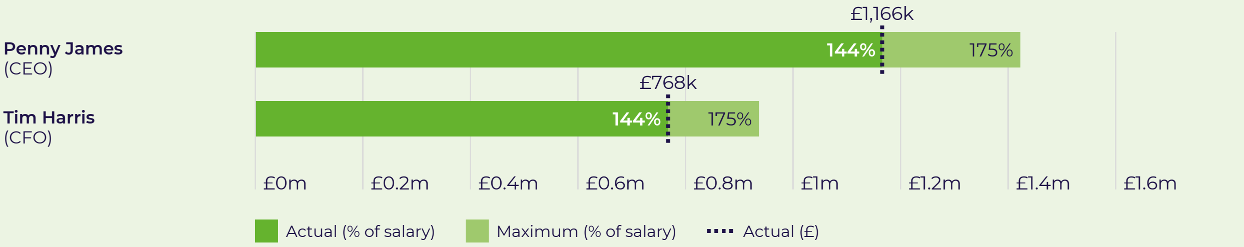
Executive Directors' total pay



Find out more on page 122

AIP achievement

This chart illustrates the actual amounts earned from the AIP and reflecting performance in 2020. 60% of the amount is payable in March 2021 and 40% will be deferred into shares for three years.



Find out more on pages 123-126

LTIP

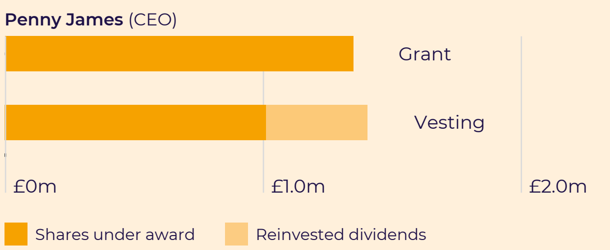
Shareholding at 31 December 2020

This chart illustrates the number of shares held at the end of 2020 by the Executive Directors against the share ownership guidelines of 250% of salary for the CEO and 200% of salary for the CFO.

Find out more on page 133

Release of value under the LTIP

This chart illustrates the total value of the 2017 LTIP awards that vested in 2020.



Find out more on page 127-128

Annual Report on Remuneration

Introduction

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

Committee members and governance

The following list details members of the Committee during 2020. You can find information about each member's attendance at meetings on page 87. You can find their biographies on pages 78 to 80.

Committee Chair
Mark Gregory[1]
Non-Executive Directors
Mike Biggs[2]
Danuta Gray[3]
Sebastian James

Notes:

1. Mark Gregory joined the Committee on 9 May 2019 and was appointed as Chair of the Committee with effect from 26 October 2020.
2. Mike Biggs stepped down as Chair of the Board with effect from 4 August 2020.
3. Danuta Gray succeeded Mike Biggs as Chair of the Board with effect from 4 August 2020.
4. Richard Ward joined the Committee with effect from 1 January 2021.

Advisers to the Committee

The Committee consults with the Chief Executive Officer, the Chief People Officer, 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 Chair of the Board, Chief Executive Officer and Chief People Officer 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 apply malus and/or clawback. The Chair of the Board Risk Committee attended Committee meetings on three occasions in 2020. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

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

During the year, PwC advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment, investor engagement and other matters that the Committee was considering. PwC supported the Group in several ways, including the provision of IFRS 17, tax, technology consulting and immigration services during 2020. The Committee is satisfied that the advice PwC provided was objective and independent.

PwC's total fees for remuneration-related advice in 2020 were £78,500 excluding VAT. PwC charged its fees based on its standard hourly rates for providing advice.

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

Alignment to Provision 40 of the Corporate Governance Code

The following table summarises how the Remuneration Committee has addressed the factors set out in Provision 40 of the 2018 UK Corporate Governance Code.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	– The remuneration arrangements for the Executive Directors are set out in a clear and simple way in the Directors' Remuneration Policy ("**Policy**") and in the plan rules for each incentive plan. – Guides are accessible explaining how each incentive plan operates via the employee portal to ensure full understanding. – The Committee is committed to transparent disclosure – full details of incentive targets and outcomes are published in detail in the Annual Report on Remuneration each year. – Queries on remuneration practices from shareholders or the workforce are welcomed by the Committee throughout the year and encouraged at the AGM and at the Group's regular Employee Representative Body ("**ERB**") meetings.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	– The Group's remuneration arrangements are intentionally simple in nature and well understood. Executive Directors (and senior leadership) receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the "**AIP**") and a single long-term incentive (the "**LTIP**"). – The Committee reviews the appropriateness of targets annually, being mindful of alignment with strategy and keeping them simple.

Risk
Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.
	– The ability to mitigate potential risk associated with remuneration is built into the Policy. Examples include:
	  – the Committee's discretionary powers to amend the formulaic outcome from incentive awards (for example, where not consistent with performance);
	  – the inclusion of malus and clawback provisions under a wide range of potential scenarios; and
	  – in-employment and post-employment shareholding requirements.
	– The Committee considers that the incentive arrangements do not encourage inappropriate risk-taking, due to the Committee's rigorous process for reviewing incentive outcomes, which includes seeking the view of the Chair of the Board Risk Committee before making its final variable pay determinations.
	– The Committee also considers that the Policy provides wide-ranging flexibility to adjust payments where outcomes are not considered to reflect underlying business performance and individual contributions, or where behaviours are inconsistent with the risk appetite of the Group.

Predictability The range of possible values of rewards to individual directors should be identified and explained at the time of approving the Policy.	– Full information on the potential values of the AIP and LTIP are provided, with strict maximum opportunities and minimum, target and maximum performance scenarios provided when the Policy was approved. – An indication of the potential impact of a 50% share price appreciation on the value of LTIP awards is also included.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	– Payments under variable incentive schemes require robust performance against challenging conditions over the short and longer term. The Committee considers the formulaic outcome, as well as other relevant factors, when making decisions on remuneration outcomes. – Outcomes do not reward poor performance due to the Committee's overriding discretion to depart from formulaic outcomes which do not reflect underlying business performance. – Performance conditions consist of both financial and non-financial metrics to support Group strategy, including measures focused on delivering for our customers (for example, Net Promoter Score and complaints), our people (diversity and engagement) and our shareholders (profit before tax and TSR).

Alignment to culture
Incentive schemes should drive behaviours consistent with company purpose, values and strategy.
	– The Committee oversees consistent workforce reward principles and is satisfied that these policies drive the right behaviours and reinforce the Group's values, which in turn promote an appropriate culture.
	– Our values are reflected in the measures used in our incentive schemes. In particular, our incentive arrangements link to the following values:
	  – **Do the right thing** – AIP and LTIP performance measures incentivise participants to choose the right path for our customers, our people and shareholders by using measures which directly assess outcomes for these stakeholders.
	  – **Work together** – the Shared element of the AIP requires our Executive Directors and senior leadership to work together to deliver key results to our stakeholders.
	  – **Take ownership** – financial targets under the AIP are the same for all participants, regardless of seniority, linking everyone's individual contribution to AIP reward outcomes.
	– The use of annual bonus deferral, LTIP holding periods and our shareholding requirements strengthen the focus on our strategic aims, and ensure alignment with the interests and experiences of shareholders, both during and after employment.

Implementing policy and pay outcomes relating to 2020 performance

Single figure table (Audited)

£'000		Salary[1]	Benefits[2]	Annual bonus[3]	Long-term Incentives[4,5]	Other[6]	Pension	Fixed pay and benefits sub-total	Variable remuneration sub-total	Total
Penny James	2020	813	26	1,166	1,110	–	73	912	2,276	3,188
	2019	755	35	1,005	871	–	107	897	1,876	2,773
Tim Harris	2020	535	14	768	–	–	48	597	768	1,365
	2019	134	3	178	–	198	12	149	376	525

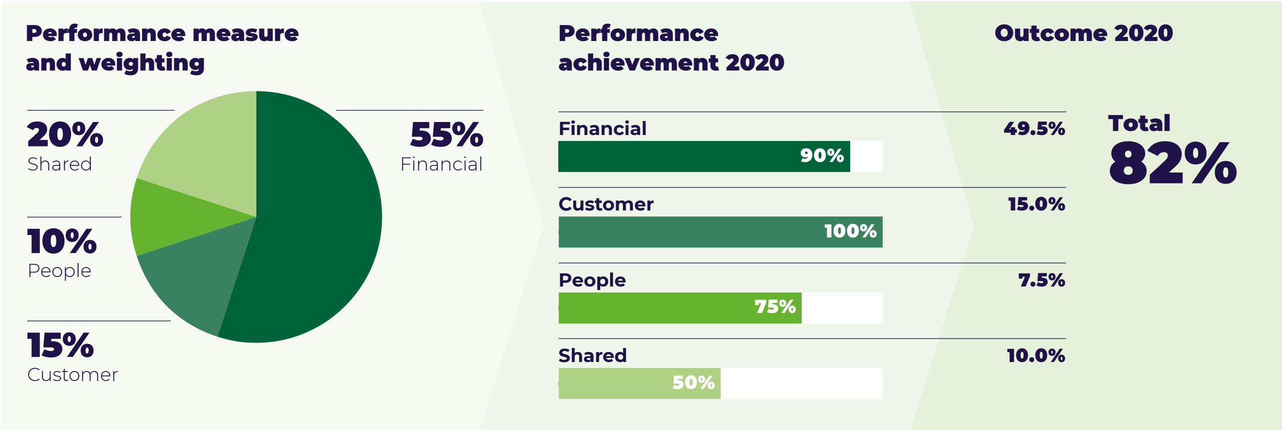
Notes:

1. Salary – the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
2. Benefits – include a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance. The CEO uses a car service for travelling on journeys between home and office; the Group also pays for any associated tax liability that arises on this benefit.
3. Annual bonus – includes amounts earned for performance during the year but deferred for three years under the DAIP. For more information, see page 133. These deferred awards are normally subject to continuous employment. However, awards remain subject to malus and clawback.
4. The 2019 LTIP figure for Penny James disclosed in the 2019 Report should have included the value of the RoTE element of her LTIP award granted in November 2017, which was based on average RoTE over 2017, 2018 and 2019. As disclosed in last year's Report, the performance outcome for this element was 100% of maximum. The 2019 LTIP figure has been restated this year to include that value, based on the share price at the date of vesting (28 November 2020) of £2.97. The 10-year CEO history and 2019 CEO pay ratios have been updated accordingly.
5. The 2020 LTIP figure for Penny James reflects the relative TSR element of her November 2017 LTIP award and the RoTE element of her 2018 awards. The value is calculated based on the share price at date of vesting for the November 2017 LTIP award, of £2.97, and a three-month average share price to 31 December 2020 of £2.91 for the 2018 awards. Further information on LTIP awards can be found on pages 127-128.
6. The 2019 "Other" figure for Tim Harris relates to the amount in respect of his buyout awards, disclosed in the 2019 Report. The award is not subject to any performance conditions, and the value of this award is based on a share price at the date of grant (1 October 2019) of £2.99.

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

Annual Incentive Plan outcomes for 2020 (Audited)

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



Executive Director	Achievement under the 2020 AIP	2020 AIP payment
Penny James	82% of maximum	£1,166,296
Tim Harris	82% of maximum	£767,725

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

Financial element (55% weighting)

The financial performance measure is profit before tax. The Committee established threshold and maximum performance levels at the start of the year and did not adjust the targets during the year. In the table below, we have disclosed the target set for profit before tax performance.

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

A formulaic assessment of achievement against the financial and strategic elements was carried out. Whilst the financial plan for the year did not reflect any impact of the Covid-19 pandemic, the Committee sought quantitative data and qualitative information summarising losses and gains from the impacts of the pandemic. After a rigorous assessment, the Committee agreed to make a discretionary downward adjustment of 10% against the financial target component of the 2020 bonus. The outcome from 2020 performance against the financial measure was 90%, giving a total of 50% out of 55% attributable to this element. A summary of the assessment is provided in the following table.

Measure	Threshold 10%	Maximum 100%	2020 Actual	Formulaic 2020 Achievement[1]	Adjusted 2020 Achievement[2]
Profit before tax	£356m	£428m	£451m	100%	90%

Notes:

1. Formulaic outcome
2. Outcome including discretionary downward adjustment

Customer element (15% weighting)

We put our customers at the heart of everything we do. Our long-term sustainability is driven by understanding customers' needs and acting in their best interests. As part of our customer strategy, and to ensure that the business strives to achieve a sustained and competitive level of service, the Board sets challenging customer-centric KPIs. These are intended to ensure that remuneration is aligned with and supports continuous improvement.

Throughout the changing world around us in 2020 we adapted quickly so that we could deliver more for our customers at speed and help them navigate disruption in their lives. Our determination to deliver the best possible customer value and experience drove our response to Covid-19. This drove best-ever and long-term improving performance in 2020. Our brands performed well (mainly top quartile) across the majority of insurance customer experience benchmarking studies.

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

Measure	Assessment
Net promoter score ("NPS") Improvement of customer advocacy across the Group	– We are proud that our NPS scores have yet again demonstrated the willingness of our customers to recommend our brands year on year, especially with Direct Line. – Our NPS scores measure the likelihood of our customers to recommend one of our brands and showed strong year-on-year performance, exceeding target and achieving top-quartile performance in a range of independent benchmarking studies. – Strong brand NPS scores on Direct Line and Churchill continue with motor claims and renewals journeys showing particularly positive performance. – Rescue claims NPS performance ended the year well ahead of target. Record performance levels have been sustained across the year including during summer holidays as 'staycation boom' put pressure on our recovery network and migrating our systems to a new operating platform. – We continued to enhance digital capabilities for customers needing to claim, amend and renew policies to meet even more customer needs.
Complaints Reduction in complaints volume and process improvements	– The volume of complaints reduced significantly in 2020 to lowest ever levels. However, focus on continual improvement and taking learnings from dissatisfaction helped ensure that our customer outcomes continue to be positive. – A large spike of travel claims post 'lockdown' in Q2 led to significantly increased workloads and to mitigate this with the minimum impact to our customers, large numbers of staff were cross-trained to handle the increased volume of claims customer queries.
MyCustomer Transaction customer experience performance measuring our people/calls	– Over 1.2 million responses from customers across the Group have provided feedback on the experience delivered by our people. 84% (Claims) and 90% (Customer Operations) of customers rated our people as 9 or 10 out of 10. – MyCustomer performance in Customer Operations and Claims Operations achieved record levels during 2020 despite the challenges we faced in migrating a workforce from office to home working in an extremely short period. – Customers recognised the extraordinary levels of service provided and this was frequently acknowledged with many comments referring to our peoples excellence and the Group's approach to adjusting products, processes and pricing in this period.

Measure	2020 Achievement
Customer	100%

People element (10% weighting)

For the People element of the AIP, the Board set a range of people measures specifically around leadership, diversity and inclusion and employee engagement, reflecting the importance of these agendas to the success of the Group. Early into H2, the set of indicators was refined to refocus on a few key measures given that leadership effectiveness and engagement became most critical in our response to the Covid-19 pandemic. At year end, the Committee considered that performance across these measures had continued to improve on an already strong H1 performance against stretching targets. This was particularly laudable given the ongoing uncertainty caused by the pandemic, balanced with the re-initiation of a number of transformation activities in line with our strategic objectives. The Committee judged the performance against the People element to be above target, giving a total of 7.5% out of 10% attributable to this element. A detailed assessment of the People measures is set out below.

Measure	Assessment
Leadership effectiveness & succession Enable the transformation of the Group by bringing about a shift in leadership style. Ensure there is good succession cover and that we are building high-quality talent pipelines of future leaders	– To support our leadership community through the challenges of Covid-19, we invested in improving their ability to lead a more dispersed, digital and agile organisation through various leadership development initiatives including storytelling training, agile coaching and developing and launching a new Leadership Discovery programme. This is a six-month blended learning experience combining masterclasses, 360-degree insights and ongoing peer coaching to accelerate adoption of our behaviours. – We have measured progress in leadership effectiveness by creating a leadership index that was measured regularly throughout 2020 indicating the extent to which colleagues felt positive about our leaders and the decisions they were making. This has shown that there is a high level of trust in our leaders with 84% positivity at the end of 2020. – To prepare future successors we made a number of internal talent moves in 2020 and provided broadening experiences as well as promotional moves to some of those who feature in our talent pools. The gender diversity of our succession pipeline is now extremely strong, something we have improved again in 2020. – Finally, we maintained our commitment to recruiting graduates into our future leaders' programme and have continued to rotate those already on the programme to provide a broad set of early-career experiences. We successfully recruited a further 12 graduates and 51 apprentices in 2020.
Diversity Ensure the Group is a diverse and inclusive place to work where differences are respected, valued and celebrated	– Since becoming a signatory to the Women in Finance Charter, we have recruited, developed and promoted more women into senior roles. Women now account for 30% of our senior leadership (2019: 31%, 2018: 28%, 2017: 25%, 2016: 22%) and we are looking forward to working towards our next milestone of 35% female representation in our senior leadership by the end of 2022. We have continued to invest in supporting the development of our female leaders through external programmes and coaching mentoring support. – We gathered deeper insights via an employee survey where around two thirds of our people shared their perceptions and experiences on diversity and inclusion, which has informed an updated strategy, with greater ambition and reach. – We established BAME and Black representation targets within the organisation for the first time and signed Business in the Community's Race at Work charter to demonstrate our commitment to race inclusion. – Our #WeCare campaign celebrated the diversity of our people by sharing stories to build a greater understanding of difference and reinforce a culture where our people can 'bring all of themselves to work'. – We have strengthened senior leadership sponsorship for our Diversity Network Alliance, which promotes, champions and supports diversity and inclusion within our business.
Engagement Ensure we are fully engaged with our employees via the DiaLoGue programme, including throughout the business transformation process, with leaders setting the tone demonstrating the Group's Values and Behaviours in all aspects of their role	– At the start of the pandemic we adopted lighter touch and more regular employee pulse surveys in contrast to our usual bi-annual in-depth process. Short pulse surveys were initially run on a weekly basis and as pandemic conditions gradually stabilised they extended to fortnightly and eventually monthly frequency. – Throughout the year, we continued to achieve high participation levels (64% average), gathering a mix of quantitative and qualitative data across a range of topics including some key themes like sentiment, mental health, leadership, engagement and productivity. – Our ability to check in and monitor engagement, sentiment and wellbeing in a more adaptive way was critical during 2020, allowing leaders to benefit from rapid access to results and to design for relevant, targeted actions to address themes, share ideas or build solutions. – In addition, we re-designed many of our Group-wide high-profile engagement activities such as our coveted Chief Executive Awards programme to be delivered virtually. Our teams and leaders have creatively risen to the challenge of keeping motivation, support and engagement as high as possible through such a testing period. – In 2020, our mid-year engagement score was 1% off our highest ever score at 80%, having improved by 2pts from the preceding survey and 4pts year on year. However, towards the end of 2020 as the new wave of lockdowns hit, this dipped by 6% to 74%. This is in line with the shape other organisations are reporting. Although we are consistent with upper quartile high-performing companies, we were slightly below the threshold target of maintaining 2019 engagement levels at 78%.

Measure	2020 Achievement
People	75%

Shared element (20% weighting)

For the Shared element of the AIP, the Board set a range of strategic measures specifically around technology and business transformation and cost savings, with the aim of ensuring the Group has the capabilities and cost base to ensure its sustained success. The Committee considered the delivery of the major technology transformation programmes, for which specific measures and milestones were set; and for the cost objective the Committee focused on the progress to achieve a reduced cost base. The Committee therefore agreed an outturn of 50% for the Shared measures, giving a total of 10% out of 20% attributable to this element. A detailed assessment of the technology transformation and costs measures is set out below.

Measure	Assessment

Technology transformation
Progress and delivery of several technology investment programmes on time and on budget, to deliver new capability benefits
	– In the first half of the year, we transitioned to full-scale home working, whilst carrying out major system changes. Where appropriate we deferred certain elements of programmes, primarily to mitigate potential risks arising from system stability and programme complexity, and to reprioritise resources to Covid-19-related work. These actions have been well managed and controlled.
	– Our major programmes successfully navigated the impacts of Covid-19 and mitigated delays to the extent possible, delivering a significant amount of change in a highly challenging environment.
	– We launched a number of customer-facing systems, including:
	  – a Green Flag claims engine delivering significant uplift in platform flexibility and customer service;
	  – retooling of NIG 'complex' business including improving pricing sophistication;
	  – the main product builds of the new Direct Line for Business platform, including Tradesperson and Van and the full-cycle end-to-end delivery model established for ongoing change;
	  – major Finance transformation which has moved core finance systems to the cloud; and
	  – deployed a new telephony system and migrated our mainframe.
	– Alongside launching new systems, we have made good progress on setting the foundations for changes to come in 2021.
	– We continued to make significant steps to put Churchill and Direct Line onto our new motor system meeting key technical deployment milestones; whilst overall operational deployment has been slower due to the build of additional scope and impact of Covid-19 on delivery.

Costs Development and execution of activities to deliver a sustainably lower cost base to support future quality of earnings	– Despite a strategic ambition to progress towards our target of reducing operating expenses, they increased during 2020 by £30.7 million to £724.4 million. The increase in costs was entirely due to investment in initiatives to protect our customers, people and society from the impact of Covid-19. – In total these initiatives are estimated to have increased operating expenses by £34 million and in some cases had the effect of delaying cost-saving programmes which were planned for 2020. Adjusting for these initiatives, operating expenses were broadly flat year on year. – Despite the impact of Covid-19, we have made good progress in building the capability to reduce our cost base in the future and have reiterated our 20% expense ratio target in 2023.

Measure	2020 Achievement
Shared	50%

LTIP outcomes for 2020 (Audited)

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

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

2017 LTIP awards (vesting in 2020)

Awards under the LTIP granted in March, August and November 2017 vested during 2020. They were subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2017, 2018 and 2019.

Consistent with the Regulations, the expected RoTE vesting outcomes for the year ended 31 December 2019 (together with the TSR elements from the 2016 awards) are included in the 2019 LTIP column of the single figure table. The performance outcomes of these elements are included in the table below.

The 2020 single remuneration figure includes the value of the 2017 TSR elements (for which the performance period ended in November 2020 for Penny James) and the awards vested shortly after. Details of the targets and performance achieved are set out in the table below (with the March and August 2017 outcomes only relating to former Directors).

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

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2017	RoTE (2019 single figure)	60%	15.0%	18.0%	20.4%	100.0%	60.0%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Between median and upper quintile	26.9%	10.8%
August 2017	RoTE (2019 single figure)	60%	15.0%	18.0%	20.4%	100.0%	60.0%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Between median and upper quintile	45.1%	18.0%
November 2017 (Penny James only)	RoTE (2019 single figure)	60%	15.0%	18.0%	20.4%	100.0%	60%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Between median and upper quintile	51.5%	20.6%

2018 LTIP awards (vesting in 2021)

Awards under the LTIP granted in March and August 2018 will vest during 2021. They are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2018, 2019 and 2020. The RoTE performance period for these awards ended on 31 December 2020 and performance in respect of this element is set out in the table below. Performance under the relative TSR measure will be assessed at the end of the vesting periods in March 2021 and August 2021 respectively and will be disclosed in the 2021 Directors' Remuneration Report. This is subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

Consistent with the Regulations, the expected RoTE vesting outcomes for the 2018 LTIP awards (together with the TSR elements from the 2017 awards) are included in the 2020 single remuneration figures for the Executive Directors based on the three-month average share price to 31 December 2020. As the awards were granted before Tim Harris joined the Group, figures are for Penny James only. You can find details of this on page 122.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2018	RoTE (2020 single figure)	60%	17.5%	20.5%	20.7%	100%	60%
	Relative TSR (2021 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
August 2018	RoTE (2020 single figure)	60%	17.5%	20.5%	20.7%	100%	60%
	Relative TSR (2021 single figure)	40%	Median	Upper quintile	Performance period not yet complete		

Summary of the 2020 LTIP single remuneration figure outcomes

		Number of shares awarded (inc. dividends) subject to this performance condition	Percentage vested by reference to performance achieved	Number of shares vested	Total value of shares (inc. dividends) vested £'000
March 2018 LTIP – RoTE[1]	Penny James	136,943	100%	136,943	399
August 2018 LTIP – RoTE[1]	Penny James	141,711	100%	141,711	412
November 2017 LTIP – TSR[2]	Penny James	195,421	51.5%	100,642	299
Total single figure LTIP	Penny James				1,110

Notes:

1. 2018 RoTE elements are based on the three-month average share price to 31 December 2020 of £2.91.
2. 2017 TSR element is based on share price on the date of vesting on 28 November 2020 of £2.97.

Using shares (Audited)

In receiving a share award, Executive Directors commit not to hedge their exposure to outstanding awards under these plans or in respect of shares they are reporting to the Company within their ownership for the purposes of any share ownership guidelines. They also agree not to pledge as collateral their participation under any of the plans or any shares which they are required to hold in the Company for any purposes, including for share ownership guidelines. There have been no changes to the share interests below since 31 December 2020.

	At 31 December 2020				Share plan interests exercised during the year to 31 December 2020	
	Share plan awards subject to performance conditions[1,2,3]	Share plan awards subject to continued service[1]	Share plan interests vested but unexercised[1]	Shares held outright	Number of options exercised[1]	Share price on date of exercise[4]
Penny James	1,430,485	350,847	393,773	665,464	–	–
Tim Harris	741,647	87,927	–	5,785	5,388	3.24

Notes:

1. These awards take the form of nil-cost options over the Company's shares. Awards accrue dividend entitlement from the grant date to the date on which an award vests. Dividends added post-vesting are shown to 31 December 2020 but are not realised until exercise.
2. LTIP awards include an additional two-year holding period before awards may be released.
3. Unvested awards subject to performance conditions represent LTIP awards for which 60% is based on RoTE performance and 40% on relative TSR performance. The exact targets for each award were disclosed in the relevant Annual Report on Remuneration.
4. Tim Harris exercised options on 4 August 2020.

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

Director	Shares held at 31/12/2020	Shares held at 31/12/2019
Mike Biggs[2]	–	–
Danuta Gray	10,000	10,000
Mark Gregory	–	–
Jane Hanson	11,083	11,083
Sebastian James	5,000	5,000
Fiona McBain	–	–
Gregor Stewart	2,925	2,925
Richard Ward	–	–

Notes:

1. This information includes holdings of any connected persons, as defined in section 253 of the Companies Act 2006.
2. Mike Biggs stepped down from the Board on 4 August 2020.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2019 and 2020. Non-Executive Directors may also claim for reasonable travel and subsistence expenses, in accordance with the Group's travel and expenses policy, and, where these are classified as taxable by HMRC, they are shown under 'Taxable benefits' below. The Non-Executive Directors receive no other benefits.

	Fees		Taxable benefits[2]		Total	
Director[1]	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Mike Biggs[3]	235	400	1	5	236	405
Danuta Gray	209	110	–	7	209	117
Mark Gregory	109	101	–	0.1	109	101
Jane Hanson	120	120	3	11	123	131
Sebastian James	96	95	–	–	96	95
Fiona McBain	95	83	3	16	98	99
Gregor Stewart	115	115	2	19	117	134
Richard Ward	120	120	0.1	0.1	120	120

Notes:

1. Non-Executive Directors are not eligible to participate in any of the Group's bonus or share incentive schemes or to join any Group pension scheme.
2. The values shown under 'Taxable benefits' above comprise the value of taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and national insurance contributions due).
3. Mike Biggs stepped down from the Board on 4 August 2020, on which date Danuta Gray became Chair.

CEO pay ratio

In 2018, the Committee chose to adopt early the CEO pay ratio disclosure requirements. Since 2019, the Committee has determined that the appropriate methodology to be used in future years is Option A, as the Committee believes this is the most robust approach to use going forward.

The table below compares the 2020 single total figure of remuneration for the CEO with that of the Group employees who are paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its employee population. The 2019 figures are also shown for comparison purposes.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	128:1	105:1	71:1
2019[1]	Option A	123:1	101:1	67:1

Note:

1. As required by the regulations, the CEO single figure used to determine the 2019 pay ratios is based on the sum of the total single figures of remuneration for Paul Geddes and Penny James, but with remuneration in respect of Penny's service as CFO excluded. The 2019 figures have been updated for Penny's updated 2019 single figure value (see page 122 note 4).

The UK employees included are those employed on 31 December 2020 and remuneration figures are determined with reference to the financial year ending on 31 December 2020.

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2020 as we believe that it is the most robust methodology for calculating these figures. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed.

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

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£21,487	£25,842	£39,325
Total pay and benefits	£24,885	£30,401	£44,905

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. For reference, the CEO base salary median pay ratio is 33:1 (2019: 32.1). In reviewing the ratios the Committee also noted that the CEO's remuneration package is weighted more heavily towards variable pay (including the AIP and LTIP) than of the wider workforce due to the nature of the role, and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans in each year.

As there was a change of CEO in 2019, the 2019 pay ratios were calculated based on a "hybrid" single figure of remuneration for the two CEOs during the year, as required by the Regulations. This means that the 2019 and 2020 ratios are not directly comparable. Nevertheless, the small increase in the pay ratios from 2019 to 2020 is partly attributable to the increase in the CEO's AIP and LTIP outcomes for 2020. This increase is partially offset by an increase in the total pay and benefits of employees, primarily as a result of the increase in the Group's minimum salary level in April 2020 and broader annual salary increases, as well as an increase in bonus outcomes (consistent with the CEO's AIP outcome).

The Group's employees are fundamental to the Group's strategy and to ensuring a high level of service to our customers. We are proud that the high number of consultants in our customer service centres are employed by the Group (rather than being outsourced) and note that the impact of these lower-paid roles is reflected in the ratios above. Further details on the differences between the remuneration of Executive Directors and the wider workforce are set out on page 117. The Committee is satisfied that these policies drive the right behaviours and reinforces the Group's values which in turn drives the correct culture, and, for the reasons given above, it believes that the ratios are consistent with the Group's reward policies.

Percentage change in Executive Directors' and Non-Executive Directors' pay for 2019 to 2020

The table below shows the year-on-year percentage change in salary, taxable benefits and bonus (where applicable) of the Executive Directors and Non-Executive Directors, compared to the average pay for all other employees.

	Salary/Fees[1]	Benefits[2]	Bonus (including deferred amount)[3]
Executive Directors			
Chief Executive Officer	7.6%	(24.6)%	16.1%
Chief Finance Officer[4]	0.0%	0.5%	7.9%
Non-Executive Directors[5]			
Mike Biggs	0.0%	(82.3)%	-%
Danuta Gray	90.1%	(100.0)%	- %
Mark Gregory	7.2%	(100.0)%	- %
Jane Hanson	0.0%	(73.1)%	- %
Sebastian James	1.0%	0.0%	- %
Fiona McBain	14.6%	(79.9)%	- %
Gregor Stewart	0.0%	(87.2)%	- %
Richard Ward	0.0%	(5.7)%	- %
All employees (average)	3.5%	(1.4)%	3.9%

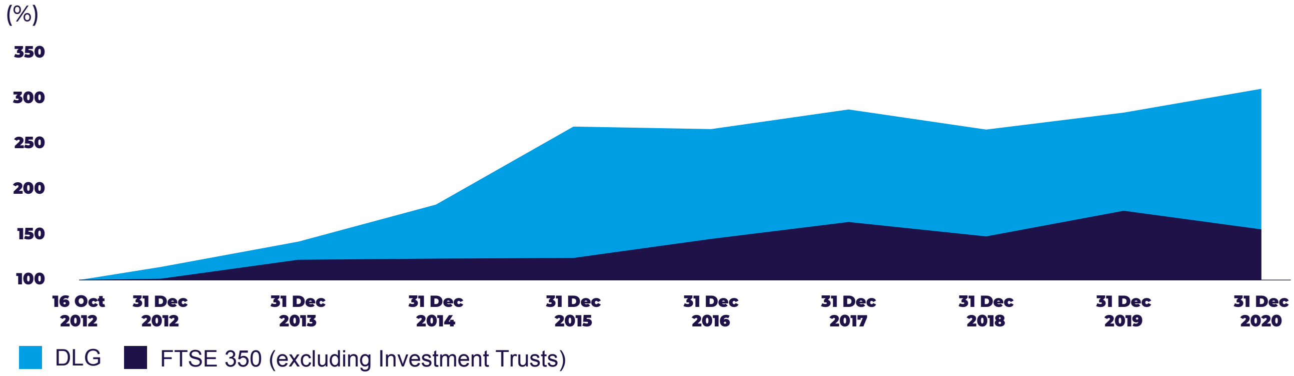
Notes:

1. Based on the change in average pay for employees employed in the year ended 31 December 2020 and the year ended 31 December 2019. The CEO's salary in 2019 reflected part year as CFO before promotion to CEO, therefore the increase appears larger. Actual pay increase in 2020 was 2.1%. The increase to the CEO salary from 1 April 2020 was voluntarily paid to FareShare, a charity that redistributes surplus food to other charities that turn it into meals for those in need.
2. For all employees, there were no changes in benefits provision between 2019 and 2020. For the CEO the decreased value of benefits relate to the car service not used by the CEO for travelling on journeys between home and office since March, in respect of which the Group also pays for any associated tax liability that arises on this benefit. For Non-Executive Directors, benefits comprise taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and national insurance contributions due).
3. For employees other than the CEO, this includes average amounts earned under the AIP, and other variable incentive schemes, including monthly and quarterly incentive schemes operated in certain parts of the Group. Non-Executive Directors are not eligible to participate in any of the Group's bonus or incentive schemes.
4. The figure for the CFO is based on an annualised amount for 2019, as he joined in the final quarter of the year.
5. For Non-Executive Directors, increased fees relate to Board changes. The decreased value of benefits relates to a decrease in travel expenses due to the Covid-19 pandemic.

Chief Executive Officer's pay between 2012 and 2020 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2012 and 2020. It also shows vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity. This is presented against the Company's TSR since its shares began trading on the London Stock Exchange in October 2012, against the FTSE 350 Index (excluding Investment Trusts) over the same period. This peer group is the same used for measuring relative TSR under the LTIP.

Total Shareholder Return



	2012[1]	2013[1]	2014[1]	2015	2016[2]	2017	2018	2019[3]	2019[3,4]	2020[5]
	Paul Geddes								Penny James	
CEO single figure of remuneration (£'000s)	1,908	2,536	5,356	4,795	4,071	4,039	3,250	774	2,773	3,188
Annual bonus payment (% of maximum)	65%	63%	75%	83%	43%	88%	68%	76%	76%	82%
LTIP vesting (% of maximum)[1]	30%	55%	88%	96%	86%	99%	71%	0%	100%	80%

Notes:

1. Based on actual vesting under the 2010, 2011 and 2012 RBS Group LTIP. The value included in the single figures in respect of these awards is £205,000 in 2012, £728,000 in 2013 and £2,437,428 in 2014.
2. The 2016 single figure and annual bonus payment reflect an adjustment, made in 2019, to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
3. The 2019 single figure reflects part of the year for the outgoing CEO, Paul Geddes, and the entire year for the newly appointed CEO, Penny James.
4. The 2019 single figure has been revised to reflect the actual vesting of the 2017 awards under the LTIP.
5. The 2020 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2018. Any shares under the LTIP granted in 2018 will not be delivered until the end of the applicable vesting periods in March and August 2021. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed.

Payments to Past Directors (Audited)

March and August 2017 LTIP

The table below sets out the awards which vested during the year to John Reizenstein (former CFO), Paul Geddes (former CEO) and Mike Holliday-Williams (former MD, Personal Lines), who exited the Group on 7 September 2018, 31 July 2019 and 30 September 2019 respectively:

Award	Executive Director	Number of share options awarded (inc. dividends)	Vesting proportion (inc. performance and pro-rata)	Number of share options vested	Total value of share options (including dividends) vested (£)
March 2017	John Reizenstein	167,925	35.7%	59,952	171,343[1]
	Paul Geddes	288,554	55.6%	160,439	458,535[1]
	Mike Holliday-Williams	196,416	59.3%	116,391	332,645[1]
August 2017	John Reizenstein	148,752	29.4%	43,733	128,969[2]
	Paul Geddes	262,956	51.6%	135,567	399,787[2]
	Mike Holliday-Williams	180,197	55.4%	99,794	294,293[2]

Notes:
1. Based on closing share price of £2.86 on the vesting date (27 March 2020).
2. Based on closing share price of £2.95 on the vesting date (29 August 2020). LTIP awards for Executive Directors are 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.

The March 2017 LTIP award vested overall at 70.8%, with the RoTE element achieving 100%, and TSR at 26.9%. The August 2017 LTIP award vested at 78.0%, with the RoTE element achieving 100% and TSR at 45.1%. All former Directors confirmed that they complied with the requirements of their individual exit agreements, which enabled the Committee to approve the vesting of these awards.

March and August 2018 LTIP

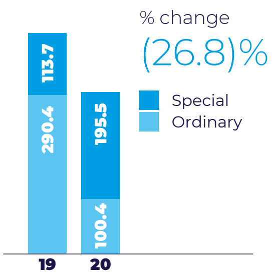
The performance period in respect of the RoTE elements of these awards ended on 31 December 2020; however, the performance periods in respect of the TSR elements of these awards end on 25 March 2021 and 27 August 2021 and the awards will vest on these dates. The value of the 2018 LTIP awards vesting for Paul Geddes and Mike Holliday-Williams will therefore be disclosed in the 2021 report.

No payments were made to any Director for loss of office during 2020.

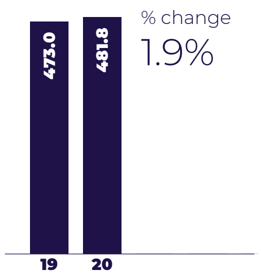
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2019 and 2020.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
1. On 3 March 2020, the Group announced that the Board had approved a share buyback of up to £150 million. On 19 March 2020, the Board cancelled that share buyback programme given the uncertainty in the capital markets at the time, driven by the rapidly emerging Covid-19 pandemic.
2. Following the cancellation of the dividend as announced on 8 April 2020, the final dividend for 2019 was not paid. However, a special interim dividend was subsequently paid in September 2020 reflecting a full catch-up of the cancelled 2019 final dividend.
3. The dividends paid information has been taken from note 14 to the consolidated financial statements. The overall expenditure on pay has been taken from note 10 and therefore, consistent with market practice, it has not been calculated in a manner consistent with the single figure in this report.

AGM voting outcomes

The table below shows the percentage of shareholders' votes which were for or against, and the percentage of votes withheld, relating to the resolutions to approve the 2019 Directors' Remuneration Report and Remuneration Policy, both of which were put to shareholders at the 2020 AGM.

The resolutions approving the Directors' Remuneration Report and Remuneration Policy were passed by 94.88% and 97.55% of the votes cast in favour of the resolutions, respectively.

	For		Against		Number of votes withheld (abstentions)	Percentage of votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' Remuneration Report (2020 AGM)	1,023,165,733	94.88%	55,176,087	5.12%	63,462	–
Approval of Directors' Remuneration Policy (2020 AGM)	1,051,904,620	97.55%	26,440,027	2.45%	60,251	–

Shareholdings (Audited)

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

Name	Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2020[2,3] (% of salary)
Penny James	Chief Executive Officer	250%	426%
Tim Harris	Chief Financial Officer	200%	33%

Notes:

1. Executive Directors are expected to retain all the 'after tax' Ordinary Shares they obtain from any of the Company's share incentive plans until they achieve a shareholding level that is equal to 250% of base salary for the CEO and 200% of base salary for the CFO respectively.
2. For these purposes, holdings of Ordinary Shares will be treated as including all vested but unexercised awards, or awards unvested but after the performance period in the holding period, valued on a basis that is net of applicable personal taxes payable on acquiring such Ordinary Shares.
3. Shareholding as a percentage of salary has been calculated based on the 31 December 2020 share price of £3.19.

LTIP awards granted during 2020 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2020 in the form of nil-cost options.

		Awards granted in 2020 under the LTIP[1]		
Director	Position	Award as % of salary	Number of shares granted	Face value of Awards (£)
Penny James	Chief Executive Officer	200%	581,357	1,617,000
Tim Harris	Chief Financial Officer	200%	384,941	1,070,000

Note:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £2.62 in March 2020 and £2.96 in September 2020.

The performance conditions that apply to the LTIP awards granted in 2020 are set out below:

	Performance conditions for awards granted in 2020 under the LTIP		
Performance Measure	Proportion of award	Performance for threshold vesting (20%)	Performance for maximum vesting
RoTE	60%	17.5%	20.5%
TSR	40%	Median	Upper quintile

The RoTE targets for awards granted in 2020, applying to 60% of the award, were an average annual RoTE of 17.5% for 20% vesting and 20.5% for full vesting. A straight-line interpolation occurs from threshold to maximum performance.

The remaining 40% of each award is based on TSR performance against the FTSE 350 (excluding Investment Trusts), for which there is a straight-line interpolation between threshold and maximum performance on a ranked basis.

The performance period for the awards granted on 27 March 2020 will end on 31 December 2022 for the RoTE element and 26 March 2023 for the TSR element. The performance period for the awards granted on 1 September 2020 will also end on 31 December 2022 for the RoTE element and 31 August 2023 for the TSR element.

DAIP awards granted during 2020 (Audited)

The table below shows the deferred share awards granted under the DAIP to Executive Directors on 27 March 2020 in respect of the 2019 AIP. Awards will vest after three years, normally subject to continued service, and were granted in the form of nil-cost options.

		Awards granted in 2020 under the DAIP	
Director	Position	Value of deferred bonus (£)	Number of shares granted[1]
Penny James	Chief Executive Officer	401,899	153,397
Tim Harris	Chief Financial Officer	71,155	27,158

Note:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £2.62. In accordance with the DAIP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Dilution

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

Non-Executive Directors' fees

The fees for the Chair and Non-Executive Directors for 2021 are set out below and were reviewed in 2020.

Position	Fees for 2021 £'000
Board Chair fee	350
Basic Non-Executive Director fee	75
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Board Risk and Remuneration Committees	30
Chair of Sustainability and Investment Committees	10
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (Sustainability or Nomination)	5

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

Service contracts

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

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Penny James	01-Nov-17	12 months	Base salary, benefits and pension only for unexpired portion of notice period to be paid in a lump sum or monthly instalments in which case, instalments are subject to mitigation if an alternative role is found.
Tim Harris	01-Oct-19	12 months	Base salary, benefits and pension only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.

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

Implementing the Policy in 2021

Key feature	Implementation in 2021
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	– The CEO's salary remains appropriate (at £817,000) – The CFO's salary remains appropriate (at £535,000)
Pensions	
– Pension contributions are paid only in respect of base salary – The Executive Directors' pension is set in line with the pension level received by the majority of the employee population	– CEO and CFO pension contribution remains at 9% (in line with the workforce)
Annual Incentive Plan	
– Maximum opportunity of 175% of salary for the CEO and the CFO – At least 50% of the AIP is based on financial measures. The Committee considers various non-financial performance measures such as strategic measures – It bases its judgement for the payment outcome at the end of the performance period on its assessment of the level of performance achieved with reference to performance targets agreed at the start of the year – Any payment is subject to an additional gateway assessment, including assessing risk factors – Malus and clawback provisions apply	– No change to the maximum opportunity – No change from the weightings or measures used for 2020 – There will be a straight-line vesting between AIP threshold and maximum performance – Financial measures (55%): Profit before tax – Non-financial measures (45%): People, Customer and Shared – The performance targets will be set following the usual process, considering internal and consensus forecasts and the key strategic priorities for the Group in 2021 – The performance targets are considered commercially sensitive and will therefore be disclosed in next year's Report
Deferred Annual Incentive Plan	
– 40% of the AIP is deferred into shares – Typically vesting after three years, normally subject to continued employment – Malus and clawback provisions apply	– No further performance conditions apply
Long Term Incentive Plan	
– Awards typically granted as nil-cost options – Awards typically granted twice a year – The LTIP allows for awards with a maximum value of 200% of base salary per financial year – Performance is measured over three years – Awards vest subject to financial underpin and payment gateway – Malus and clawback provisions apply – Awards are subject to an additional two-year holding period following the end of the three-year performance period	– No change to the maximum annual award levels – Nil-cost options will continue to be used for the grants – The current 60% RoTE and 40% TSR mix will continue to apply for 2021 – A RoTE target range of 17.5% (threshold) to 20.5% (maximum) is required for the 2021 awards to vest – Vesting at threshold is 20% and maximum is 100% with straight-line vesting in between – Relative TSR will be measured against the FTSE 350 (excluding investment trusts) peer group. Vesting for median TSR performance (threshold) is 20% and for upper quintile TSR performance (maximum) is 100% with straight-line vesting in between these points

Directors' Remuneration Policy

The following is a copy of the main table from the Policy approved by shareholders at the 2020 AGM. The full Policy is available in the Directors' Remuneration Report of the 2019 Annual Report and Accounts, which is available on the Direct Line Group website under the 'Results and reports' heading in the Investors page. You can find further details regarding the Policy's operation for 2021 on page 135.

Policy table

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

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

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

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

Element and purpose in supporting the Group's strategic objective	Operation
AIP – To motivate executives and incentivise delivery of performance over a one-year operating cycle	– The AIP is measured based on performance over the financial year against performance targets which the Committee considers to be appropriate – Clawback provisions apply to the AIP. Further explanatory notes can be found on the Direct Line Group website, under the 'Results and reports' heading on the Investors page, and on pages 128 to 138 in the 2019 Directors' Remuneration Report
DAIP – To enable a stronger focus and alignment with the short to medium-term elements of our strategic aims	– For Executive Directors, at least 40% of the AIP is deferred into shares under the DAIP – This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year end – The Committee will keep the percentage deferred and terms of deferral under review. This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall – Dividends will accrue during the deferral period – Malus and clawback provisions apply to the cash and deferred elements. Further explanatory notes can be found on the Direct Line Group website, under the 'Results and reports' heading on the Investors page, and on pages 128 to 138 in the 2019 Directors' Remuneration Report.
LTIP – Aligning executives' interests with those of shareholders to motivate and incentivise delivering sustained business performance over the long term – To aid retaining key executive talent long term	– Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares – Vested options will remain exercisable for up to the tenth anniversary of grant – Malus and clawback provisions apply to the LTIP. Further explanatory notes can be found on the Direct Line Group website, under the 'Results and reports' heading on the Investors page, and on pages 128 to 138 in the 2019 Directors' Remuneration Report. – Awards under the LTIP may be made at various times during the financial year – Executive Directors will be subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released – During the additional holding period the awards will continue to accrue dividends. Following the holding period awards will cease to accrue dividends if not exercised
Share ownership guidelines – To align the interests of Executive Directors with those of shareholders	– Executive Directors are expected to retain all the Ordinary Shares vesting under any of the Company's share incentive plans, after any disposals for paying applicable taxes, until they have achieved the required shareholding level; unless such earlier sale, in exceptional circumstances, is permitted by the Chair – Shares considered will include those held by the director and their connected persons, vested awards subject to holding requirements and unvested awards not subject to performance conditions (on a net of tax basis) – Executive Directors are also expected to retain an equivalent level of shareholding post their employment for a period of two years – In exceptional circumstances, earlier sale is permitted subject to the Chair's discretion

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

Directors' report

The Board of Directors present their report for the financial year ended 31 December 2020 as required by the Companies Act 2006.

The Board would like to draw your attention to the forward-looking statements disclaimer which can be found on page 231.

Directors' report disclosures

The Board takes the view that some of the matters required to be disclosed in the Directors' report are of strategic importance and these are, therefore, included in the Company's Strategic report which is on pages 1 to 75 as permitted by the Companies Act 2006. These matters, and all matters referenced in the table below, are incorporated into this Directors' report:

Subject	Pages
Use of financial instruments	26, 33, 34
Important events since the financial year-end	8 to 17
Likely future developments in the business	17
Employee engagement	19, 50 , 53, 125, 142
Engagement with suppliers, customers and other business relationships	48 to 49
Research and development	6, 12, 16, 56, 60, 64
Greenhouse gas emissions, energy consumption and energy-efficient action	61 to 63

Disclosure of information required by Disclosure Guidance and Transparency Rule 7.2

The FCA's Disclosure Guidance and Transparency Rule 7.2 require a corporate governance statement in the Directors' report to include certain information. You can find information that fulfils the corporate governance statement's requirements in this Directors' report, the Corporate Governance report, the Committee reports and the Directors' Remuneration Report, all of which is incorporated in the Directors' report by reference.

Disclosure of information under Listing Rule 9.8.4(C)

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

Subject	Page
Interest capitalised by the Group	None
Unaudited financial information	Note 3.5
Branches outside the UK	219
Long-term incentive plan involving one Director only	Not applicable
Directors' waivers of emoluments	Not applicable
Directors' waivers of future emoluments	Not applicable
Non pro-rata allotments for cash (issuer)	Not applicable
Non pro-rata allotments for cash (major subsidiaries)	None
Listed company is a subsidiary of another company	Not applicable
Contracts of significance involving a Director	Not applicable
Contracts of significance involving a controlling shareholder	Not applicable
Details of shareholder dividend waivers	141
Controlling shareholder agreements	Not applicable

Dividends

The Board recommends a final dividend of 14.7 pence per share to shareholders. Subject to shareholder approval at the Company's 2021 AGM, this will become payable on 20 May 2021 to all holders of Ordinary Shares on the Register of members at close of business on 9 April 2021.

The final dividend resolution provides that the Board may cancel the dividend and, therefore, payment of the dividend at any time before payment, if it considers it necessary to do so for regulatory capital purposes. You can find detailed explanations about this in the Notice of AGM 2021.

You can find information on dividend and capital management, including the share buyback programme, in the Finance review, on pages 20 to 35.

Directors

You can find the names of all current Directors and their biographies on pages 78 to 80. All Directors will retire and those wishing to continue to serve will be submitted for election or re-election at the 2021 AGM (with the exception of Jane Hanson who will be stepping down from the Board with effect from the end of the AGM, as previously announced.) This is in accordance with the Code and the Articles of Association of the Company, which govern appointing and replacing Directors.

The Directors listed on pages 78 to 80 were the Directors of the Company throughout the year under review, except for Adrian Joseph, who joined the Board on 1 January 2021. Mike Biggs also served during the year, stepping down as Chair of the Board and as a Director in August 2020. Mike was succeeded as Chair by Danuta Gray.

The Company's Articles of Association set out the Directors' powers. You can view these on the Company's website at www.directlinegroup.co.uk. The Directors' powers are also subject to relevant legislation and, in certain circumstances, including in relation to the issuing or buying back of shares, authority from the Company's shareholders. You can find details of the Directors' remuneration, service contracts, employment contracts and interests in the shares of the Company in the Directors' Remuneration Report on pages 113 to 139.

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

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

Secretary
Roger Clifton is the Company Secretary of Direct Line Insurance Group plc. He can be contacted at the Company's Registered Office, details of which are on page 232.

Share capital
The Company has a premium listing on the London Stock Exchange. As at 31 December 2020, the Company's share capital comprised 1,364,551,605 fully paid Ordinary Shares of 10 10/11 pence each.

At the Company's 2020 AGM, the Directors were authorised to:

– allot shares in the Company or grant rights to subscribe for or convert any security into shares, up to an aggregate nominal amount of £49,620,058, and to allot further shares up to an aggregate nominal amount of £49,620,058 for the purpose of a rights issue;
– allot shares having a nominal amount not exceeding in aggregate £7,443,009 for cash, without offering the shares first to existing shareholders in proportion to their holdings;
– allot additional shares having a nominal amount not exceeding in aggregate £7,443,009 for the purposes of financing a transaction which the Board of the Company determines to be an acquisition or other capital investment, without offering the shares first to existing shareholders in proportion to their holdings;
– make market purchases of up to 136,455,160 shares in the Company, representing 10% of the Company's issued share capital at the time; and
– allot shares (with the disapplication of pre-emption rights) up to an aggregate nominal amount of £23,250,000 in relation to the issue of Restricted Tier 1 ("**RT1**") Instruments.

To date, the Directors have not used these authorities granted in 2020 (although the authority to make market purchases of shares granted at the AGM in 2019 was used during the year, as described below.)

At the 2021 AGM, shareholders will be asked to renew these authorities. The Company has not held any shares in treasury during the period under review. You can find out more about the Company's share capital and shares under option as at 31 December 2020 in notes 30 and 36 of the consolidated financial statements.

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

The Trustee of the Employee Benefit Trust has waived its right to dividends on all shares within the Trust. You can find out more about the number of shares held by the employee share plan trusts in note 36 on page 208. The Company is only aware of the dividend waivers and voting restrictions mentioned above.

On 3 March 2020, the Company announced the launch of a share buyback programme, which was then terminated on 19 March 2020 as a result of the volatile conditions arising from the Covid-19 pandemic. The share buyback programme had been designed to return surplus capital to shareholders and move the Group's solvency capital coverage ratio towards the middle of its solvency risk appetite range. A total number of 10,448,395 ordinary shares of 10 10/11 pence each were repurchased under the share buyback programme. The aggregate consideration paid was £28,783,407.42.

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

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

Each general meeting notice will specify a time, not more than 48 hours before the time fixed for the meeting (which may exclude non-working days), for determining a shareholder's entitlement to attend and vote at the meeting. To be valid, all proxy appointments must be filed at least 48 hours before the time of the general meeting.

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

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

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

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

Substantial shareholdings

The table below shows the direct and indirect holdings of major shareholders in the Company's ordinary issued share capital, as at 31 December 2020 and as at 5 March 2021, as notified in accordance with the provisions of Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. Information provided by the Company pursuant to the FCA's Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the Company's website.

	31 December 2020	5 March 2021	Nature of Holding
BlackRock, Inc.	9.97%	10.08%	Indirect
Artemis Investment Management LLP	5.07%	5.07%	Indirect
Norges Bank	5.05%	4.91%	Direct
Majedie Asset Management Limited	4.99%	4.99%	Indirect
T.Rowe Price Associates, Inc	4.94%	4.94%	Indirect
Standard Life Aberdeen plc	4.57%	4.57%	Indirect
APG Asset Management N.V	2.99%	2.99%	Direct

Political donations

The Group made no political donations during the year (2019: nil).

Business relationships

The Board understands and has regard to the need to foster the Company's business relationships with suppliers, customers, and others.

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

The Board aims to maintain the highest possible standards of integrity in business relationships with suppliers and partners. The Group is a long-standing signatory of the Prompt Payment Code. There are mechanisms in place for the Board to be alerted to problems with payment expectations.

The Group relies on certain key strategic suppliers and a large number of other suppliers to conduct its business. The Board receives in-depth updates on its relationship with strategic suppliers in the context of reports on the Group's technology programme. The Board has, in 2020, received updates on the generic approach to suppliers' robustness in the context of Brexit preparations.

The Board reviews and approves the Code of Business Conduct, Ethical Code for Suppliers and Modern Slavery statement on an annual basis to ensure that these reflect the Group's purpose and sustainability strategy.

The Board monitors customer engagement by receiving a customer and conduct report at each of its scheduled meetings. We put our customers at the heart of everything that we do. The Board believes that the Company's long-term sustainability is driven by understanding customers' needs and acting in their best interests.

For more on key decisions and considerations relating to stakeholders, see pages 86 to 87, and for more information on our key stakeholders, please refer to the sustainability pillars on pages 44 to 67.

Employee engagement

The Board encourages a culture that celebrates difference and seeks to empower people so that they can thrive. The Board values the involvement and engagement of its employees and continues to listen to employees' views and opinions.

The whole Board prides itself on its engagement with the workforce with frequent and consistent engagement by Executive Directors, which has only increased during Covid-19. The Board responded immediately to the Covid-19 crisis by calling additional Board meetings, including to discuss and consider the best way to protect its wider workforce.

Further to Provision 5 of the Code, the Non-Executive Directors see it as their joint responsibility to engage with the workforce and have, therefore, chosen not to designate one Non-Executive Director for this role. The Non-Executive Directors rotate attendance at meetings of the Group's National Employee Representative Body, which are also attended by Executive Directors. The Board reviews the results of employee engagement surveys, and metrics relating to employee engagement remain an important element of the targets for the AIP for Executive Directors and other senior managers.

Having all Non-Executive Directors engaged with the workforce allows for greater accessibility for the workforce and a shared sense of responsibility. In December 2020 our Chair, Danuta Gray, attended the virtually hosted Employee Representative Body conference, at which she introduced herself to the members who were given the opportunity to ask her questions.

The Board uses various technological methods of communication, including Chief Executive Officer and Chief Financial Officer all-employee phone conferences, emails and intranet messages, acknowledging that circumstances in 2020 created challenges for interaction.

For more on key decisions and considerations relating to stakeholders see pages 86 to 87 and for more information on Board-sponsored initiatives to support the workforce, including in connection with the Covid-19 crisis, the Agile transformation programme, diversity and inclusion and on culture see the Sustainability Pillars – People on page 50, the Sustainability Committee Report on pages 109 to 110 and for wider workforce engagement and pay considerations in 2020 see the Directors' Remuneration Report on pages 113 to 139.

Employees with disabilities

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

Our DNA focuses on a number of strands including employees with disabilities. It identifies areas where we can improve and help people to continue working for us. We reasonably adjust employees' working environments and equipment, and roles and role requirements. We also seek to ensure that everyone can access the same opportunities. You can find more information regarding employee involvement in the Strategic report on pages 1 to 75.

Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors further believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Finance review on pages 20 to 35 describes the Group's capital management strategy, including the capital actions taken in the year to ensure the continued strength of the balance sheet. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. Additionally note 3 to the consolidated financial statements describes capital management needs and policies. The note also covers insurance, market, liquidity and credit risks which may affect the Group's financial position.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle. These included the implementation of the FCA's Pricing Practices Review, possible adverse implications of Brexit, change risk and possible challenging market conditions due to the impact of Covid-19 on the economy and customer behaviour. The 2020 Plan modelled a number of different scenarios which were directly and indirectly influenced by the Covid-19 pandemic. These included delay to improvements in technological capability, the impact of Covid-19 on claims frequency levels and the impact of Brexit on the investment return. The key judgements applied were in relation to the likely time period of Covid-19 related restrictions, and the subsequent impact on customer behaviour and the economic recovery.

In addition, the Group's Risk function has carried out an assessment of the risks to the Plan and the dependencies for the success of the Strategic Plan. This included running stress tests on the Plan to consider the 1 in 8 years and 1 in 25 years loss simulations based on the internal economic capital model.

A reverse stress test was also performed to identify the most probable combination of stresses that would result in capital loss and thus threaten the viability of the Group, i.e. a reduction of own funds to below the solvency capital requirement.

In all scenarios, it was concluded that the Group's solvency capital requirement would not be breached following the implementation of management actions.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 5 March 2021 (the date of approval of the financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Disclosing information to the Auditor

Each Director at the date of approving these Annual Report & Accounts confirms that: as far as they are aware, there is no relevant audit information of which Deloitte, the Company's External Auditor, is unaware; and they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that Deloitte is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte has expressed its willingness to continue in office as the External Auditor. A resolution to reappoint Deloitte will be proposed at the forthcoming AGM. You can find an assessment of the effectiveness of and a recommendation for reappointing Deloitte in the Audit Committee report on page 101.

Directors' responsibility statement

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

Company law requires the Directors to prepare such financial statements for each financial year in accordance with UK-adopted international accounting standards.

The Directors have elected to prepare the Parent Company financial statements in accordance with FRS 101 "Reduced Disclosure Framework". Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the Company's state of affairs and profit or loss for that period.

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

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

Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 78 to 80, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report (on pages 1 to 75) and Directors' report (on pages 140 to 144) include a fair review of: (i) the business's development and performance; and (ii) the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This report was approved by the Board on 5 March 2021 and signed on its behalf by:

Roger C. Clifton
Company Secretary

Registered address: Churchill Court, Westmoreland Road, Bromley, BR1 1DP

Registered number: 02280426