

Chair's statement

Working for all our stakeholders

Dear Shareholder,

I am pleased to report that 2021 saw Direct Line Group make significant progress on its strategic transformation at the same time as delivering strong operating profit. We achieved profit before tax of £446.0 million (2020: £451.4 million) and a combined operating ratio of 90.1% (2020: 91.0%).

The work we undertook in 2020 to adapt our operations and evolve the way we do business in response to the Covid-19 pandemic meant that we were well positioned to continue to provide our customers with excellent service, support our people, and push ahead with key strategic initiatives despite entering 2021 in another lockdown and seeing a continuation of pandemic-related restrictions during the year. The Board oversaw the business's preparations for the implementation of the FCA's new general insurance Pricing Practices Review regulations, which came into force on 1 January 2022, which involved a large-scale programme of activity and the deployment of considerable resources to meet the requirements of the new regulations within an ambitious timeframe during 2021. We believe that our multi-brand, multi-channel strategy places the Group in a strong position to deliver sustainable growth under the new pricing rules.

Danuta Gray
Chair of the Board



We have also made good progress on key sustainability initiatives, details of which are set out in this report, that we believe will contribute to the long-term sustainability of the business and its ability to deliver for our many stakeholders.

Dividend and capital management

The Board has recommended a final ordinary dividend of 15.1 pence per share, making a total of 22.7 pence per share, an increase of 2.7% over the 2020 total ordinary dividend.

Following the £100 million share buyback programme in 2021 and reflecting the strength of our capital position, we intend to commence a further share buyback programme of up to £100 million split into two tranches of up to £50 million each, the first in H1 and the second scheduled for H2.

After the proposed final dividend and £100 million share buyback programme, the estimated solvency capital ratio was 176% as at 31 December 2021. We have outstanding Tier 2 debt issued in 2012 with nominal value of £250 million which can first be called from 27 April 2022. Excluding this debt, the adjusted solvency ratio after the proposed final dividend and share buyback would be 160% which is in the middle of our stated risk appetite range of 140% to 180% of solvency capital requirement.

We have a track record of returning capital to shareholders, with £2.1 billion returned over the last five years, whilst also improving our capital structure with issues of Restricted Tier 1 and Tier 2 debt. Furthermore, over the last two Motor reinsurance renewals we have reduced the amount of excess of loss reinsurance purchased as increasing reinsurance prices has made it less effective economically. Looking forward, we have a strong balance sheet with further opportunities to reduce capital intensity and increase flexibility.

Board and leadership changes

There have been several changes in our Board and leadership teams since the time of our last Annual Report. In May, we announced that Tim Harris had decided to retire as Chief Financial Officer ("CFO") in order to prioritise supporting a family member who was undergoing medical treatment. On behalf of the Board and all our colleagues, I would like to thank Tim for the exceptional contribution he made as CFO since 2019 and to wish him and his family the very best. Following Tim's decision, Neil Manser (who had performed the role of Acting CFO since January 2021) was appointed as CFO on a permanent basis. Neil has a proven track record in the business, previously having held the roles of Chief Strategy Officer, Managing Director of our commercial business, NIG, and Director of Investor Relations. I am pleased that our strong internal talent pipeline and succession planning enabled a smooth transition of the finance leadership to such a high-calibre, capable candidate and am delighted by the invaluable contribution that Neil has already made to the Board during the year.

In November, we were also delighted to welcome Tracy Corrigan to the Board as a Non-Executive Director. Tracy's broad understanding of capital markets and the digital economy, and first-hand experience of driving digital transformation, cultural change and customer-focused innovation, has put her in a strong position to support the Board and our executive team in delivering our ambitious strategy.

There were also some exciting appointments to our Executive Committee. Promotion of internal talent resulted in the appointment of Jessie Burrows as Managing Director, Customer Sales, Service & Claims and Jazz Gakhil as Managing Director, Motor. In addition, Aurore Lecanon joined us as Chief Risk Officer and Ash Jokhoo as Chief Information Officer. These appointments strengthen our capabilities in the key areas of data, customer and technology and support our drive to increase the diversity of our workforce at all levels.

More information about leadership changes in 2021 can be found on page 96.

Sustainability and culture

Our vision is to create a world where insurance is personal, inclusive and a force for good. This means we want to do business in a way that benefits all our stakeholders and has a positive impact on society. We have lots of exciting and ambitious initiatives in place to help us achieve this, but just as importantly, we have a culture that places huge value on "doing the right thing" and encourages and empowers our people to do so. The Sustainability section of the Strategic report shows how we are embedding sustainability into our business with greater confidence, in a way that underpins our strategy and is reflected in the way we behave. In the Corporate Governance report, we show how the Board has engaged with our stakeholders, including our shareholders, and how it has adapted its own ways of working to support and sustain the Group's culture and connect with our wider management team.

Our customers

During the year, our strategic technology transformation delivered some material improvements to the way we interact with our customers. We successfully rolled out our new Motor platform to our biggest brands (Direct Line and Churchill) and we continued to find new opportunities for innovation, including an online customer claims portal, which enables digital claims management, and a new cloud-based telephony system in Green Flag, which enables enhanced customer service and more efficient claims handling.

2021 also saw us announce a new partnership with Motability, made possible by our investment in business and technology transformation, which has created the capability for us to be a service provider of scale. We will provide insurance and vehicle repairs to the Motability scheme, supporting its more than 640,000 customers. The scheme helps people with disabilities achieve greater independence by leasing a new car, scooter or powered wheelchair in exchange for their mobility allowance. This partnership aligns with our purpose of helping people carry on with their lives, giving them peace of mind now and in the future, and I look forward to seeing how Motability's customers can benefit from our investments in vehicle repair and customer service.

Planet

During 2021, we continued to make good progress in respect of the "planet" pillar of our sustainability strategy. Our Sustainability report and Climate Change Action report for 2021 are available on the Group's corporate website. Highlights during 2021 included joining the "Race to Zero" Campaign and the launch of our first electric vehicle bundle for new Direct Line customers. More information about these initiatives can be found on pages 70 to 75.

In this report we also publish our second Task Force on Climate-related Financial Disclosures report, which sets out the progress the Group has made in setting Science-Based Targets, which will strengthen our disclosures across Scope 1, Scope 2 and Scope 3 emissions.

Society

We aim to use our expertise to improve outcomes for society and the communities we serve. One of the key ways we see that we can make a positive impact on society is through promoting social mobility through the Opportunity Action Plan that we have launched in partnership with the Social Mobility Pledge. This year, we have looked to harness the benefits of remote working by targeting recruitment in social mobility cold spots and holding insight days for bright students from less-advantaged backgrounds. We have continued to use our Community Fund to prioritise social causes, including marginalised groups and loneliness, mental health and wellbeing and food poverty. More information on this work can be found on page 67.

People

In 2021 we continued to support our people through the pandemic and look for ways to support our colleagues' wellbeing and safety in the new hybrid working environment. Our flexible approach to remote working has proven valuable in enabling us to access a wider and more diverse talent pool. We have listened to our colleagues' views, expressed through our regular engagement surveys and our Employee Representative Body, and taken action where we have seen opportunities to make things better (see pages 64 and 111). We continued to show strong commitment to our diversity and inclusion agenda, publishing our first Black Inclusion report and committing that from 2022 we will voluntarily publish our ethnicity pay gap. We hope this transparency will lead us to understand better where to focus future diversity and inclusion initiatives, because we know there is always much more to do.

I would like to end my statement by thanking our people for their continued commitment and dedication to our business. It is through their hard work that we enter 2022 with a sustainable business, ready to compete under new pricing rules and poised to use our new data and technology capabilities to grow the business, deliver great outcomes for customers and achieve our purpose of helping people carry on with their lives, giving them peace of mind now and in the future.



DANUTA GRAY
Chair of the Board

Chair's statement *continued***Section 172(1) statement**

The Board of Direct Line Insurance Group plc ("**Direct Line**") confirms that during the year under review, it has acted in the way it considers would be most likely to promote the long-term success of the Company for the benefit of its members as a whole, whilst having regard to the matters set out in Section 172(1)(a)-(f) of the Companies Act 2006 ("**Section 172(1)**").

Purpose and Vision

The matters set out in Section 172(1) underpin Direct Line's purpose and vision and form the foundation for the Board's considerations and decision making. Our purpose – to help people carry on with their lives, giving them peace of mind now and in the future – is centred on customers and their long-term interests. Our vision – to create a world where insurance is personal, inclusive and a force for good – reflects our desire to do business in a way that benefits all stakeholders, the environment and wider society.

Stakeholders

Information on Direct Line's key stakeholders is set out in the Sustainability section of the Strategic report on the following pages: Customers, 58 to 60; People, 61 to 65; Society, 66 to 69 and Environmental, 70 to 75. The diagram on page 55 sets out factors that we have assessed as being important to our stakeholders.

Engagement

The Board recognises that our stakeholders have diverse and sometimes competing interests that need to be finely balanced, and that these interests need to be heard and understood in order for them to be effectively reflected in decision making. Information about how the Board has engaged with stakeholders during the year and outcomes of that engagement can be found on pages 109 to 110 in the table titled "How the Board engages with stakeholders".

Board decisions and oversight

Examples of how stakeholder engagement and Section 172(1) matters have influenced Board discussion and decision making during the year can be found in the table titled "Consideration of Section 172(1) factors by the Board" on page 108. The table covers a number of key topics including: the return of capital to shareholders; the future of Direct Line's workplace and culture; and the implementation of rules resulting from the FCA's Pricing Practices Review. The metrics and processes which the Board looks at to ensure that business practices and behaviours reflect the Company's culture, purposes and values, including the impact of decisions on key stakeholders, are set out under "Culture and purpose" on page 105. Information about Board oversight of environmental matters can be found on page 76 in the TCFD Report.

The below table sets out where key disclosures in respect of each of the Section 172(1) matters can be found.

| Section 172(1) factor | Relevant disclosures |
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| a the likely consequences of any decision in the long term | Innovating for the future (pages 1 to 13) Vision, purpose, strategic objectives (page 23) Consideration of Section 172(1) factors by the Board (page 108) |
| b the interests of the company's employees | Key Performance Indicators – Colleague engagement scores (page 31) Outcome of employee engagement surveys (page 65) Diversity and Inclusion (pages 61 to 64) Employee Representative Body (page 111) How the Board engages with stakeholders (pages 109 to 110) |
| c the need to foster the company's business relationships with suppliers, customers and others | Key Performance Indicators – NPS and customer complaints metrics (page 31) Supporting customers (pages 58 to 60) Supply Chain Sustainability Programme (page 82) How the Board engages with stakeholders (pages 109 to 110) |
| d the impact of the company's operations on the community and the environment | External ratings, memberships and benchmarks (page 57) Social Mobility Action Plan (page 67) Community Fund 2021 (page 68) Science-Based Targets setting (page 86) TCFD disclosures (pages 76 to 87) How the Board engages with stakeholders (pages 109 to 110) Sustainability Committee Report (pages 130 to 131) |
| e the desirability of the company maintaining a reputation for high standards of business conduct | Our values (page 62) Internal controls (pages 117 to 118) The role of the Board – Culture and Purpose (page 105) |
| f the need to act fairly between members of the company | Capital returns (page 14) How the Board engages with stakeholders (pages 109 to 110) Annual General Meeting (page 97) Shareholder voting rights (pages 161 to 162) |