Chair's introduction

Our Governance

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 2021. This report sets out how we have applied the principles of the UK Corporate Governance Code (the "Code") throughout the year. It provides information on changes to your Board of Directors and information about progress we have made in our corporate governance agenda, particularly in the areas of diversity and inclusion, stakeholder engagement and the environment.

Danuta Gray
Chair of the Board

Board changes and effectiveness

As I explained in my statement on page 18, during the year, Tim Harris decided to retire as an Executive Director and Chief Financial Officer ("**CFO**"). Neil Manser assumed the role of Acting CFO in January 2021, when Tim first took leave of absence, and in May, when Tim stood down from the Board, the Board appointed Neil to the position of CFO on a permanent basis, regarding him to be an excellent candidate for the reasons given in my statement and in the Nomination and Governance Committee Report.

As planned, Jane Hanson stepped down as an independent Non-Executive Director of the Board at our AGM in May 2021, having served a nine-year term. As Jane was Chair of our Board Risk Committee, we took the opportunity to refresh our Committee Chairships. Mark Gregory, independent Non-Executive Director, was appointed Chair of the Board Risk Committee, Richard Ward, Senior Independent Director, took over as Chair of the Remuneration Committee and Fiona McBain, independent Non-Executive Director became Chair of the Investment Committee. I believe these changes support our aim of ensuring fresh perspectives and challenge at our Committee meetings.

In November 2021, we welcomed Tracy Corrigan to the Board as an independent Non-Executive Director. The Board benefits from Tracy's experience in the media industry, spanning financial journalism, digital media and corporate strategy. More information on Tracy's recruitment can be found on page 128.

As reported last year, in January 2021, Adrian Joseph was appointed as an independent Non-Executive Director. Adrian has brought insight and challenge to our Board and Sustainability Committee discussions, as we benefit from his expertise in data analytics and Artificial Intelligence and his passion for promoting diversity and inclusion.

This year, the effectiveness of the Board was assessed through an internal evaluation that I conducted with assistance from our Company Secretary. On page 115 we have set out progress against the actions arising from last year's evaluation and new actions arising from this year's review. Key focus areas for 2022 include the alignment of the Board's rolling agenda with our prioritised Objectives and Key Results, seeking further opportunities for the Board to engage with the wider management team and workforce and the fresh medium- to long-term approach to Board and executive succession planning to be led by the Nomination and Governance Committee.

Stakeholders

Engagement with our stakeholders is one of the key ways we monitor our culture and ensure that their needs and priorities are taken into consideration when making our decisions. I held a number of meetings with some of our institutional shareholders to listen to their priorities and to discuss topical themes, including how we are already benefiting from investment in technology transformation and the resulting enhanced capability, and how we were preparing to comply with, and trade under, the FCA's new Pricing Practices Review regulations. Details about how the Board has engaged with all stakeholders during 2021 can be found on pages 109 and 110.

"Engagement with our stakeholders is one of the key ways we monitor our culture and ensure that their needs and priorities are taken into consideration when making our decisions."

Board members attended a number of Employee Representative Board meetings at which colleagues had the opportunity to share their thoughts on how we are doing as a business and what we can do better. I continue to be impressed by the level of insight and vision brought to these sessions by our colleagues, which include discussion on key strategic initiatives and how change programmes are affecting our people. Matters discussed at these sessions are fed back to the wider Board and help inform discussion and decision making. See pages 109 and 111 for more information.

Diversity

As you will have seen in the People section on page 61, diversity and inclusion remains high on our agenda and we have made some positive progress on this during the year, including the publication of our first Black Inclusion report and committing to voluntarily disclose our ethnicity pay gap from 2022. Whilst we are pleased to have met some key industry targets in respect of Board, Executive Committee and senior leadership diversity, particularly in respect of gender, we know we still have a lot to do to achieve similar results in our ethnic diversity ambition. Through our continued succession planning and focus on creating a strong and diverse internal pipeline, we aim to ensure diverse Board and senior management representation both now and in the future. More information on the Board's approach to diversity can be found on page 114.

Remuneration

2021 was the second year of operating under the Remuneration Policy that shareholders approved at our 2020 AGM. As you will see in our Remuneration Report on pages 134 to 159, the outcomes of our Long Term Incentive Plan ("**LTIP**") and Annual Incentive Plan ("**AIP**") reflect strong profitability and good progress on key strategic metrics in line with our pay for performance principles. Our AIP includes non-financial metrics which measure and reward executives and colleagues for progress in areas that reflect the culture of our business, including customer satisfaction, customer complaints, employee engagement and workforce diversity and inclusion, as well as key strategic objectives relating to growth, competitiveness and technology improvements. For 2022 onward, the Committee approved the introduction of an emissions-related metric for our LTIP, reflecting our commitment to embedding sustainability into our long-term thinking.

Audit

The introduction of accounting standard IFRS 17 represents a significant change to insurance accounting and our Audit Committee has been highly engaged in overseeing the implementation of this standard, receiving both regular updates and deep dive sessions to ensure that they have the necessary information and insight to support this important change. During the year the Audit Committee also oversaw the launch of an external audit tender process that will see us appointing a new auditor for the financial year commencing on 1 January 2024. More information about these activities can be found on page 121.

Sustainability

Sustainability is an integral part of our strategy and underpins much of our activity at Board level. Our Sustainability Committee oversees activity under the five pillars of our sustainability strategy and during the year had the important job of monitoring our progress towards achieving Science-Based Target validation status. Our Investment Committee has been highly focused on monitoring the greenhouse gas emissions intensity of our investment portfolios and considering how we can align investment activity with the transition to a low-carbon economy. Our Board Risk Committee reviewed our submission to the Bank of England's Climate Biennial Exploratory Scenario and our Climate Risk Management report which sets out management actions for managing climate risk. Our Audit Committee reviewed our Task Force on Climate-related Financial Disclosures report and, as I mentioned above, our Remuneration Committee introduced the use of a climate change-related metric for our LTIP. More information on all of these activities can be found in the respective Committee report pages.

Annual General Meeting

Our 2022 AGM will be held on Tuesday, 10 May 2022 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

Board of Directors

Danuta Gray
Chair of the Board

Appointed

Independent Non-Executive Director in February 2017
Chair of the Board since August 2020

Committees

N R

Key Skills and Experience:

- Extensive experience leading and transforming large, consumer-focused businesses.
- Deep understanding of governance and remuneration requirements affecting listed companies gained from previous Chair roles.
- Expertise in sales, marketing, and technology.

Danuta was Chair of Telefónica in Ireland until 2012 having previously been its Chief Executive between 2001 and 2010. During her tenure as Chief Executive she increased the customer base from just under 1 million to 1.7 million. Earlier in her career, Danuta held a variety of senior positions within the BT Group between 1984 and 2001. Additionally, Danuta has been Senior Independent Director of the Aldermore Group, Non-Executive Chair of St Modwen Properties and a Non-Executive member of the Ministry of Defence Board. She was also NED and Chair of the Remuneration Committee at both PageGroup plc and Old Mutual plc until 2018.

External Appointments

- Chair of the Board of North SP Limited.
- Non-Executive Director and Nomination and Remuneration committee member of Burberry Group plc.

Penny James
Chief Executive Officer

Appointed

Executive Director in November 2017
Chief Financial Officer in March 2018
Chief Executive Officer since May 2019

Committees

S

Key Skills and Experience:

- Deep knowledge of the financial services and insurance sector.
- Strong leadership skills with a focus on cultural and stakeholder alignment.
- Strategic mindset with proven track record in business transformation.

Penny has extensive financial services experience, having been Group Chief Risk Officer and Executive Director at Prudential plc, where she was responsible for leading risk oversight globally. Before this, Penny was Director of Group Finance at Prudential. She had previously been Group CFO at Omega Insurance Holdings Limited and CFO, UK General Insurance, at Zurich Financial Services. Penny was also a NED of Admiral Group plc from January 2015 to September 2017.

Penny is an Associate of the Institute of Chartered Accountants in England and Wales.

External Appointments

- Member of the Association of British Insurers Board.
- Chair of the FCA Practitioner Panel.
- Senior Independent Director and member of the Risk and Nomination Committees of Hargreaves Lansdown plc.

Neil Manser
Chief Financial Officer

Appointed

May 2021

Committees

I

Key Skills and Experience

- Strong background in financial and strategic leadership roles.
- Extensive corporate finance and capital markets knowledge.
- Deep understanding of the operation of strategy and culture in the insurance industry.

Neil was appointed as CFO in May 2021. Since he joined the Group in 2011, Neil has held several roles in Finance and Strategy from Director of Investor Relations, to Managing Director of NIG and Chief Strategy Officer. Neil was instrumental in the Group's successful IPO in 2012. He brings extensive industry and capital markets experience to the Board having previously worked at Brit Insurance, Merrill Lynch and Fox-Pitt, Kelton. Neil is an Associate of the Institute of Chartered Accountants in England and Wales.

External Appointments

- None.

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
- Chair of the Committee

Tracy Corrigan
Independent Non-Executive Director

Appointed

November 2021

Committees

S

Key Skills and Experience

- Deep understanding of the development of corporate and digital strategy.
- International experience with broad perspective of business and capital markets.
- Expertise in digital transformation, customer analytics and stakeholder communications.

Tracy's professional background spans financial journalism, digital media and corporate strategy in the media industry. Most recently Tracy was Chief Strategy Officer for Dow Jones where she oversaw the digital transformation of the business and was responsible for global strategy, customer insight and commercial policy. Earlier in her career, Tracy was Editor in Chief of The Wall Street Journal Europe and Digital Editor of The Wall Street Journal. She also held various positions at the Financial Times, including Editor of FT.com and Editor of the Lex Column.

External Appointments

- None.

Mark Gregory
Independent Non-Executive Director

Appointed

March 2018

Committees

R R I A

Key Skills and Experience

- Extensive experience in both life and general insurance.
- Deep understanding of capital markets.
- Strategically orientated with a detailed understanding of the retail sector.

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 & Wales.

External Appointments

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

Sebastian James
Independent Non-Executive Director

Appointed

August 2014

Committees

S N R

Key Skills and Experience

- Extensive experience in retail and consumer practice with large retail groups.
- Strong track record of business transformation and change.
- Detailed understanding of UK consumer markets, products and brands.

Sebastian is Managing Director of Boots UK, a subsidiary of Walgreens Boots Alliance, Inc. Until 2018, he 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, Sebastian was CEO of Synergy Insurance Services Limited, a private equity backed insurance company, and was previously Strategy Director at Mothercare plc. He began his career at The Boston Consulting Group.

External Appointments

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

Board of Directors *continued*

Adrian Joseph OBE
Independent Non-Executive Director

Appointed

January 2021

Committees

S

Key Skills and Experience

- Leading expertise in digital, data science and analytics.
- Track record of using data and AI to drive business transformation.
- Recognised Diversity and Inclusion leader and a passionate advocate on this topic.

Adrian is Managing Director, Group Data and Artificial Intelligence at BT Group. Before this he held senior roles at EY and Google and has significant industry and consultancy experience. He was a NED at the Home Office (2016-2020) where he sat on the Data Board advising on data science, digital transformation, and diversity and inclusion. A former Chair of the Race Equality Board, Adrian was appointed to the main Board of Business in the Community in 2014 and continues to act as an adviser to them. In 2019, Adrian was awarded an OBE for services to equality and diversity in business. In 2018, he was announced as the most influential black, Asian and minority ethnic technology leader in the UK by the Financial Times and Inclusive Boards.

External Appointments

- Member of HM Government's AI Council.
- Managing Director, Group Data and Artificial Intelligence at BT Group.

Fiona McBain
Independent Non-Executive Director

Appointed

September 2018

Committees

I A R

Key Skills and Experience

- Extensive global experience in retail financial services.
- Strong background in M&A and developing strategic partnerships.
- Expertise in audit having worked as an auditor and served as Audit Committee Chair of other listed companies.

Fiona's experience in retail financial services, both in the industry and as an auditor, was gained in the UK and the USA. Fiona qualified as an accountant early in her career at Arthur Young (now EY). 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. Fiona is an Associate of the Institute of Chartered Accountants in England & Wales.

External Appointments

- Chair of Audit Committee and Non-Executive Director of Currys 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
Independent Non-Executive Director

Appointed

March 2018

Committees

A R

Key Skills and Experience

- Strong audit background having worked as a partner in Ernst & Young's Financial Services practice.
- Extensive experience in the insurance and investment management industry.
- Deep knowledge and understanding of financial services regulation and practice.

Gregor worked at Ernst & Young for 23 years, 10 of which were as partner in the financial services practice. Between 2009 and 2012, he was Finance Director for the insurance division of Lloyd's Banking Group plc which included Scottish Widows. Gregor is a Member of the Institute of Chartered Accountants of Scotland.

External Appointments

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

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
- Chair of the Committee

Dr. Richard Ward
Senior Independent Director

Appointed

January 2016

Committees

R N R

Key Skills and Experience

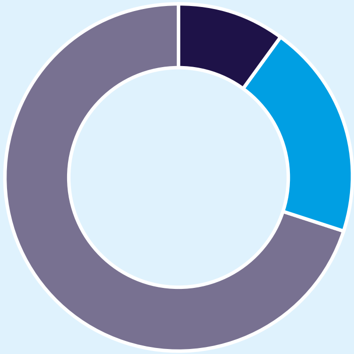
- Highly experienced financial services professional with expertise in dealing with complex stakeholder groups.
- Extensive knowledge of the insurance industry with deep insight into prudential regulation.
- Background of delivering business transformation and change in challenging circumstances.

Richard was previously Executive Chair of Ardonagh Specialty and was Chief Executive of Lloyd's of London and the International Petroleum Exchange. He also held the role of Non-Executive Chair at Brit Syndicates Limited and Executive Chair of Cunningham Lindsey. Richard also held NED roles at the Partnership Assurance Group plc and the London Clearing House. Earlier in his career he held a range of senior positions at British Petroleum and was a research scientist for the Science and Engineering Council. Richard has also been a member of the PwC Advisory Board, the PRA Practitioner Panel and of the Geneva Association.

External Appointments

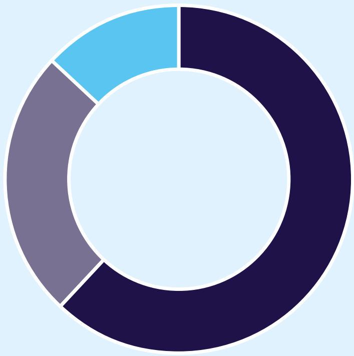
- Non-Executive Chair of CFC Group Limited.
- Non-Executive Chair of Mrald Limited.

Board independence



- **10%** Chair (1)
- **20%** Executive Directors (2)
- **70%** Independent Non-Executive Directors (7)

Chair and NED tenure



- **62%** 0-3 Years (5)
- **25%** 4-6 Years (2)
- **13%** 7-9 Years (1)

Board gender

- **40%** Women (4)
- **60%** Men (6)

Executive Committee

Penny James chairs the Executive Committee. In addition to Penny James and Neil Manser, the Committee comprises the following:

Jessie Burrows
Managing Director, Customer Sales, Service & Claims

Experience and Qualifications

Jessie joined Direct Line Group in 2016. She is responsible for all aspects of personal lines and commercial lines claims; customer sales and service; and the Group's counter-fraud activities. Her focus is very much about creating value for customers by providing them with an exceptional service and value for money, through controlling claims spend.

Prior to joining Direct Line Group, Jessie was at Aviva plc for 13 years, holding a number of senior Finance Director roles at both the Group and in the UK general Insurance business. Jessie joined Aviva from KPMG and is an associate Member of the Institute of Chartered Accountants in England and Wales.

External Appointments

– Non-Executive Director of The Motor Insurers' Bureau.
– Advisory Board member of the CII Society of Claims Professionals.

Mark Evans
Managing Director, Marketing & Digital

Experience and Qualifications

Mark joined Direct Line Group in 2012 and 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.

External Appointments

– Non-Executive Director of Learn Et Al

Jazz Gakhal
Managing Director, Motor

Experience and Qualifications

Jazz joined Direct Line Group in 2005. Before stepping into the Managing Director, Motor role she was Chief Strategy Officer, having previously been Managing Director of Direct Line for Business, leading the growth of the direct Commercial Insurance business.

Prior to this Jazz held roles leading the Pet Insurance portfolio, Head of Direct Line Home and across the Partnerships business. Before joining Direct Line Group, Jazz was a maths teacher.

External Appointments

– Non-Executive Director of Auto Trader Group Plc.

Kate Syred
Managing Director of Household, Partnerships, Data, Pricing and Underwriting

Experience and Qualifications

Kate joined Direct Line Group in 2000. She has over 20 years' experience of the insurance industry and 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

Experience and Qualifications

Humphrey joined the Group in 2011 and 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.

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.

Vicky Wallis
Chief People Officer

Experience and Qualifications

Vicky joined the Group in April 2020. She 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 CIPD qualified and holds a Master's degree in Organisational Leadership.

Jon Greenwood
Managing Director, Commercial

Experience and Qualifications

Jon joined the Group in 2000. He 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.

Jon 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, Jon held roles at HBOS, MBNA and Pinnacle.

Ash Jokhoo
Chief Information Officer

Experience and Qualifications

Ash joined the Group in 2021. He has over 20 years' experience of delivering technological transformation that underpins growth with a focus on the customer journey. He is passionate about technology and diversity.

Ash was previously CIO at Virgin Atlantic where he oversaw technology and data strategy. Prior to this he was UK & Ireland CIO at Centrica, British Gas and Bord Gáis. Additionally, he has 10 years' experience in Telecommunications, holding roles at TalkTalk, Tiscali and British Telecom.

Ash holds a degree in Engineering Product Design. He is a guest speaker and visiting lecturer at London South Bank University.

Aurore Lecanon
Chief Risk Officer

Experience and Qualifications

Aurore joined the Group in 2021. She has over 18 years' experience with global insurers and investment banks and has deep technical, market and commercial knowledge of the insurance and savings industry.

Before joining the Group, she held several Risk roles at M&G / Prudential including Chief Risk and Compliance Officer of Prudential International Assurance, Transformation Risk Director, and Financial Risk Director of the UK insurance business. Aurore was Head of Asset Liability Management at Old Mutual plc and worked in investment banking at Credit Suisse and Société Générale. She holds a Masters in Stochastic Mathematics and Financial Engineering from Princeton University and the University of Paris VI and is a graduate of the Ecole Polytechnique and the Ecole Nationale Superieure of Economics and Statistics in France.

ExCo Gender breakdown

55% Women (6)
45% Men (5)

Senior Management and Direct Reports Gender breakdown[1]

45.9% Women
54.1% Men

Notes:

1. Senior Management is defined as the Executive Committee, Company Secretary and direct reports (excluding administrative and support staff) as at 31 December 2021.

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 2021. 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 160 to 163.

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 and 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 and Accounts.

Board leadership and company purpose

The Board

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 134.

The role of the Board

Pages 112 and 113 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's responsibility are summarised in the following paragraphs, these are not intended to be an exhaustive list.

Leadership

The Board 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.

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.

Culture and purpose

The Board monitors culture and seeks to ensure that business practices and behaviours are aligned with the Company's culture, purpose and values. Below are examples of reports, metrics and activities which assist the Board in its ongoing monitoring and assessment:

- The Board closely monitors customer metrics including the Company's Net Promotor Score ("**NPS**") (which is an index that measures the willingness of customers to recommend products or services to others) and customer complaints data. These measures are important indicators of how Company actions affect customers.
- The Board closely monitors the Company's employee engagement survey results and workforce diversity statistics. It monitors the Company's gender pay gap and actions being taken to address this gap. Going forward it will also be monitoring the Company's ethnicity pay gap. These data points provide useful insight into the wellbeing of the workforce and the extent to which objectives around diversity and inclusion are being met.
- Board members regularly attend meetings of the Employee Representative Body ("**ERB**") in order to hear first-hand from colleagues about how strategic initiatives are working in the business. More information about the work of the ERB can be found on pages 109 and 111.
- The Board Risk Committee reviews issues raised via RightCall, the Group's independent and confidential whistleblowing telephone helpline. In doing so, it considers whether there are any trends in reporting that indicate behavioural or cultural issues in a particular area of the business.
- The Audit Committee receives regular reports from the Internal Audit function which include insights into culture and behaviour in the business.

Corporate Governance Report *continued*

Board meetings and activity in 2021

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 1 2 4 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; – reviewing broker reports on the Group, alongside feedback from investor meetings; – considering and approving the Group's share repurchase programme; and – declaring a 2020 final dividend of 14.7 pence and a 2021 interim dividend of 7.6 pence.
Risk management, regulatory and other related governance Strategic alignment 4 6	– Reviewing and agreeing the Group's policies; – setting risk appetite; – 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 1 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; and – approving the Company's Code of Business Conduct and conducting an annual review of the Group's governance framework.

In addition to its scheduled Board meetings, the Board held a number of ad hoc meetings to deal with urgent or arising matters and in June 2021, the Board held a strategy day to set and monitor progress against the Group's strategy and to discuss the Group's future opportunities.

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 and Committee meeting attendance

The Board and its Committees held a number of scheduled meetings in 2021 at which senior executives, external advisers and independent advisers were invited to attend and present on business developments and governance matters.

Only in exceptional circumstances did Directors not attend such Board and Committee meetings. In such circumstances, papers were circulated to all Directors before the meetings so that those unable to attend could raise issues and give comments to the Chair in advance of the meeting.

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 2021. 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.

Additional Board and Committee meetings were convened during the year to discuss ad hoc business development, governance and regulatory matters.

	Board	Audit Committee	Board Risk Committee	Sustainability Committee	Investment Committee	Nomination and Governance Committee	Remuneration Committee
Chair							
Danuta Gray	9 of 9	–	–	–	–	3 of 3	3 of 3
Senior Independent Director							
Richard Ward	9 of 9	–	5 of 5	–	–	3 of 3	3 of 3
Non-Executive Directors							
Tracy Corrigan[1]	2 of 2	–	–	1 of 1	–	–	–
Mark Gregory[2]	9 of 9	7 of 7	3 of 3	–	4 of 4	–	3 of 3
Jane Hanson[3]	4 of 4	4 of 4	2 of 2	1 of 1	2 of 2	–	–
Sebastian James	9 of 9	–	–	4 of 4	–	3 of 3	3 of 3
Adrian Joseph OBE[4]	8 of 9	–	–	3 of 4	–	–	–
Fiona McBain[5]	6 of 9	5 of 7	3 of 5	–	2 of 4	–	–
Gregor Stewart[6]	8 of 9	7 of 7	3 of 5	–	–	–	–
Executive Directors							
Penny James	9 of 9	–	–	4 of 4	–	–	–
Tim Harris[7]	–	–	–	–	–	–	–
Neil Manser[8]	5 of 5	–	–	–	2 of 2	–	–

Notes:

1. Tracy Corrigan joined the Board on 1 November 2021 and the Sustainability Committee on 4 November 2021.
2. Mark Gregory joined the Board Risk Committee on 13 May 2021.
3. Jane Hanson stepped down from the Board on 13 May 2021.
4. Adrian Joseph was unable to attend certain meetings due to illness.
5. Fiona McBain was unable to attend certain meetings due to a bereavement and illness.
6. Gregor Stewart was unable to attend certain meetings due to illness.
7. On 11 January 2021, Tim Harris took a leave of absence to support a family member who was undergoing medical treatment. On 13 May 2021, Tim retired as CFO.
8. Neil Manser joined the Board and the Investment Committee on 13 May 2021. He also attended Board and Investment Committee meetings during his time as Acting CFO.

Corporate Governance Report *continued*

Consideration of section 172(1) factors by the Board

The Group's section 172(1) statement can be found in the Strategic report on page 20.

The table below sets out how factors under section 172(1) of the Companies Act 2006 and engagement with stakeholders have fed into Board discussion and decision making on key topics. More information about Board engagement with stakeholders can be found in the table on pages 109 to 110.

Section 172(1)

The Board has a duty to act in the way it considers, in good faith, 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 (amongst other matters):

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

Topic		Section 172(1) considerations
The future of Direct Line's workplace and culture Following the fundamental change in our ways of working during the pandemic, the Board considered what this meant for the future of the DLG workplace and culture. They considered what office space would be required in the future, what this should be used for and how best to foster a culture of collaboration and flexibility whilst maintaining productivity. These considerations resulted in a decision to reduce the square footage of Group's office space, invest in repurposing remaining office space and move to a mixed model of home and office working.	b	Consultation with workforce on flexible working via surveys which showed a clear desire from colleagues to retain the flexibility to work from home where possible once social distancing had eased.
	a	Financial analysis and projections showing long-term cost benefits of reducing the property portfolio and undertaking work to repurpose existing office space.
	e	Security arrangements and policies to ensure the Company can continue to protect our customers, data and reputation in the home working environment.
	d	Predicted lower carbon emissions achieved through reduced travel and a smaller office footprint.
	b	The promotion of social mobility through access to a recruitment pool that is less geographically restricted and the promotion of gender equality through flexible working practices.
Return of capital to shareholders During the year the Board approved a distribution of surplus capital of up to £100 million by way of a share buyback programme. The Board also approved a final dividend of 14.7p per share in respect of 2020 and an interim dividend of 7.6p per share in respect of the first half of 2021.	f	Shareholder expectations set through the Group's published dividend policy and feedback received from shareholders as part of the Group's investor relations programme which expressed a preference for a return of capital via a share buyback over a special dividend.
	a c	The strength of the Group's capital position, taking into consideration regulatory and policy holder requirements and the long-term investment needs of the business.
	f b c d	The Company's initiatives to support staff, customers and local communities in times of hardship and the absence of reliance on Government support schemes during the pandemic supported the position that a return of capital to shareholders was not inequitable to the Company's other stakeholders.
Implementation of Pricing Practices Review rules During the year, the Board oversaw work being undertaken to ensure the business was ready to comply with new rules brought in for the pricing of home and motor insurance as a result of the FCA's Pricing Practices Review.	a	Monitoring the preparation of new pricing models, the objective of which is to seek to thrive under the new Pricing Practices Review rules in the long term.
	e	The need to ensure full compliance with new rules to maintain a reputation for high standards of business conduct.
	b	How additional work required to implement necessary changes within a short timescale was affecting colleagues and the Group's business priorities.
	c	How changes could drive positive outcomes for customers.
Delivery of the sustainability strategy The Sustainability Committee oversaw work to deliver against and develop the Company's sustainability strategy and embed sustainability at every level of the business.	d	Repositioning the Company's Community Fund to help 'left-behind' groups access financial services careers in support of the 'Society' pillar of the sustainability strategy.
	d	Reports of the Climate Executive Steering Group, which aims to align thinking across areas of the business which could be affected by climate change, under the 'Planet' pillar of the sustainability strategy.
	b	How the Company's first Black Inclusion Report could further the Company's diversity and inclusion strategy under the 'People' pillar of the sustainability strategy.
	c	How involvement in the 'Plain Numbers' social enterprise initiative supports fair outcomes for customers under the 'Customer' pillar of the sustainability strategy.

How the Board engages with stakeholders

The table below sets out how the Board has engaged with various stakeholders or received information about engagement with stakeholders throughout the year.

Stakeholder	Board engagement and oversight	
Our Shareholders	The Investor Relations team runs a comprehensive programme of engagement with a broad range of the Company's shareholders, which includes meetings with the Chair and Executive Directors, presentations and conference calls to discuss performance and strategy. The Chair of the Remuneration Committee also meets with shareholders when appropriate to discuss remuneration-related issues. During the year, the Executive Directors hosted investor insight webinars on the Group's claims strategy and the commercial business. During the year the Board also received presentations by its brokers on shareholder sentiment regarding the Group's strategy and performance. The AGM provides both institutional and retail shareholders with the opportunity to ask the Board questions either live or by submitting questions in advance. Due to restrictions in place as a result of Covid-19, in 2021 the Company held a hybrid/virtual AGM, which allowed shareholders to participate remotely and included the facility to ask questions via phone or webchat.	Feedback received from shareholders regarding a return of capital via a share buyback was considered in Board decision making on this matter (see page 108). In response to feedback from investors expressing a desire for more information about the Company's environmental activities, a dedicated sustainability hub on our corporate website was created during the year with the aim of making it easier to find key environmental content.
Our People	Non-Executive Directors periodically attend meetings of the Group's formal workforce advisory panel, the Employee Representative Body ("**ERB**"). These meetings are also attended by Executive Directors. Attendance and information on matters discussed at ERB meetings during the year and action taken in response to issues raised can be found on page 111. Executive Directors host interactive sessions with colleagues to understand their views and answer questions. These sessions have been adapted to accommodate the Group's new ways of working and held in various formats in order to encourage maximum participation in the virtual environment e.g. video conference town halls which include live Q&As and 'virtual cuppas' enabling colleagues to have a more informal discussion with senior managers.	The Board receives regular updates on people matters from the Chief People Officer and reviews the results and key outcomes of the Group's colleague engagement survey 'DiaLoGue'. More information about the outcomes of these surveys can be found on page 65. During the year, the CEO visited the Group's operations in Doncaster to discuss new ways of working with colleagues and to get a better understanding of how colleagues from different areas of the business were feeling. The CEO also undertook a number of virtual site visits where visiting in person was not possible due to Covid restrictions.

How the Board engages with stakeholders (continued)

Stakeholder	Board engagement and oversight	
Our Customers	The Board closely monitors customer conduct and satisfaction. It considers a Customer Conduct Report at each of its scheduled meetings, which includes data in respect of a number of customer experience metrics including Net Promoter Scores and customer complaints data relating to sales, service and claims. It also reviews data in respect of digital service interactions. During the year, the Board received detailed updates on the impact of various key strategic matters on customers including the implementation of the FCA's Pricing Practices Review regulations and the rollout of the Best For Customer technology platform.	As part of the CEO's ongoing programme of meeting and engaging with different areas of the business during the year, she visited the Company's contact centre in Doncaster. She spoke with customer-facing colleagues about customer engagement to learn about the challenges of supporting customers in the hybrid working environment. The Board are customers of the business themselves and therefore regularly experience the key touch points in the customer journey first hand.
Our Suppliers	The Board reviews and approves the Group's Ethical Code for Suppliers and Modern Slavery statement on an annual basis . The Code states that the Company encourages and welcomes feedback from suppliers on the Group as a customer and on how policies and procedures can be improved. This feedback can be given as part of regular review meetings with management. The Board receives regular updates on key issues with strategic suppliers. During the year, the Board received updates on the Group's Supply Chain Sustainability Programme which encourages suppliers to sign up to the Science-Based Targets initiative ("**SBTi**") and involved communication with suppliers about the Group's planned sourcing approach over the next 10 years.	The Group is a long-standing signatory of the Prompt Payment Code. Key performance indicators in respect of prompt payment are reported internally and there are mechanisms in place for any significant issues regarding prompt payment to be escalated to the Board.
Our Planet and Our Society	The Sustainability Committee is a key vehicle through which the Board receives updates on engagement with key community and environmental stakeholders. More information on the work of the Sustainability Committee can be found on pages 130 to 131.	The CEO was a member of the Build Back Better Business Council and represented the Company at various climate-related events during the year (including COP26) and fed back the outcomes of this engagement to the Board. Among the initiatives discussed by the Build Back Better Council was the Electric Vehicle Fleet Accelerator ("**EVFA**"), which brings together the CEOs of seven companies, including DLG, that own and operate some of the largest van fleets in the UK and companies involved with infrastructure, EV charging, retail and insurance and repair. EVFA companies have pledged to convert, and to support the conversion of, their van fleets to EVs by 2030.

Employee Representative Body

DLG has an established Employee Representative Body ("**ERB**"), meetings of which are attended by elected representatives from the different areas of the business, the CEO, the Chief People Officer and members of the senior leadership team. Non-Executive Directors also attend some meetings on a rotational basis. Output from the meetings attended by Directors is reported to the full Board so they can consider relevant colleague views in their decision making.

The Board considers that this arrangement fulfils the recommendation under Provision 5 of the Code to provide a mechanism for engaging with the workforce, being an enhanced version of the "formal workforce advisory panel" method referred to in Provision 5. The Board considers this arrangement to be highly effective as it provides a formal framework through which a wide variety of views can be represented and provides colleagues the opportunity to express these views directly to both Executive and Non-Executive Directors. It also means Director attendance can be tailored so that colleagues can engage with the most appropriate Board member on a particular topic. For example, during the year, the Chair of the Remuneration Committee attended the meeting at which workforce pay was discussed. The Board will continue to keep the effectiveness of this arrangement under review and seek the views of the ERB on this in the coming year.

Information about Board representation at ERB meetings, topics discussed and outcomes of this engagement is summarised below:

Meeting	Board Representation	Key Topics	Outcomes in response to feedback received
March	Penny James (CEO)	– CEO update on business and strategic projects. – DiaLoGue survey results. – The future of Direct Line's workplace and culture including mixed model home and office working.	– Post-Covid Repair Centre shift arrangements reviewed, to ensure safe working arrangements are balanced with individual wellbeing.
June	Penny James (CEO)	– CEO update on business and strategic projects. – Implementation of the Pricing Practices Review. – DiaLoGue survey results. – DLG's People strategy focusing on: skills needed for the future; culture; wellbeing; diversity and inclusion.	– New employee communication channels piloted to ensure effective information flow under new ways of working.
September	Penny James (CEO) Danuta Gray (Chair of the Board) Mark Gregory (Non-Executive Director)	– CEO update on business and strategic projects. – Role of the Non-Executive Director. – Discussion with NEDs on: change programmes; Pricing Practices Review; and the impact of the pandemic. – How mixed model working is bedding in. – Strategy for growing and developing People.	– Focus given to providing greater transparency for promotion opportunities. – Prioritisation exercise to ease pressure on certain areas of the organisation. – DiaLoGue survey moved from monthly to quarterly in response to concerns about survey fatigue affecting response rates.
December	Penny James (CEO) Richard Ward (Remuneration Committee Chair)	– CEO update on business and strategic projects. – CEO presentation on strategic direction of DLG for 2022 and beyond. – Implementation of Pricing Practices Review. – DiaLoGue survey results. – Executive Remuneration. – All-employee pay review.	– Approach to all-employee pay review revisited. – Additional wellbeing support targeted to certain areas of the business.

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 89.

The Group's governance framework is detailed in the Group's High-Level Control and System of Governance Framework document. This document also 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:

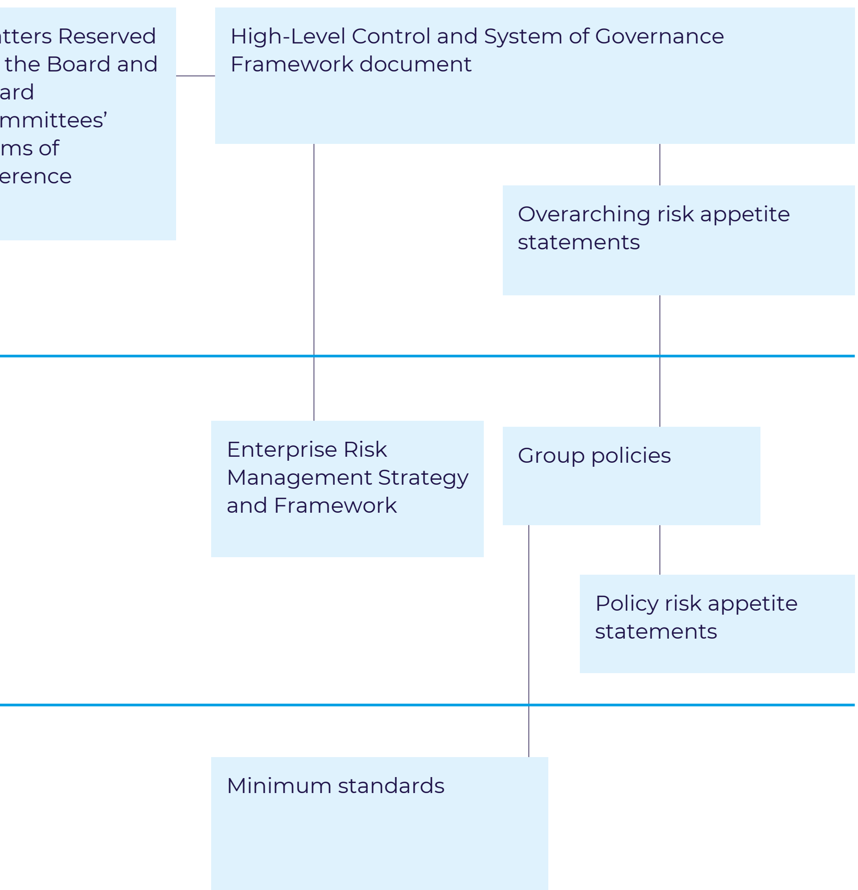
- Matters Reserved for the Board and the Board Committees' terms of reference;
- High-Level Control and System of Governance Framework document;
- Risk appetite statements, which are described on page 89;
- Enterprise Risk Management Strategy and Framework, which is described on page 89;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business on 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.

The Board approves
The High-Level Control and System of Governance Framework, overarching risk appetite statements and Group policies following review by the Board Risk Committee.

The Board Risk Committee approves
The Risk Management Framework and the policy risk appetite statements, following review by the Risk Management Committee (a committee comprised of executives).

Policy owner approves
Minimum standards, subject to non-objection from the Risk Management Committee.



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 2021, 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 and Accounts. The terms of reference for each Committee can be found on the corporate website at: www.directlinegroup.co.uk/en/who-we-are/leadership/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 98 to 101.

Board Committees
Full details of membership, responsibilities and activity of each Committee throughout the year can be found on pages 119 to 136.

Audit Committee

Investment Committee

Remuneration Committee

Board Risk Committee

Nomination and Governance Committee

Sustainability Committee

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 102 to 103.

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 areas and functions

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

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.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 98 to 101. Full details of dates Directors who have served throughout the year can be found on page 160.

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 127 to 129.

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 of 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 included competition law, 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, including:

- Claims strategy;
- DLG Auto Services;
- Technology transformation;
- Expense management;
- DLG Vision;
- Electric vehicles;
- Data ethics and governance;
- Megatrends;
- Price Comparison Websites; and
- Pricing strategy.

Non-Executive Director ("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 2022 AGM. You can find out more about the activities of the Nomination and Governance Committee's work during the year on pages 127 to 129.

Information and support

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

Board's approach to diversity and inclusion

The UK Corporate Governance Code promotes, and the Board supports, diversity of gender, social and ethnic backgrounds, cognitive and personal strengths in Board and senior management appointments.

During the year the Company made progress in improving the gender and ethnic diversity of its Board, Executive Committee and workforce as a whole. More information on this and statistics in respect of diversity can be found on page 64 of the Strategic report and pages 101 and 103 of the Corporate Governance report.

The Company has met or exceeded key external targets including the Hampton-Alexander Review's target to have 33% representation of women on FTSE 350 Boards, Executive Committees and their direct reports by 2020; and the Parker Review's target to have at least one director from an ethnic minority background by 2024. The Group, having achieved its Women in Finance Charter target to have 30% of women in senior finance positions by 2019, has increased this target to 35% by the end of 2022.

Senior management succession planning

The Board recognises that in order to maintain and improve on diversity levels, it must ensure that senior management succession planning is focused on promoting diverse leadership and that workforce diversity is achieved at all levels in order to secure a diverse pipeline of talent. During the year, the Board has overseen succession planning that has driven deeper into the organisation to identify talent.

In order to put further focus on diversity in succession planning, the Company's Annual Incentive Plan includes targets for Executive Directors, the Executive Committee and senior management in respect of improving gender and ethnic diversity of the workforce in the context of leadership succession planning (more information on this can be found on page 143 of the Remuneration report).

External directorships

During the year, Penny James, CEO, joined the Board of Hargreaves Lansdown plc as Senior Independent Director and a member of its Nomination and Risk Committees. Before Penny accepted the appointment, the Board reviewed the time commitment likely to be required for the role. The Board was satisfied that the time commitment would not affect Penny's ability to carry out her role as CEO and that she and the Board would be likely to benefit from the additional external perspective to be gained. The Board therefore approved the appointment.

The Board also reviewed and approved, in advance, Mark Gregory's appointment as a Non-Executive Director of Entain plc, Danuta Gray's appointment as Non-Executive Director of Burberry Group plc and North SP Limited, and Richard Ward's appointment as Non-Executive Director of CFC Group Limited. Again, the Board was satisfied that, in taking on the new positions, Mark, Danuta and Richard would continue to have sufficient time to dedicate to their roles with the Group.

Board appointments

The Board has in place a Board Diversity Policy which is reviewed annually and can be found on the Group's website. The policy sets out the key principles to be followed in respect of the Board appointment process. When using executive search firms, the Board will only engage those who are signatories to the Voluntary Code of Conduct for Executive Search Firms, which aims to promote diversity in the executive search process. More information on the Board appointment process can be found in the Nomination and Governance Committee report on pages 127 to 129.

Workforce diversity and inclusion

The Board continues to support Group-wide diversity and inclusion activities and initiatives, many of which are outlined on pages 61 to 64. This includes the work of Company's Diversity Network Alliance ("**DNA**") which champions diversity and inclusion in the Group through its 'DNA strands': REACH; Belief; LGBT+; Life (working families and carers); Neurodiversity and Disability; Social Mobility; and Thrive (gender). More information about the work of the DNA during the year can be found on page 62.

Board skills, experience and knowledge

The Nomination and Governance Committee has an active and dynamic process of assessing and monitoring the skill set, experience and knowledge of Board members. The principles of the UK Corporate Governance 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.

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 2021 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 2021 evaluation focused on both the preservation of the strengths identified in the 2020 and earlier evaluations, and on themes for sustaining effectiveness suggested in 2019 by Professor Robert Goffee, who was the external facilitator for the evaluation that year, 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.

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) and provided constructive feedback to the Chair. No Director was involved in the review of their own individual 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 2020 review, as summarised in the table below. Suggestions for utilising the Independent Non-Executive Directors' experience, strengthening the Board's agenda and information flow, and engaging with external experts, were addressed during the year.

Focus areas from the 2020 review	Action taken during 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.	Due to continuing pandemic-related restrictions and the Group's adoption of a hybrid (remote and site-based) working model, a number of virtual deep-dive sessions were held during the year, in the context of which the Board was able to interact with the wider management team.
The Board's agenda and information flow The sequence of strategic topics on the Board's agenda should be aligned with the executive programme, to allow for deeper and more regular strategic discussion.	The Board's agenda was more effectively aligned with the executive programme, which enhanced the quality of the Board's strategic discussion and its ability to provide timely insight and support.
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.	During the year, the Board received regular updates from brokers and, at the Board's annual strategy day in June 2021, external speakers from a range of backgrounds presented on key topics including: megatrends, technology platforms and electric vehicles.

Focus areas from the 2021 review	Proposed action for 2022
Strategic topics	The Board proposes to align its agenda during 2022 with the Group's prioritised Objectives and Key Results and to include thematic debates including: people, culture and the talent pipeline; growth and innovation; sustainability; and delivering the benefits of investment in technology.
Engaging more effectively with the wider executive team	Opportunities will continue to be sought for the Board to engage with the wider management team and workforce, both in and around Board and Committee meetings and, as sites reopen, locally and in the context of divisional town hall sessions.
Preserving and refreshing skills and experience in future Board composition	The Nomination and Governance Committee will take a medium- to long-term view of pipeline development and succession planning, seeking to define the combination of Non-Executive Directors' experience, expertise, diversity and functional role fulfilment required to address future challenges and opportunities faced by the business.

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 and 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 94 and page 162;
– the Board's 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 Audit Committee report which starts on page 119.

Responsibility for preparing the Annual Report and Accounts

The Board's objective is to give shareholders a fair, balanced and understandable assessment of the Group's position, performance, 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 163. The Group's External Auditor explains its responsibilities on page 173.

The Directors confirm that they consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information that shareholders need to assess the Group's position, 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 and 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 and Accounts;
– the Company's Disclosure Committee reviewed an advanced draft of the Annual Report and Accounts; and
– the Audit Committee reviewed the substantially final draft of the Annual Report and 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 91 to 92.

This determination 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 greater based on a 1-in-200 year likelihood period. The quantifications are produced through stress and scenario analysis, and our 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, with the assistance of the Board Risk Committee and the Audit Committee, and support from the Risk and Group Audit functions 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 Risk function annually produces an Internal Risk and Control Assessment Statement to support the Board in monitoring the effectiveness of the Group's risk management and internal control systems. Each function completes a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attests to the status of the effectiveness of the risk management and internal control systems. The Risk function reviews and challenges these findings and the Group Audit function provides an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The overall findings are combined into a Group-level assessment.

The 2021 Internal Risk and Control Assessment process did not identify any material control weaknesses; however, it did identify areas where further enhancements could be made to the Group's risk and control environment. Actions being taken in these areas of enhancement include: ongoing activities related to the Group's technology, information and system security, change and resilience controls; and the significant programme of activity of designing and embedding controls in relation to the delivery of the FCA's Pricing Practices remedies.

Corporate Governance Report *continued*

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. Group Audit's 2021 annual assessment of the risk management, governance and control environment did not identify any matters that conflict with the 2021 Internal Risk and Control Assessment Statement.

On behalf of the Board, the Board Risk Committee reviewed the 2021 Internal Risk and Control Assessment Statement and was satisfied with the conclusion that the Group's risk management systems were fit for purpose for managing all material risks and that its internal control systems were effective for managing all key controls, including financial, operational and compliance controls. The Board Risk Committee also 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.

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.

The Board confirms that there is an ongoing process for assessing the Company's risk management and internal control systems and identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report. The Board takes the view that, on the basis of the assessment carried out in and in respect of 2021, it would be reasonable to conclude that the Group's risk management and internal control systems are effective. 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.

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.

In his report on pages 134 to 159, 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 139.

Audit Committee Report

Areas of focus in the reporting period

- Financial reporting: reviewing and challenging the key accounting and actuarial estimates and judgements made by management to support the financial statements.
- Insurance reserves: reviewing the Group's insurance reserves to obtain assurance that they remain appropriate for discharging expected liabilities.
- IFRS 17 implementation under the Actuarial and Finance Transformation programme.
- Reviewed and challenged the Group's second Task Force on Climate-related Financial Disclosures Report.
- Overseeing the beginning of the external audit tender process.

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.

The Committee Chair, Gregor Stewart, is a member of the Institute of Chartered Accountants of Scotland. Fiona McBain and Mark Gregory are members of the Institute of Chartered Accountants in England and Wales.

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 various matters including IFRS 17 and the Actuarial Financial Transformation programme.

Main activities during the year

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

Financial reporting

The Committee followed a review process before recommending the Annual Report and 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 120. In the context of the Covid-19 pandemic, the Committee reviewed in detail the impact on the Group's financial performance, in particular on the level of Motor claims frequency, the development of prior-year reserves and specific areas of critical accounting estimates and judgements including on investment asset valuations.

In addition, the Committee considered the Group's use of alternative performance measures in explaining its financial performance.

Gregor Stewart
Chair of the Audit Committee

Committee membership[1]

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

Committee meeting attendance can be found on page 107.

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 climate-related financial disclosures

Note:

1. Jane Hanson was a member of this Committee until she retired from the Board on 13 May 2021.

The Committee reviewed papers prepared by management on the use of alternative performance measures in the financial statements and was satisfied that an explanation of both the alternative performance measure and why it was used was clearly communicated to users of the financial statements. Furthermore, the Committee also considered the estimates and judgements used to prepare the Group's capital position under Solvency II, including focusing on the level of technical provisions held. Specific matters considered included judgements made in respect of events not in data, and the risk margin. The Committee reviewed the Group's Solvency and Financial Condition Report and Regular Supervisory Reports and the quantitative reporting templates on behalf of the Board before submission to the PRA, and concluded that the processes to produce and review the Group's regulatory reports had operated satisfactorily.

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. During the year, inflation risks were discussed in detail, taking account of the end of the Brexit transition period, the continuing impact of Covid-19, supply chain constraints, as well as care cost, parts and general labour inflation affecting different lines of business. The Actuarial Director presented scenario analyses for various inflationary drivers, supporting the booking of the claims reserves. The impact on investments and pricing were also considered with comprehensive asset liability matching. 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 Committee by PricewaterhouseCoopers LLP ("**PwC**").

IFRS 17 implementation under the Actuarial and Finance Transformation programme

During the year, the Committee was highly engaged in overseeing the Group's Actuarial and Financial Transformation programme. The programme is charged with the design and implementation of the changes required to be made to accounting and reserving processes and systems to ensure compliance with the new reporting standard IFRS 17. The Committee: reviewed and approved key design decisions underpinning the proposed solution; monitored the build of systems against key milestones; reviewed assurance updates in respect of the progress of the programme from Group Audit; and approved and monitored resourcing and budgetary requirements. The Committee held deep-dive training sessions on: the requirements of IFRS 17; accounting policy choices under IFRS 17; and changes to the reserving process as a result of the programme.

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 41 to 42.	In 2021, the Committee reviewed and challenged the approach, methodology and key assumptions used by management in setting the level of insurance reserves, and monitored developing trends that could have a material impact on them. On an ongoing basis it received updates from the Actuarial Director on how actual claims experience compared to expectations. Particular points of discussion in 2021 were the changes in frequency and severity trends due to Covid-19, care cost and damage claims inflation, as well as the impact of the Whiplash reform. The Committee also obtained insight and reviewed results from an independent actuarial review of the reserves. The Committee was satisfied that management had exercised appropriate control and judgement in estimating insurance liabilities.
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. 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 2021, 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. The Committee concluded that the carrying values in the accounts were reasonably stated.

TCFD Report

The Committee reviewed the TCFD Report on behalf of the Board as part of its review of the Annual Report and Accounts. The TCFD Report can be found on page 76.

Going concern, viability and fair, balanced and understandable

The Committee considered the going concern assumptions and viability statement in the 2021 Annual Report and 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 and Accounts taken as a whole were fair, balanced and understandable and provided sufficient information to enable the reader to assess the Group's position, performance, business model and strategy.

When considering the 2021 Annual Report and Accounts, the Committee considered the significant judgements and issues which could be material to the financial statements. These included the matters set out in the table on page 120. 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 94.

Internal control

During the year, the Committee reviewed the adequacy and effectiveness of the controls that underpin the Group's financial reporting control framework which 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 2021, the Committee received regular reports on any control deficiencies, compensating controls and the mitigating actions taken by management. There were no material control issues reported to the Committee in the year. The Committee also considered management's processes and controls for identifying and responding to the risk of fraud. The Committee noted that there were no fraud-related events or actions to suggest that fraud might have a material impact on the financial statements. The Committee also monitored management's responses to the control insights and observations raised by the External Auditor in its annual management letter during the year, and were satisfied that management was taking appropriate and timely action to resolve the issues raised.

Group Audit

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

During the year the Committee oversaw key developments in the Group Audit function, including the adoption of a new structure to provide clearer stakeholder alignment and enable more dynamic audit delivery which has led to improved productivity. Group Audit also established a Centre of Expertise to enable and drive the delivery of Group Audit's continuous improvement activities in conjunction with their external performance partner, PwC. PwC continued to provide independent quality assurance activity and reported to the Committee on a regular basis.

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. Group Audit performed continuous oversight of the change portfolio and completed a number of reviews of major programmes during the year. The Committee approved Group Audit's plan on a rolling quarterly basis and confirmed the audit plan coverage on an annual basis. The Committee received quarterly reports detailing internal audit activity, key findings, management responses, and proposed action plans. There were no significant failings or weaknesses reported to the Committee in the year.

Following assessment by the Committee during the year, it was concluded that the Group Audit function was effective. The Committee approved the Group Audit Charter, which is reviewed annually.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2021 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the reporting period the External Auditor and Group Head of Audit met privately with the Audit Committee, in the absence of management. The Chair of the Committee reported on matters dealt with at each Committee meeting to the subsequent Board meeting.

During the year, the FRC carried out a review of the Group's report and accounts for the year ended 31 December 2020. No substantive questions or queries were raised as a result of the review. It is noted that the FRC's review was limited to considering compliance with reporting requirements and it is not the FRC's role to verify the information provided.

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 work of the External Auditor and agreeing the audit fee, as well as approving the scope of the External Auditor's annual plan.

To ensure the continuing independence of Deloitte as External Auditor, and in compliance with the Group's minimum standard on independence of the External Auditor, this year Adam Addis, ACA, took over as lead partner for the 2021 audit.

External Auditor tenure

The Committee is responsible for conducting the external audit tender process. During 2021, it discussed the options for tendering the external audit contract. Under the reforms of the audit market by the Competition and Markets Authority, Deloitte could 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 relevant legislation, the firm may not re-engage for the audit after 17 June 2023.

Audit Committee Report *continued*

When considering the timing of the external audit tender and what would be in the best interests of shareholders, the Committee took into account relevant regulation, the Group's change programmes, the implementation of IFRS 17 and the objective of securing the participation of a broad range of firms in the tender. The Committee concluded that the most appropriate timing would be to undertake an initial request for information from audit firms in the fourth quarter of 2021, before moving to a formal competitive tender process in the second quarter of 2022, with a view to appointing the successful firm for the audit of the financial year commencing 1 January 2024. The Committee has initiated the request for information to potential audit firms, ensuring that firms outside the 'Big 4' audit firms were included in the invitation to participate, based on their general insurance industry capability and experience. It will continue to lead the process with the intention of making a recommendation to the Board later in 2022.

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 services by the External Auditor. The minimum standard is compliant with the Financial Reporting Council's review of its Ethical Standard for Auditors which was published in December 2019.

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 £0.3 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 2021.

	Fees £m	Proportion %
Audit fees	2.1	83
Audit-related assurance services	0.2	7
Non-audit services	0.3	10
Total fees for audit and other services	**2.6**	**100**

Audit-related assurance services were in respect of the Group's Solvency II reporting and the review of the Half Year Report 2021 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 ended during the year. To guard against any independence issues, appropriate safeguards were discussed and agreed by the Committee and Deloitte. 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 2021, the Committee conducted its annual review of the External Auditor's effectiveness. 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 2022 AGM.

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, provides the right degree of challenge, and interacts well with other Committees and the Board. Further information on the Board effectiveness review can be found on pages 115 to 116.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's terms of reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 7 March 2022.

Gregor Stewart
Chair of the Audit Committee

Board Risk Committee Report

Areas of focus in the reporting period

- Reviewed and challenged compliance with the FCA's new Pricing Practice Review rules.
- Challenged and supported the Group's approach to fair pricing and outcomes for all of our customers, including those that are vulnerable.
- Oversaw change risk arising from the Group's multi-year transformation programmes.
- Examined and monitored the embedding of climate-related financial risk management.
- Monitored progress on our operational resilience programme.

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

Customer and conduct

Customer and conduct risks are a principal focus of the Committee. The Committee devotes significant time to challenging and supporting management on its approach to managing these risks and seeking assurance that fair pricing and outcomes are being achieved for customers across all Direct Line Group products. In addition, the Group has a management-level Customer Conduct Committee which reviews, challenges and oversees customer and conduct matters across the business. The Customer Conduct Committee's findings and any recommendations for improvement are regularly reported both to the Board and the Committee.

The Committee received reports on the actions taken during the year to support vulnerable customers. The Committee challenged management on the Group's vulnerable customer strategy to ensure that: regulatory expectations were being met; the work that had been undertaken to define, identify and understand vulnerable customers was sufficient; and appropriate and timely vulnerable customer training was being provided to our customer facing and support staff.

In respect of the Pricing Practices Review, the Committee received assurance reports from management at each of its meetings throughout the year to ensure that customer and conduct risks were being carefully managed and mitigated and that the Group was in a position to deliver the intended customer outcomes. Focus was also given to the ability of the Group to trade effectively following the implementation of Pricing Practices Review requirements.

In addition, the Committee reviewed the Group's annual pricing report, pricing strategy and pricing governance and control framework. The Committee also received updates and challenged management on the data ethics framework which had been deployed for the Group, and on the activities undertaken to complete and embed the framework into governance and business processes.

Mark Gregory
Chair of the Board Risk Committee

Committee membership[1]

- **Mark Gregory** – appointed as Chair on 13 May 2021
  Committee 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 107.

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
- 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

Note:

1. Jane Hanson was Chair of this Committee until she retired from the Board on 13 May 2021.

Board Risk Committee Report *continued*

Compliance and regulatory risk

During the year, the Committee regularly received reports on the Group's interpretation of and compliance with the new Pricing Practices Review rules. The Committee sought assurance that management: was on track and had adequate resource to meet the challenging regulatory deadlines; had developed robust and reasonable rule interpretations; and had managed regulatory risks appropriately.

During the year, the Committee considered the Group's compliance with other regulatory requirements including those relating to conduct and financial crime. The Committee approved the annual Compliance Plan which sets out compliance activities to be undertaken in the coming year, with a view to ensuring compliance with regulation, 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 2021. 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.

Operational risk

During the year, through receipt of regular operational resilience programme 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, systems and processes for identifying important business services. Committee members also attended a deep-dive session on the Group's operational resilience self-assessment, important business services and impact tolerances.

The Committee supported the significant progress that management has made in completing the majority of the Group's transformation agenda to deliver greater technology and data capability across the business and further embed sustainable outcomes. The Committee reviewed and challenged summaries from management on the transitioning and embedding of new systems into business operations and the development of the Group's remaining technological transformation releases. The Risk function also provided updates to the Committee on its assurance activity, which included reviewing and challenging programme plans and processes to ensure the safe delivery of new systems and the mitigation of customer impacts. In addition, third-party assurance was provided to the Committee by Deloitte, who had been engaged to conduct a deep-dive review on technical readiness for business volume increases and programme closedown. KPMG also carried out a readiness assessment which was presented to the Board and Committee.

Through receipt of a cyber risk update, the Committee challenged management on the lessons learned from a real-world highly sophisticated supply chain attack on another organisation during the year and sought assurance that Direct Line Group had appropriate technical expertise and mitigating controls and actions in place to respond and recover in the event of a ransomware incident . The Committee also probed to ensure that management was satisfied with its approach to managing cyber risk in relation to home working arrangements.

Financial risk

During the year, through a technical briefing and regular climate-related updates, the Committee examined and monitored management on its progress to embed climate-related financial risk management in the business. The Committee reviewed and challenged updates on key deliverables such as the completion of the Bank of England Climate Biennial Exploratory Scenarios ("**CBES**") and the full implementation of the PRA's supervisory statement requirements relating to climate change. The Committee reviewed the Climate Risk Management Report, which included the Group's climate change strategy and the CBES model results, and approaches to evolving the strategy through management actions. Further details on the risks due to climate change faced by the Group can be found on pages 84 to 85 and 93.

At each meeting, the Committee monitored the Group's performance against its capital risk appetite through the CRO's report. Committee members also reviewed and challenged the 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, the prioritisation of change resource and activities to deliver the strategic plan, pricing and underwriting risk, internal model validation activity and the appropriateness of contingent management actions.

The Committee monitored and challenged the stress and scenario testing plan with a particular focus on areas of uncertainty such as further lockdown periods leading to continued global disruption and customer behaviour changes, the potential economic implications resulting from the end of the furlough scheme and adverse Brexit consequences. In addition, the Committee reviewed the potential contingent management actions which management could consider taking in times of stress to restore the Group's capital strength to within an acceptable risk appetite range. Further details on the risks due to climate change faced by the Group can be found on pages 84 to 85 and 93.

The Committee regularly reviewed and challenged reports on our internal model for determining regulatory capital requirements in the year, including model changes and future management actions assumed by our internal model such as continuing to buy reinsurance, selling downgraded bonds and hedging of currency risks. The Committee also reviewed the independent validation results which outlined the scope of our internal capital model, key outputs, risk drivers, significant parameters, expert judgements and key assumptions. In addition, the Committee reviewed the internal model owners' report with a particular focus on the model insights relating to sources of profit.

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 summarised the outputs of regular risk monitoring and details of specific risk matters. Areas that the Committee focused on in particular included Covid-19 impacts and risks, financial impacts and risks of the FCA's Pricing Practices Review, motor market trading challenges, Brexit uncertainties, climate change, strategic plan key assumption and dependencies, cyber risk, lessons learned from the technology transformation, key ongoing regulatory developments and interactions and the Group's current and forward-looking solvency position.

The Committee received regular reports regarding our 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 Group's 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. Further detail on the outcome of these assessments can be found on page 117.

Principal and emerging risks

The Committee assessed the principal risks facing the Group, which are listed on pages 91 and 92, 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 Committee meeting.

The Committee assessed the Group's emerging risks. It challenged management on the identification of all possible significant emerging risks during the year and on the Risk function's role in ensuring that such emerging risks were being monitored and managed appropriately. The most notable emerging risks identified included those relating to climate change, ethical use of data and global financial instability.

Further details regarding such risks can be found on pages 91 to 93.

Whistleblowing

As delegated by the Board, the Committee routinely reviews 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. As Committee Chair, I am responsible for oversight of the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment. During the period, the Committee 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.

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 to ensure that employees act responsibly and ethically at all times when conducting business.

The Committee considered the Group's actions to prevent financial crime through its review of the annual financial crime report and recognised the additional monitoring controls that had been implemented to manage remote working fraud risk. 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. 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.

Board Risk Committee Report *continued*

Appointment of new CRO
Following Jose Vazquez's decision to retire as CRO, a search was launched by management, who appointed Rice Search Partners to assist in the search for his successor. Members of the Committee were invited to interview shortlisted candidates and supported management's choice to appoint Aurore Lecanon as CRO to succeed Jose. Aurore was previously Chief Risk and Compliance Officer of Prudential International Assurance and her DLG appointment was effective from 2 December 2021.

Risk governance
During the reporting period, the Committee received assurance from management on the process for policy review and reviewed material changes to 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 as appropriate. The Committee considered, challenged and approved the annual Risk Operational Plan which set out the Risk function's priorities aligned to the strategic plan.

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2021 it received sufficient, reliable and timely information to perform its responsibilities effectively. In addition to one-to-one meetings with the Chair, the Chief Risk Officer also met privately with the Committee without the Executive Directors. 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 by the Chair of the Board as part of the wider review of the Board and the Board Committees. The review found that the Committee's agenda was well-aligned with the Group's strategic priorities and that the Committee Chair transition had been managed seamlessly. Further information on the Board effectiveness review can be found on pages 115 to 116.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's terms of reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 7 March 2022.

Mark Gregory
Chair of the Board Risk Committee

Nomination and Governance Committee Report

Areas of focus in the reporting period

- Oversaw the appointment of the new CFO.
- Reviewed the skills and experience needed by the Board and its Committees to oversee the Group's strategy and led the search for a new Non-Executive Director.
- Monitored progress on executive succession planning, both for members of the Executive Committee and for the Senior Management talent pipeline below Executive Committee level.

Main activities during the year

Board changes

One of the key matters that the Committee considered during the year was the appointment of the new CFO following Tim Harris's decision to retire as CFO for personal reasons. In reaching its CFO succession recommendation, the Committee reviewed the benchmarking that had been carried out during the previous CFO search and considered Neil Manser's strong contribution and performance while he acted as CFO both immediately before Tim's appointment and in Tim's absence.

The Committee took into account Neil's deep strategic understanding of the Group, his strong background in the insurance sector and capital markets, and his excellent working relationship with Penny James, CEO. The Committee concluded, for those reasons, that the strength of Neil's candidacy was such that a formal executive search was unnecessary and, regulatory approval having been obtained, recommended to the Board that Neil be appointed as CFO on a permanent basis. Neil's appointment as CFO was announced on 13 May 2021. More information about Neil's experience can be found on page 98.

In May 2021, Jane Hanson, Non-Executive Director, stepped down from the Board as planned, having served a full nine-year term. The Committee took the opportunity to review and refresh the Chairship of its Committees which resulted in a recommendation that Mark Gregory be appointed as Chair of the Board Risk Committee and relinquish the Chairship of the Remuneration and Investment Committees, that Richard Ward be appointed Chair of the Remuneration Committee, and that Fiona McBain be appointed as Chair of the Investment Committee.

Danuta Gray
Chair of the Nomination and Governance Committee

Committee membership

- **Danuta Gray**
  Chair
- **Sebastian James**
  Independent Non-Executive Director
- **Dr Richard Ward**
  Independent Non-Executive Director

Committee meeting attendance can be found on page 107.

Key responsibilities

- Review composition of the Board and its Committees
- 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
- Set diversity objectives and strategies
- Oversee and monitor the corporate governance framework of the Group
- Monitor developments in governance and investor ESG expectations

Nomination and Governance Committee Report *continued*

Following Jane Hanson's departure, the Committee reviewed the composition and balance of the Board and identified a requirement for an additional independent Non-Executive Director. 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 individual Director, was engaged to assist in a search for a candidate with experience of digital transformation, cultural change and customer-focused innovation. Shortlisted candidates were interviewed by members of the Committee and the preferred candidate met other members of the Board before the Committee made its final recommendation. This process resulted in the Committee's recommendation to the Board that Tracy Corrigan be appointed as an independent Non-Executive Director with effect from 1 November 2021. In early November 2021, the Committee also recommended, and the Board agreed, to appoint Tracy as a member of the Sustainability Committee. More details on Tracy's experience and skills can be found on page 99.

Board and Senior Management succession planning

The Committee keeps the composition of the Board and its Committees under continual review 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 Committees' responsibilities effectively. For example, in appointing Tracy Corrigan as an additional member of the Sustainability Committee, we have recognised the expanded remit of that Committee, including its oversight of the establishment of Science-Based Targets, the Group's approach to supporting vulnerable customers and our community support and social mobility initiatives.

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.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2021 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 UK Corporate Governance Code. The Chair of the Board was independent on appointment.

The Committee also carefully considered Directors' external responsibilities and concluded that all Directors had sufficient time to dedicate to their respective roles.

The Committee recommended to the Board and shareholders that all serving Directors, except Jane Hanson, who would be stepping down from the Board, be submitted for election or re-election at the Company's 2021 AGM. Tim Harris made his decision to step down as CFO for personal reasons following the circulation of the Notice of the 2021 AGM and the AGM resolution to re-elect him was withdrawn accordingly.

All current Directors will submit themselves for election or re-election at the Company's 2022 AGM.

Diversity and inclusion

The Committee believes that an effective Board with a broad strategic perspective embraces a diversity of gender, ethnicity, skills, experience and cognitive diversity, as well as diversity of regional, socio-economic, educational and professional backgrounds.

The Board's Diversity Policy is available to view on the Company's website at www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements. This policy, which is monitored and reviewed annually by the Committee, is made available 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's Diversity Policy and initiatives can be found in the Corporate Governance report on page 114 which includes progress against Hampton-Alexander and Parker review targets.

The Committee is also engaged in promoting diversity at a Senior Management and Group-wide level. 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, which includes the objectives both of encouraging diversity in succession planning and of fostering a culture of growing inclusivity. Further information on the Group's diversity policy and initiatives can be found in the People section of the Strategic report on page 61.

Corporate governance

The Committee monitors emerging governance matters, compliance with the UK Corporate Governance Code, observance of ESG standards and subsidiary governance. It will continue to monitor consultations, developments and reforms which affect the Group's adherence to corporate governance best practice.

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, involves the wider Board in search processes as necessary and strikes an appropriate balance between Committee and Board discussions about the executive talent pipeline and succession planning. Further information on the Board effectiveness review can be found on pages 115 to 116.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's terms of reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on

7 March 2022.

Danuta Gray
Chair of the Nomination and Governance Committee

Sustainability Committee Report

Areas of focus in the reporting period

- Monitored the Group's activity under the five pillars of the Group's sustainability strategy.
- Oversaw the Group's involvement in environmental initiatives, including progress towards achieving Science-Based Target initiative ("**SBTi**") validation status.
- Considered decision making on ethical matters, including the Group's Modern Slavery Statement.
- Reviewed performance and approach on ethical matters, including customer and supply chain issues.
- Reviewed the Group's people plans, including any impact of a move to a hybrid working model.

Main activities during the year

Customer

During the year, the Committee oversaw the team's work to drive positive customer outcomes and to align business practices with the Group's purpose: "to help people carry on with their lives, giving them peace of mind now and in the future." The Committee reviewed work being undertaken to implement changes required by the FCA's Pricing Practices Review and considered how this could be used as an opportunity to achieve even better outcomes for customers, as well as ensuring regulatory compliance.

Additional opportunities to deliver further improvements in outcomes for customers were reviewed. This included an action plan laying out how the Group ensured fair treatment of vulnerable customers. In addition, the Group's involvement in the Plain Numbers trial was recognised as an important way to further enhance clarity for customers. The Committee welcomed the Group's engagement in the initiative and supported commitment to use lessons learned in future customer communications and to allocate dedicated resource to this area.

People

Over the course of 2021, the Committee oversaw work to encourage a culture that helps people thrive through celebrating difference. The Committee additionally considered the use of engagement tools to understand how colleagues' wellbeing had been affected by the Covid-19 pandemic. It examined, in depth, the Group's transition to a mixed working model and reviewed the Group's strategy to create meaningful engagement in a context of remote working. The Committee reviewed the Group's approach to future skills development, which supported the Group's work to ensure a sustainable business for the future.

Sebastian James
Chair of the Sustainability Committee

Committee membership[1]

- **Sebastian James**
  Chair
- **Tracy Corrigan** – appointed on 4 November 2021
  Independent Non-Executive Director
- **Penny James**
  Chief Executive Officer
- **Adrian Joseph**
  Independent Non-Executive Director

Committee meeting attendance can be found on page 107.

Key responsibilities

- Provide oversight of and advice to the Group on conducting its business in a responsible and sustainable manner
- Monitor the progress of the Group against its five sustainability pillars

Note:

1. Jane Hanson and Tim Harris were members of this Committee until they retired from the Board on 13 May 2021.

The Committee reviewed steps taken to address feelings of isolation reported by some colleagues as a result of lockdown measures and advocated for the alignment of the Group's vision and strategy at every level of the business.

Since the inclusivity survey conducted in 2020, a number of minority groups reported that they felt less marginalised. This was welcomed by the Committee, with the publication of the Group's first Black Inclusion report identified as an important step as part of the Group's wider aim to facilitate social mobility.

Planet

Throughout 2021, the Committee oversaw work to protect the business from the impact of climate change and to achieve the goal of "giving more back to the planet than the Group takes out." The Committee oversaw the Group's involvement in external engagement initiatives, including the Group's commitment to setting Science-Based Targets ("**SBTs**") by August 2022. To this end, the Committee received insights into challenges facing the three most carbon-intensive areas of the business, namely, Auto Services, procurement and investments. For further details on alignment of our investment portfolio with initiatives which will support the transition to a low-carbon economy, see the Investment Committee report for 2021 on pages 132 to 133.

During the year, a Climate Executive Steering Group was set up to actively monitor progress towards sustainability across the business. The Committee received its first report from the Steering Group in September 2021 and will continue to engage with the Steering Group moving into 2022.

The Committee received updates on additional activities undertaken by the Group as part of its commitment to the environment, most notably:

- participation in the Electric Vehicle Fleet Accelerator ("**EVFA**"), a pledge to convert the Company's van fleets to electric vehicles by 2030;
- co-sponsorship of one of the workstreams in HRH the Prince of Wales' Sustainable Markets Initiative Insurance Taskforce; and
- a commitment to the Get Nature Positive campaign to restore nature and biodiversity.

Updates on the Group's involvement in the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**") were received and noted by the Committee. Further detail regarding the Group's CBES submission can be found in the Board Risk Committee report on pages 123 to 126.

Society

Over the course of the year, the Committee reviewed the allocation of the Group's £1.5 million Community Fund (the "**Fund**"), which had been launched as part of the Group's response to the Covid-19 pandemic in 2020. In 2021, funding priority was given to addressing problems arising from: marginalised groups; loneliness; food poverty; and mental health and wellbeing. Resource has been allocated to continue the Fund into 2022 and the Committee reviewed a refreshed purpose for the Fund: to help build a more inclusive and equitable Britain by improving social mobility and accelerating inclusion.

In the latter part of the year, the Committee reviewed management's shortlist of potential strategic partners to deliver the new vision for the Fund and monitored progress made under the Fund Steering Group.

Governance

The Committee is committed to its role in supporting ethical and sustainable business practice across the Group and challenging management's approach to delivering outcomes in line with the Group's vision and purpose.

In December 2021, the Committee reviewed the Group's policy on compliance with the Modern Slavery Act 2015 (the "**MSA**") and how third-party suppliers complied with the Act's requirements.

The Committee reviewed the Procurement function's activity in relation to the MSA and concluded that processes and policies in connection with the MSA were robust, effectively embedded in supply chain processes, and reflected the Procurement function's updated sustainability processes.

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's scope had evolved effectively during the year and allowed a range of sustainability issues to be addressed strategically and in suitable depth. Further information on the Board effectiveness review can be found on pages 115 to 116.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's terms of reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 7 March 2022.

Sebastian James
Chair of the Sustainability Committee

Investment Committee Report

Main areas of focus in the reporting period

- Monitored the financial consequences for the Group's investment assets as global economies started to recover during 2021 from the economic downturn driven by the Covid-19 global pandemic.
- Ensured investment activities continued to provide sufficient access to liquidity to meet a stress insurance or market event and remain within risk tolerances and other agreed parameters.
- Considered future possible developments to asset strategy as the Group continued to align its investment activity with the transition to a low-carbon economy and possible future investment into areas such as carbon sequestration.
- Considered how the investment portfolio is responding proactively to the global challenge to reduce greenhouse gas emissions.
- Received updates on the Group's progress to finalise identified actions to be ready for the discontinuation of the London Inter-Bank Offered Rate ("**LIBOR**") in 2022.

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 and key data points in the UK, the US and the Eurozone as economies exited lockdowns; 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 market consensus views and guidance on the development of interest rate policies set by the Bank of England, the US Federal Reserve, and the European Central Bank.

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 holdings. During the year, the Committee agreed amendments to the existing strategic benchmark which entailed exiting a dedicated euro fixed income benchmark allocation with corresponding increases in allocations to specialist subordinated financial debt and global fixed income benchmarks.

Fiona McBain
Chair of the Investment Committee

Committee membership[1]

- **Fiona McBain** – appointed as Chair on 13 May 2021
  Committee Chair
- **Mark Gregory**
  Independent Non-Executive Director
- **Neil Manser** – appointed on 13 May 2021
  Chief Financial Officer

Committee meeting attendance can be found on page 107.

Key responsibilities

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

Note:
1. Tim Harris was a member of this Committee until he retired from the Board on 13 May 2021. Mark Gregory was Chair of this Committee until 13 May 2021.

The Committee considered the Group's strategy and use of Money Market Funds ("**MMFs**") for cash investments. It looked at the requirements set for using such funds, the diversification within such funds and across the MMFs invested into, and what could potentially limit DLG's access to liquidity (from MMFs) in a period of market stress.

Responsible investing – climate change

Following Committee approval in 2020 to set a target to reduce greenhouse gas ("**GHG**") emissions intensity[1] across corporate bond portfolios by 50% before the end of 2030 (benchmarked against the end of 2020 position), the Committee received confirmation and analysis of the end 2020 GHG emissions intensity calculations. The analysis studied the top contributors to the Group's 2020 year-end emissions by sector, currency, and single name, and detailed the findings from the Audit function's independent assessment of management's emissions calculation. At each subsequent meeting, the Committee received updated GHG emissions intensity calculations.

The Committee received updates from the CRO and Director of Financial Risk on progress and results from the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**").

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; the alignment of the investment portfolio with an agreed climate framework; and compliance with an agreed framework of risk and liquidity limits. During the year, the Committee invited the team managing the internal pound sterling fixed income portfolios and two external managers responsible for managing other investment-grade fixed income portfolios to present updates on their respective portfolios and their assessments of conditions and the outlook for fixed income markets.

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. Further information on the Board effectiveness review can be found on pages 115 to 116.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's terms of reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 7 March 2022.

Fiona McBain
Chair of the Investment Committee

Note:

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

Directors' Remuneration Report

Dear Shareholders,

I am pleased to introduce my first Directors' Remuneration Report (the "**Report**") as Chair of the Remuneration Committee (the "**Committee**"), for the 2021 financial year. I would like to thank Mark Gregory for his interim stewardship of the Committee since October 2020.

The remuneration of our Executive and Non-Executive Directors for 2021 is based on the Directors' Remuneration Policy which was approved with 97.55% shareholder support at the AGM in May 2020. Consistent with the regulations, the Directors' Remuneration Policy is next due to be submitted to the Company's 2023 AGM for approval.

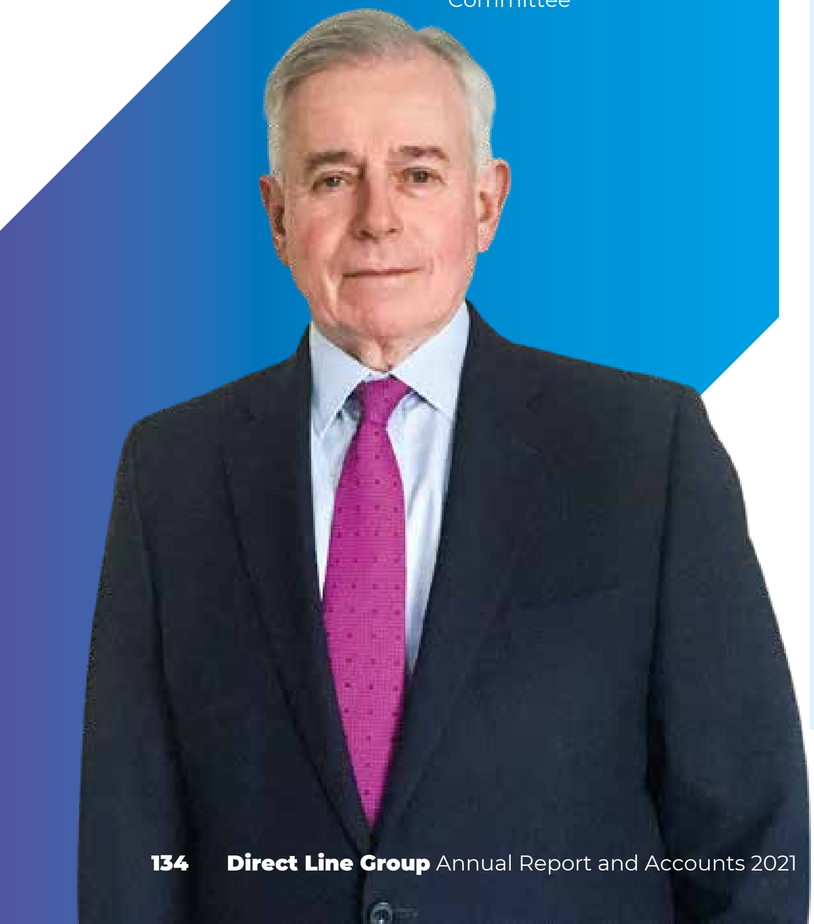
The Group delivered significant strategic progress, at the same time as delivering strong financial performance during 2021 whilst navigating the complexities and uncertainties of a challenging market impacted by the pandemic. It completed the majority of its planned technology transformation and built data capability across the business. The increase in underwriting profit from growing own brand policy count and a strong investment return results in a strong profit before tax.

This has been a busy year for the Group with the progression of our transformation. In the context of remuneration, the Committee considered the following items:

- Neil Manser's appointment to CFO on 13 May 2021. The Committee considered the appropriate remuneration that would motivate him in the context of market practice and wider workforce remuneration.
- The arrangements for the retirement of Tim Harris and appointments of new Executive Committee members. More information is in the Annual Report on Remuneration in relation to the departing CFO.
- Refining the indicators used within the Annual Incentive Plan ("**AIP**") and Long Term Incentive Plan ("**LTIP**") to optimise the links to our strategic agenda to deliver long-term sustainable growth with a customer-obsessed mindset as well as emphasising our net zero commitment.

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.



Richard Ward
Chair of the Remuneration Committee

Committee membership

- **Dr Richard Ward**
  Chair – appointed 13 May 2021
- **Danuta Gray**
  Chair of the Board
- **Sebastian James**
  Independent Non-Executive Director
- **Mark Gregory**
  Independent Non-Executive Director

Key responsibilities

- Determine the policy for rewarding Directors and senior leadership for results that are generated within the risk appetite set by the Board and oversee how the Group implements its Remuneration Policy
- Oversee the level and structure of remuneration arrangements for senior executives, approve share incentive plans, and recommend them to the Board and shareholders
- Review workforce remuneration and related policies and the alignment of incentives and rewards with culture

Note:

Mark Gregory was Chair of the Committee until Richard Ward's appointment on 13 May 2021.

The Report is set out in the following sections:

Section	Page
Chair's statement	134 to 136
Remuneration at a glance – summarising the remuneration arrangements for Executive Directors	137
Annual Report on Remuneration – detailing pay outcomes for 2021 and covering how the Group will implement remuneration in 2022	138 to 155
Summary of the Policy approved at the 2020 AGM	156 to 159

"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."

Wider workforce engagement and pay considerations for 2021

As part of the wider Committee oversight on all-employee pay matters, the Committee (following a detailed review) is delighted to confirm that the Group will apply an increase to our minimum salary of £1,300 (6.7%) bringing the Group-wide minimum salary from £19,500 to £20,800 for full-time colleagues on 37.5hrs from 1 April 2022, subject to satisfactory performance. This is 7.8% above the Living Wage Foundation's National Real Living Wage (November 2021) and 12.3% higher than the Government's statutory National Living Wage (April 2022 figure for those aged 23 or over). In addition, a £400 special payment will be awarded in April 2022 to everyone who is not usually eligible for a bonus as part of their contract, to recognise their contribution to the business during 2021.

The Committee regularly and carefully considers wider employee pay as context for the decisions it makes. For the ways in which this is achieved, including further information relating to the matters discussed at the Group's Employee Representative Body ("**ERB**") relating to executive pay and how internal relativities have been monitored, see page 138 for further information.

Performance and incentive outcomes for 2021

During 2021, we continued to balance the needs of our stakeholders, supporting our people through the pandemic, looking after our customers, protecting the business for the long term, and supporting our local communities. 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. The Group embraced a mixed working model during 2021, ensuring a safe, supportive and caring environment for each other every step of the way.

The management team has made good progress this year, completing much of our technology transformation and delivered good results despite the complexities and uncertainties of a challenging market. The Group has achieved a strong capital position supported by our successful customer-focused strategy and our investment in sustainable future capabilities. This performance is reflected in the incentive outcomes for our Executive Directors.

AIP

We have achieved a strong set of results in 2021, having grown our own brand policy count, increased operating profit with higher prior year reserving releases and a strong investment return result, alongside incredible efforts whilst supporting our customers, people and local communities which has helped us to achieve strong results in 2021. This has led to a profit before tax of £547.5 million (before restructuring and one-off costs), significantly above the maximum performance level set at the start of the financial year.

Performance across the Customer measures (including Net Promoter Score, complaints, and customer experience) was also strong, and the Committee awarded an 80% of maximum outturn for this element. The People measures were assessed as being between target and maximum, at 70% of maximum because of strong improvements in inclusion, but moderated engagement scores. Although management has made significant progress by completing much of its transformation agenda to deliver greater technology and data capability across the business, there has been lower in-force policies growth and the Committee therefore awarded an outturn of 50% of maximum for this element.

There have been no adjustments to the performance targets set at the beginning of the year. The Committee determined that the formulaic outturn of the 2021 AIP was appropriate based on the Group's strong performance in the year, noting that the employee bonus pool is based on the same performance measures as the Executive Directors to ensure consistency of performance outcomes. The Committee therefore agreed that no discretionary adjustments were required.

The overall AIP outcome for the Executive Directors for 2021 was therefore 84% of maximum which resulted in a payout of £1,200,990 for the CEO and £479,465 for the CFO (relating to the period as an Executive Director), which the Committee believes is appropriate in the context of the Group's performance in 2021. 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 141 to 144.

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. The March 2018 and August 2018 LTIP awards (which vested during 2021) were granted before the appointment of Tim Harris; however, the outcomes of these awards are relevant to Penny James, Neil Manser, and certain former Directors.

In accordance with the remuneration reporting regulations, the reported figures in the single figure table for 2021 include:

The RoTE element of the 2019 LTIP awards (performance period ending 31 December 2021):

- average RoTE performance of 21.4% over 2019, 2020 and 2021, is above the maximum performance level of 20.5% and therefore this element will vest at the maximum level (subject to the above underpins).

Directors' Remuneration Report *continued*

The relative TSR element of the 2018 LTIP (performance period from grant to vesting date):

– relative TSR performance was above the threshold performance level for both the March and August 2018 LTIP awards (based on performance over the three-year period from the date of grant of each award).

The overall outcome of the March and August 2018 LTIP wards (including the RoTE outcomes disclosed last year) were 74.8% and 68.0% of maximum respectively.

The relative TSR elements of the 2019 LTIP awards will be disclosed in next year's report once the performance period is complete.

No discretion was exercised in respect of LTIP awards vesting during the year, which reflects the Group's exceptional RoTE performance and TSR outcomes in a challenging market over the last three years.

Remuneration Policy

In accordance with the regular shareholder voting cycle, we intend to review the Directors' Remuneration Policy during 2022 and we will put forward a new Directors' Remuneration Policy for shareholder approval at the 2023 AGM.

Executive Director changes

On 11 January 2021, Tim Harris commenced a leave of absence for personal reasons. However, for the reasons explained in the RNS announcement published on 13 May 2021, Tim retired as CFO and stepped down from the Board with immediate effect. Tim's employment with DLG will cease at the end of his 12-month notice period on 12 May 2022. During this period, he continues to receive his contractual entitlement to salary, pension, and benefits. In accordance with the Directors' Remuneration Policy, our incentive plan rules and our standard treatment for retirees, the Remuneration Committee determined that Tim would be treated as a "good leaver". As such, Tim's unvested share awards will continue to vest on their usual vesting dates (with time pro-rating applied to his LTIP awards). To reflect the period worked as an Executive Director to 10 January 2021, Tim is also eligible to receive a 2021 AIP award (with 40% deferred in shares for three years). Further details are set out on pages 151-152.

Neil Manser was appointed to the Board as CFO and a member of the Investment Committee with effect from the conclusion of the 2021 AGM. In setting Neil's remuneration, the Committee considered market data in respect of FTSE 51-150 companies and other FTSE 350 Insurers, the previous CFO's remuneration package, our Directors' Remuneration Policy and the pay and conditions of the wider workforce. Neil's salary was set at £515,000, slightly below that of the previous CFO (£535,000). Neil's maximum opportunity under the AIP and LTIP is 175% and 200% of salary respectively, consistent with the CEO and previous CFO. In line with the wider workforce, Neil's pension contribution is 9% of salary. Details of Neil's remuneration, which took effect from 13 May 2021, are set out on page 152.

Approach to pay in 2022

Salary increases will be awarded for the wider workforce population distributed from a budget of 2.5% of current salary. Neither the CEO nor CFO will be awarded a salary increase. No change is proposed to the overall weightings of the financial and strategic elements under the AIP, however the underlying categories and sub-weightings within the strategic element have been reviewed. The Committee carefully considered how best to align remuneration to delivering profitable growth, realising cost savings, alongside supporting customers and great people and has amended the categories and weightings appropriately to reflect these strategic priorities. The performance measures within the new categories are aligned with the Group's Objectives and Key Results, reflecting a series of stretching, long-term objectives, with one-year targets set on an annual basis, at the start of the year to ensure continued progress towards each long-term goal. Further details are set out on page 154.

We are introducing an emissions measure (10% weighting) based on greenhouse gas reduction targets, certified by the Science Based Target Initiative ("**SBTi**"). The Group is currently in the process of seeking certification of its long-term emissions targets with the SBTi and expects this to be completed later in 2022. The emissions targets for the LTIP will be set by the Committee based on the certified SBTi targets and disclosed in next year's Directors' Remuneration Report. The target RoTE scale of 17.5% to 20.5% will remain at the same level as in 2021 and reflects an appropriate performance range in the context of the Group's planned underlying RoTE performance. The RoTE weighting will reduce from 60% to 50%. The Relative TSR weighting will remain at 40% and continue to be measured against the FTSE 350 (excluding investment trusts) peer group. Vesting for median TSR performance (threshold) remains at 20% and for upper quintile TSR performance (maximum) is 100% with straight-line vesting in between these points. Further details are set out on page 155.

Committee performance

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. Further information on the Board effectiveness review can be found on pages 115-116.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope, subject to some minor clarifications, which were incorporated.

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

Your AGM vote

The Committee welcomes investor feedback on an ongoing basis and this Report seeks to describe and explain our remuneration decisions clearly. I hope that having read the information in this report, and considering the performance of the Group during 2021, you will vote in support of the Remuneration Report at the AGM.

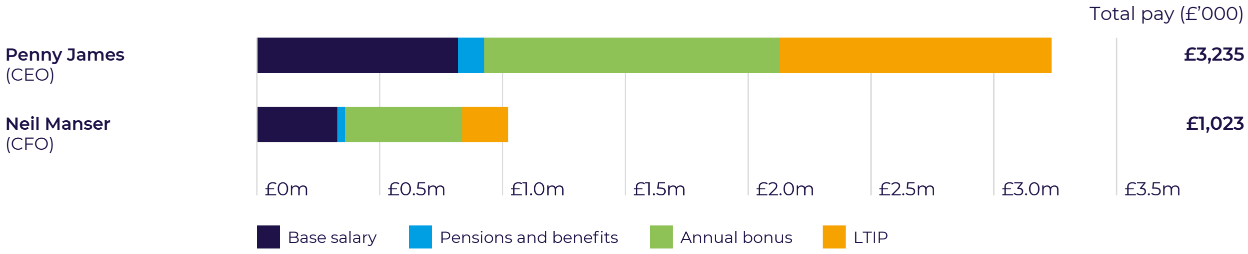
Should you have any questions about my Committee's Report please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or one of my colleagues at Direct Line Group will respond to you.

Yours sincerely,

Dr Richard Ward
Chair of the Remuneration Committee

Remuneration at a glance

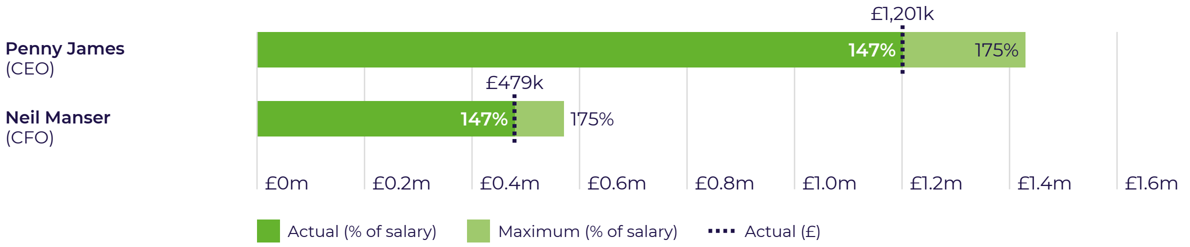
Remuneration outcomes for 2021



> Find out more on page 140

AIP achievement

This chart illustrates the actual amounts earned from the AIP reflecting performance in 2021. 60% of the amount is payable in March 2022 and 40% will be deferred into shares for three years.

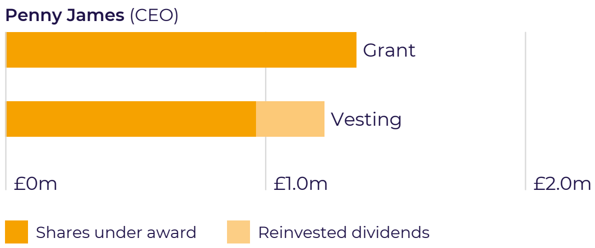


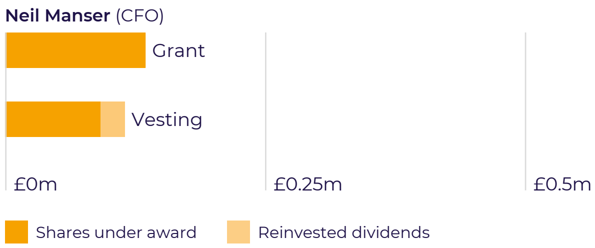
> Find out more on pages 141-144

LTIP

Release of value under the LTIP

This chart illustrates the total value of the 2018 LTIP awards that vested in 2021.

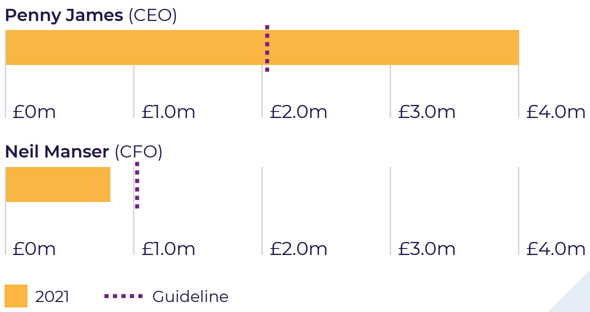




> Find out more on pages 145-146

Shareholding at 31 December 2021

This chart illustrates the number of shares held at the end of 2021 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 pages 148

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 UK 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 2021. You can find information about each member's attendance at meetings on page 107. You can find their biographies on pages 98-101.

Committee Chair
Dr Richard Ward[1]
Non-Executive Directors
Danuta Gray
Mark Gregory[2]
Sebastian James

Notes:

1. Dr Richard Ward joined the Committee with effect from 1 January 2021 and was appointed as Chair of the Committee with effect from the conclusion of the AGM on 13 May 2021.
2. Mark Gregory stepped down as Chair of the Committee with effect from the conclusion of the AGM on 13 May 2021.

Advisers to the Committee

The Committee consults with the Chief Executive Officer, Chief Financial 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, Chief Financial 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 2021. 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.

During the year, PwC advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment, 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 2021. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct and the Committee is therefore satisfied that the advice PwC provided was objective and independent.

PwC's total fees for remuneration-related advice in 2021 were £90,900 excluding VAT. PwC charged its fees on a time and expenses basis.

Wider workforce engagement and pay considerations for 2021

The Committee carefully and regularly considers wider employee pay as context for the decisions it makes.

The Group's ERB is a valued forum for having a two-way dialogue on many important matters, and since 2018, at appropriate times during the year the Committee Chair has attended meetings. The Committee Chair attended the ERB in December 2021 where there was a Q&A session around executive pay, covering topics such as alignment of incentives to strategic objectives, an explanation of how pay is set for Executive Directors and a debate over the purpose of elements within the executive package.

The outcome of our DiaLoGue People Survey is an important factor for the Committee to reflect on and it has been kept abreast of matters by the Chief People Officer and Chief Executive Officer throughout the year. Our existing workforce engagement is strengthened through "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. This standing agenda item provides valuable insight and context for framing executive pay and policies.

The Committee considers it important to monitor and assess internal pay relativities, including the CEO pay ratio disclosure, and takes these into account when determining Executive Director remuneration. During 2021, neither the CEO nor CFO was awarded a salary increase, consistent with the approach we took across our senior leadership population given the challenging economic climate. Salary increases were awarded to the wider workforce population, in recognition of their hard work. They received increases of between 1.5% to 2%.

Through continued focus on building an inclusive organisation, the Group have maintained female representation in senior jobs in line with the Women in Finance Charter target of 30.0% since 2019, and as of 31 December 2021, 32.8% representation of women in our senior leadership has been achieved. We will continue with the programmes underway to further reduce the gender pay gap. We are also pleased that we will voluntarily disclose the Group's Ethnicity Pay Gap for the first time. Both reports can be found at www.directlinegroup.co.uk

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. The Chair of the Remuneration Committee attended an ERB meeting in December 2021. Further details are set out on pages 111 and 138. – During 2021 in conversations with investors, a few shareholders asked clarification questions about the executive remuneration arrangements, and some enquired about how we align our executive remuneration with ESG priorities, explaining the importance to them. When the Committee further considered our approach to ESG metrics, taking into account our business strategy priorities, shareholder feedback and market practice, it concluded that it would be appropriate to include the emissions-based target in our LTIP from 2022 onwards.
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. For example, when deciding to introduce the emissions targets to the 2022 LTIP, the Committee determined that these should be linked to the SBTi-certified targets to ensure simplicity and consistency with the Group's broader emissions targets.

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 risks is within in 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. No such adjustments were made in 2021.

Predictability The range of possible values of rewards to individual directors should be identified and explained at the time of approving the Policy.	– 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, and target and maximum performance scenarios. An indication of the potential impact of a 50% share price appreciation on the value of LTIP awards is also included. – The 2021 AIP and LTIP award opportunities were in line with the maximum opportunity in the Policy.
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. For example, 55% of the AIP is based on Profit Before Tax and from 2022, 50% of the LTIP awards granted during the year are based on RoTE – both measures are Key Performance Indicators for the Group. – 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.

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 them in the following ways:
	  – **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. For example, the Committee felt introducing an emissions target to the 2022 LTIP furthers this ambition.
	  – **Work together** – the Strategic element of the AIP requires our Executive Directors and senior leadership to work together to deliver key results to our stakeholders. For example, the Committee has amended the underlying categories and sub-weightings of the strategic elements under the AIP to better align with delivering profitable growth, realising cost savings alongside supporting customers and great people .
	  – **Take ownership** – financial targets under the AIP are the same for all eligible 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.

Directors' Remuneration Report *continued*

Implementing policy and pay outcomes relating to 2021 performance

Single figure table (Audited)

£'000		Salary[1]	Benefits[2]	Annual bonus[3]	Long-term Incentives[4,5]	All-employee share plans[6]	Pension contributions and cash allowance in lieu of pension	Fixed pay and benefits sub-total	Variable remuneration sub-total	Total
Penny James	2021	817	36	1,201	1,107	–	74	927	2,308	3,235
	2020	813	26	1,166	1,208	–	73	912	2,374	3,286
Neil Manser[7]	2021	326	1	479	187	1	29	357	666	1,023
	2020	–	–	–	–	–	–	–	–	–
Tim Harris[8]	2021	134	5	19	–	0	18	157	19	176
	2020	535	14	768	–	–	48	597	768	1,365

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 148. These deferred awards are normally subject to continuous employment. However, awards remain subject to malus and clawback.
4. The expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2018 and reported in 2020 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £3.20 and £3.09 on 26 March 2021 and 31 August 2021 respectively, compared to the three-month average share price of £2.91 used in reporting this figure in the 2020 report. The revised figures include the actual number of dividends accrued on this portion of the award at vesting. This results in an adjusted reportable increase of approximately £97,794 for Penny James, with a corresponding increase of the single figure in 2020 reflected in the table above. Further information on LTIP awards can be found on pages 145-146.
5. The 2021 LTIP figure for Penny James reflects the relative TSR element of her 2018 LTIP awards and the RoTE element of her 2019 awards. The value is calculated based on the share price at the date of vesting for the 2018 LTIP awards, of £3.20 and £3.09, and a three-month average share price to 31 December 2021 of £2.78 for the 2019 awards. The same approach is used for Neil Manser, but the value of the relative TSR element of his March 2018 LTIP award is not included as the performance period was completed prior to his appointment to the Board. Further information on LTIP awards can be found on pages 145-146.
6. The value of matching shares under the SIP for Tim Harris is a de minimis amount of £198.
7. Neil Manser was appointed to the Board on 13 May 2021. His salary, bonus, benefits, and pension for 2021 have been pro rated accordingly.
8. Tim Harris stepped down from the Board on 13 May 2021, following a period of paid compassionate leave from 11 January 2021 to 31 March 2021, and unpaid leave 1 April 2021 to 12 May 2021. His remuneration for the purposes of this table has been pro-rated. Details of Tim's salary, pension and benefits paid following his cessation as an Executive Director on 13 May 2021 until 31 December 2021 can be found on pages 151-152.

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

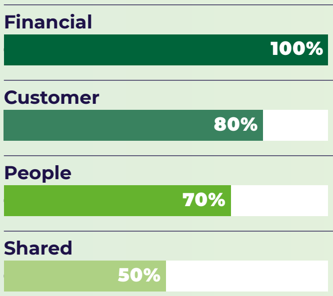
Annual Incentive Plan outcomes for 2021 (Audited)

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

Performance measure and weighting

- **55%** Financial
- **15%** Customer
- **10%** People
- **20%** Shared

Performance achievement 2021



Outcome 2021

84%

Total

55%

12%

7%

10%

Executive Director	Achievement under the 2021 AIP	2021 AIP payment[3]
Penny James	84% of maximum	£1,200,990
Neil Manser[1]	84% of maximum	£479,465
Tim Harris[2]	84% of maximum	£18,725

Notes:

1. The AIP for Neil Manser is pro-rated to reflect the period from 13 May 2021, being the date he was appointed as an Executive Director.
2. Tim Harris' AIP is pro-rated to reflect the period of 1 January 2021 to 10 January 2021, before his period of paid compassionate leave.
3. 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 for 2021 is profit before tax (excluding restructuring costs of £101.5 million). The Committee established threshold and maximum performance levels at the start of the year considering internal budgets and analysts' consensus forecasts and did not adjust the targets during the year.

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.

The table below sets out the threshold and maximum performance targets for the year, and the actual performance achieved.

Measure	Threshold 10%	Maximum 100%	2021 Actual	2021 Achievement
Profit before tax	£392.4m	£479.6m	£547.5.m	100%

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 Remuneration Committee sets challenging target and stretch performance levels with reference to customer-centric KPIs. These are intended to ensure that remuneration is aligned with and supports continuous improvement.

A detailed assessment of the Customer measures is set out below.

Measure	Assessment
Net promoter score ("NPS") Improvement of customer advocacy across the Group	– Our NPS scores measure the likelihood of our customers recommending one of our brands. We set on-target and stretch performance levels for each NPS score. – Strong brand NPS scores on Direct Line and Churchill continued with motor claims and renewals journeys showing particularly positive performance, with two NPS scores above on-target and one score above stretch. – Rescue claims NPS performance ended the year below on-target levels for 2021, in part due to pressure on our recovery network due to high volumes of UK-based 'staycation' holidays during the summer. – 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 further reduced during 2021 to lowest-ever levels. – Focus on continual improvement and taking learnings from dissatisfied customers helped ensure that our customer outcomes continued to be positive. – There was a small increase in complaints in the summer holidays for Rescue due to significant increase in road traffic against a stretched network, but overall, the complaints measure was above stretch performance.
MyCustomer Transaction customer experience performance measuring our people/calls	– MyCustomer performance in Customer Operations and Claims Operations achieved strong levels during 2021 and was above stretch and above on-target respectively, despite the challenges we faced, including handling digital transformation and headcount levels. – Over 1 million responses from customers across the Group have provided feedback on the experience delivered by our people; 89.3% of customers rated our people as 9 or 10 out of 10.

Good performance has been delivered against Customer metrics during 2021 whilst continuing to provide support in a continued challenging time with a relentless focus on customer needs, efficiency, and innovation.

Having considered performance against targets and an assessment of the quality of performance achieved, the Committee judged the performance against the Customer element to be above target, giving a total of 12% out of 15% attributable to this element.

Measure	2021 Achievement
Customer	80%

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. The Committee judged the performance against the People element to be above on-target, giving a total of 7% out of 10% attributable to this element. A detailed assessment of the People measures is set out below.

Measure	Assessment
Leadership effectiveness and 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	– Our 2021 Leadership index final position is below on-target level landing at 74%. In 2020, we set up a leadership index to measure progress in leadership effectiveness. It indicates the extent to which colleagues feel positive about our leaders and decisions they make. – In part, we were unable to meet these ambitions because of operating in a high-change landscape with minimal opportunity for in-person interactions, and because of the significant changes to some of our biggest leadership roles. – To prepare future successors, we made several internal talent moves in 2021 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 extremely strong, continuing to improve in 2021. – 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 14 graduates and 40 apprentices in 2021.
Diversity Ensure the Group is a diverse and inclusive place to work where differences are respected, valued, and celebrated	– Since signing the Women in Finance Charter five years ago, we have recruited, developed and promoted more women into senior roles. Women now account for 32.8% of our senior leadership, above our on-target level and up from 22.2% in 2016. We are working towards our next milestone of 35% by the end of 2022. – We have grown our senior diversity profile across ethnic minority and Black professionals in leadership, to 11.7% and 0.9% respectively, which is above and at our on-target levels, making good progress towards our milestones of 13% and 1.5% by the end of 2022. – We are pleased that our inclusivity score for our most marginalised communities (Black, Non-Binary/Gender Fluid and Sikh) have increased ahead of our on-target threshold. – We have grown empathy and understanding across our senior leaders through our reverse mentoring programme and a comprehensive campaign led by our employee networks to educate colleagues on issues affecting our most marginalised communities. Storytelling has been hugely effective to allow colleagues to share their experiences on sensitive topics such as racism, gender identity, what religion means to them, 'coming out' and living with a disability. – During 2021, we introduced an even stronger focus on inclusive recruitment for senior roles, including anonymised CVs, diverse shortlists, and panel-based assessment to help protect against bias. – As a result of our focus, we were delighted to be placed 13th on the Inclusive Companies Top 50 UK Employers List which recognises leading companies that promote inclusion within their organisations.
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 roles	– To bolster our listening capabilities further, we transitioned to a new engagement platform during 2021 with better functionality. The surveys gather a mix of quantitative and qualitative data across a range of topics including overall sentiment, wellbeing, leadership, empowerment, and inclusion. – We have settled into a quarterly survey cadence. 78% of our employees took the time to share their views in November, our highest response rate in over two years. This was a 20% uplift on the prior survey and reversed the previous trend of declining responses. – At the end of 2021, as uncertainty over a further wave of lockdowns hit, increased external pressures and increased workload alongside ambitious technology change resulted in a fall in our engagement score to 66%, which was below the required on-target level. Our biggest declines related to Pride and Advocacy. Although we are ahead of the Financial Services external benchmark (61%), we are behind the upper quartile (high performing) and are therefore below our threshold target. – Alongside engagement surveys, we continued to run All Colleague Calls, Town Hall events, Q&As and Coffee and Chat sessions with ExCo leadership, which all provided a great opportunity to sense the mood of the business and allow tailored responses, such as measures to emphasise work and personal boundaries, and colleague vouchers to encourage teams or individuals to meet up because of feedback that they were feeling disconnected. – We also continued to re-invent many of our Group-wide high-profile engagement activities, such as our coveted Chief Executive Awards programme, to be delivered in an even more engaging format.

Measure	2021 Achievement
People	70%

Shared element (20% weighting)

For the Shared element of the AIP, the Board set a range of strategic measures specifically around growth, business transformation and cost savings, with the aim of ensuring the Group has the capabilities and cost base to ensure its sustained success. Although the Group's multi-brand, multi-channel strategy places the Group in a strong position to deliver sustainable growth under the pricing rules, the specific stretching Group objectives were met in part. Therefore, the Committee agreed an outturn of 50% for the Shared measures, giving a total of 10% out of 20% attributable to this element. A detailed assessment is set out below.

Measure	Assessment
Best at Direct Grow Direct Line materially, sustainably, and profitably	– Direct own brands in-force policies grew 1.0% with growth across Commercial direct (7.5%), Green Flag Rescue (5.8%) and Home (2.3%) offsetting declines in Motor. Motor direct own brands in-force policies were stable in H2 2021 with a reduction of 1.9% over the year. The lower in-force policies growth was partly attributable to underwriting discipline in a deflating Motor market. This was lower than the on-target level. – Overall Group Loss Ratio was 58.1% in 2021 (2020: 57.9%), which exceeded the on-target level. This was partly attributable to benign weather but also to good underwriting performance across Motor and Rescue in particular.
Best at Direct / Win on Price Comparison Websites / Extend our reach Turn renewal and new business price equalisation into an advantage for us and value for our customers	– The Group implemented the FCA's Pricing Practices Review requirements within the challenging deadlines prescribed by the FCA. – The business's preparations 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 which exceeded the on-target level. – In our Motor business, we announced a new partnership with Motability Operations Ltd which is due to take effect from 2023 (see page 8). It will provide valuable underwriting data, insight, and capability into the future of vehicle technology and repair, crucial for building long-term strategic resilience against key transition risks. The partnership is anticipated to increase Motor gross written premium by around £500 million each year from H2 2023.
Technical Edge Become market leaders in pricing and underwriting and continue to deliver in-year claims cost savings	– During the year, our strategic technology transformation delivered material improvements to the way we interact with our customers. – We've achieved step changes in our use of pricing and data, which are already beginning to improve our competitiveness in Motor, and we will continue to refine and enhance our pricing models and capabilities. – Commercial continued the rollout of its new pricing and underwriting system across Commercial combined and Fleet, alongside the launch of machine learning pricing models, dramatically improving pricing accuracy. – Motor's current-year attritional loss ratio rose 6.3 percentage points to 72.9% (2020: 66.6%) driven predominantly by a reduction in the severity of lockdowns in 2021 compared to 2020. Whilst the Motor current-year loss ratio in H1 2021 was modestly higher than for H1 2020, it increased in H2 as lockdown restrictions were eased and claims frequency increased closer to expected levels. In addition, claims severity inflation was slightly above our medium-term 3% to 5% per year inflation expectations during 2021, due to high levels of inflation in second-hand vehicles and additional Covid-19 related cleaning costs.
Nimble and cost efficient Deliver a step change in our competitiveness by reducing our Cost per in-force policy	– We continued to make progress on our cost agenda, with operating expenses reducing £18 million to £706.3 million (2020: £724.4 million) and the expense ratio falling 0.6 percentage points to 23.9%. Whilst we saw levies increase by 11% during 2021, alongside heightened inflation in wage costs, these impacts were more than offset by lower technology costs, savings from our property strategy and 9% reduction in headcount. We also incurred lower Covid-19 related costs.

Moderate performance has been delivered against Shared metrics during 2021. Having considered performance against targets and an assessment of the quality of performance achieved, the Committee judged the performance against the Shared element to be around target, giving a total of 10% out of 20% attributable to this element.

Measure	2021 Achievement
Shared	50%

LTIP outcomes for 2021 (Audited)

2018 LTIP awards (vesting in 2021)

Awards under the LTIP granted in March and August 2018 vested during 2021. They were subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2018, 2019 and 2020.

Consistent with the Regulations, the expected RoTE vesting outcomes for the year ended 31 December 2020 (together with the TSR elements from the 2017 awards) are included in the 2020 LTIP column of the single figure table. The performance outcomes of these elements are included in the table below.

The 2021 single remuneration figure includes the value of the 2018 TSR elements and the awards vested shortly after. Details of the targets and performance achieved are set out in the table below.

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 2018	RoTE (2020 single figure)	60%	15.0%	18.0%	20.7%	100.0%	60.0%
	Relative TSR (2021 single figure)	40%	Median	Upper quintile	Between median and upper quintile	36.9%	14.8%
August 2018	RoTE (2020 single figure)	60%	15.0%	18.0%	20.7%	100.0%	60.0%
	Relative TSR (2021 single figure)	40%	Median	Upper quintile	Between median and upper quintile	20.7%	8.0%

2019 LTIP awards (vesting in 2022)

Awards under the LTIP granted in March and August 2019 (for Penny James and Neil Manser) and October 2019 (for Tim Harris, granted on joining DLG) will vest, subject to Remco approval, during 2022. They are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2019, 2020 and 2021. The RoTE performance period for these awards ended on 31 December 2021 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 2022, August 2022, and October 2022 respectively and will be disclosed in the 2022 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 2019 LTIP awards (together with the TSR elements from the 2018 awards) are included in the 2021 single remuneration figures for Penny James and Neil Manser based on the three-month average share price to 31 December 2021. You can find details of this on page 140. The RoTE element of the October 2019 award for Tim Harris is not included in the single figure table because the performance period was completed after he stepped down from the Board.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100%	60%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
August 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100%	60%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
October 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100%	60%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Performance period not yet complete		

Directors' Remuneration Report *continued*

Summary of the 2021 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 2019 LTIP – RoTE[1]	Penny James	144,178	100%	144,178	401
	Neil Manser	28,835	100%	28,835	80
August 2019 LTIP – RoTE[1]	Penny James	191,976	100%	191,976	534
	Neil Manser	33,610	100%	33,610	93
March 2018 LTIP – TSR[2,3]	Penny James	91,296	36.9%	33,688	108
August 2018 LTIP – TSR[2]	Penny James	101,448	20.7%	21,000	65
	Neil Manser	20,289	20.7%	4,200	13
Total single figure LTIP[4]	Penny James				1,107
	Neil Manser				187

Notes:

1. 2019 RoTE elements are based on the three-month average share price to 31 December 2021 of £2.78.
2. 2018 TSR element is based on share price on the date of vesting on 26 March 2021 and 31 August 2021 of £3.20 and £3.09 respectively.
3. The value of the relative TSR element of his March 2018 LTIP award is not included in the single figure disclosure for Neil Manser as the performance period was completed prior to his appointment to the Board. It is however displayed above for completeness.
4. The vesting outcome for the RoTE and TSR elements of Tim Harris' October 2019 LTIP will be disclosed as a payment to past directors in the 2022 Directors' Remuneration Report, in line with the requirements of the remuneration reporting regulations.

Directors' share interests (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 2021 to the date of this report.

	At 31 December 2021				Share plan interests exercised during the year to 31 December 2021	
	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[4]	Number of options exercised[1]	Share price on date of exercise[5,6]
Penny James	1,573,519	392,706	778,619	783,169	137,156	3.11
					58,870	3.11
					100,178	3.07
Neil Manser	466,548	188,468	–	177,728	34,487	3.10
Tim Harris[7]	741,647	185,478	–	5,912	–	–

Notes:

1. These awards take the form of nil-cost options over the Company's shares. Such awards accrue dividend entitlement from the grant date to the date on which an award vests, or the end of the applicable holding period. Dividends added post-vesting are shown to 31 December 2021 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. These awards include beneficial share interests acquired under the SIP. At 7 March 2022, the number of shares beneficially held by Neil Manser had increased to 177,828.
5. Penny James exercised options on 29 March 2021.
6. Neil Manser exercised options on 29 March 2021, 6 August 2021, and 1 September 2021.
7. The above share plan interests for Tim Harris are at 13 May 2021, being the date he stepped down from the Board.

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

Director	**Shares held at 31/12/2021**	Shares held at 31/12/2020
Danuta Gray	**26,500**	10,000
Tracy Corrigan[2]	**–**	–
Mark Gregory	**–**	–
Jane Hanson[3]	**11,083**	11,083
Sebastian James	**5,000**	5,000
Fiona McBain	**–**	–
Gregor Stewart	**2,925**	2,925
Richard Ward	**–**	–
Adrian Joseph[4]	**–**	–

Notes:

1. This information includes holdings of any connected persons, as defined in section 253 of the Companies Act 2006.
2. Tracy Corrigan joined the Board on 1 November 2021.
3. Jane Hanson stepped down from the Board on 13 May 2021 and her beneficial interests are as at this date.
4. Adrian Joseph joined the Board on 1 January 2021.

LTIP awards granted during 2021 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2021 in the form of nil-cost options.

		Awards granted in 2021 under the LTIP[1]		
Director	Position	Award as % of salary	Number of shares granted	Face value of awards (£)
		100%	259,365	817,000
Penny James	Chief Executive Officer	100%	262,700	817,000
		62.5%	65,476	206,250
Neil Manser[2]	Chief Finance Officer	100%	165,594	515,000

Notes:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.15 in March 2021 and £3.11 in August 2021.
2. The LTIP award made to Neil Manser in March was made before he was an Executive Director.

The performance conditions that apply to the LTIP awards granted in 2021 are set out below:

	Performance conditions for awards granted in 2021 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 2021, 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 26 March 2021 will end on 31 December 2023 for the RoTE element and 25 March 2024 for the TSR element. The performance period for the awards granted on 31 August 2021 will also end on 31 December 2023 for the RoTE element and 30 August 2024 for the TSR element.

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

During 2021, all employees, including Executive Directors, were eligible to invest from £10 to £150 a month from their pre-tax pay into the scheme, and receive one matching share for every two shares they purchased. This table details the number of shares held by Neil Manser and Tim Harris under the SIP. Penny James does not participate in the plan.

	Matching shares granted during the year	Matching shares cancelled during the year	Value of matching shares granted (£)[1]	Balance of matching shares at 31 December 2021[2]
Neil Manser	304	–	901	895
Tim Harris	63	–	198	63

Notes:

1. The accumulated market value of matching shares at the time of each award. Purchase of the matching shares takes place within 30 days of the contributions being deducted from salary.
2. Matching shares which are subject to forfeiture.

DAIP awards granted during 2021 (Audited)

The table below shows the deferred share awards granted under the DAIP to Executive Directors on 26 March 2021 in respect of the 2020 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 2021 under the DAIP	
Director	Position	Value of deferred bonus (£)	Number of shares granted[1]
Penny James	Chief Executive Officer	466,519	148,101
Neil Manser[2]	Chief Financial Officer	135,300	42,952
Tim Harris	Chief Financial Officer (former)	307,090	97,488

Notes:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.15. 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.
2. The DAIP award made to Neil Manser was made before he became an Executive Director.

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 2021[2,3] (% of salary)
Penny James	Chief Executive Officer	250%	490%
Neil Manser	Chief Financial Officer	200%	159%
Tim Harris[4]	Chief Financial Officer (former)	200%	62%

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 unvested DAIP awards, all vested but unexercised awards, or awards unvested but after the performance period and in the holding period. Holdings of Ordinary Shares are 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 2021 share price of £2.79.
4. Shareholding for Tim Harris is calculated based on the 13 May 2021 share price of £2.93, being the date he stepped down from the Board.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2020 and 2021. 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]	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Tracy Corrigan[3]	**13**	–	**–**	–	**13**	–
Danuta Gray	**350**	209	**–**	–	**350**	209
Mark Gregory	**125**	109	**–**	–	**125**	109
Jane Hanson[4]	**44**	120	**–**	3	**44**	123
Sebastian James	**100**	96	**–**	–	**100**	96
Fiona McBain	**101**	95	**–**	3	**101**	98
Gregor Stewart	**115**	115	**–**	2	**115**	117
Richard Ward[5]	**143**	120	**0**	0	**143**	120
Adrian Joseph[6]	**80**	–	**–**	–	**80**	–

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. Tracy Corrigan joined the Board on 1 November 2021.
4. Jane Hanson stepped down from the Board on 13 May 2021.
5. The value of benefits for Richard Ward in 2021 totals £222, compared to £76 in 2020, these values are rounded to 0 for consistency within the table above.
6. Adrian Joseph joined the Board on 1 January 2021.

CEO pay ratio

The table below compares the single total figure of remuneration for the CEO since 2019 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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	126:1	98:1	67:1
2020[1]	Option A	132:1	108:1	73:1
2019[2]	Option A	123:1	101:1	67:1

Notes:

1. The 2020 figures have been updated for Penny James' updated 2020 single figure value (see page 140 note 4).
2. 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 James' service as CFO excluded.

The UK employees included are those employed on 31 December 2021 and remuneration figures are determined with reference to the financial year ending on 31 December 2021 (consistent with the approach taken in previous years).

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2021 as we continue to believe that that 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. No other adjustments were made.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£19,720	£29,326	£32,987
Total pay and benefits	£25,691	£32,900	£48,302

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 28:1 (2020: 31:1). 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.

The 2021 ratios are slightly lower than last year. This is partly attributable to the CEO's single figure of remuneration being lower for 2021 due to a lower value of the LTIP vesting outcome, partially offset by a higher AIP outcome. Employees have similarly experienced higher bonus outcomes (consistent with the CEO's AIP result), and this combined with broader salary increases has led to an increase in the total pay and benefits for 2021 compared to last year. The median ratio has remained reasonably consistent since 2019, moving broadly in line with the CEO's single figure of remuneration, as explained above.

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 a 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 remuneration of Executive Directors and the wider workforce are set out on page 138. The Committee is satisfied that these policies drive the right behaviours and reinforce the Group's values which in turn drives the correct culture, and, for the reasons given above, believes that the ratios are consistent with the Group's reward policies.

Percentage change in Executive Directors' and Non-Executive Directors' pay for 2020 to 2021

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]	
	2020	**2021**	2020	**2021**	2020	**2021**
Executive Directors						
Chief Executive Officer	7.6%	**0.5%**	(24.6%)	**37.3%**	16.1%	**3.0%**
Chief Finance Officer	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**
Chief Finance Officer (former)[4]	0.0%	**0.0%**	0.5%	**(0.3%)**	7.9%	**2.4%**
Non-Executive Directors[5,6]						
Tracy Corrigan	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**
Danuta Gray	90.1%	**67.4%**	(100.0%)	**0.0%**	n/a	**n/a**
Mark Gregory	7.2%	**15.0%**	(100.0%)	**0.0%**	n/a	**n/a**
Jane Hanson	0.0%	**0.0%**	(69.3%)	**(100.0%)**	n/a	**n/a**
Sebastian James	1.0%	**4.2%**	0.0	**0.0%**	n/a	**n/a**
Fiona McBain	14.6%	**6.7%**	(79.9%)	**(100.0%)**	n/a	**n/a**
Adrian Joseph	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**
Gregor Stewart	0.0%	**0.0%**	(87.2%)	**(100.0%)**	n/a	**n/a**
Richard Ward	0.0%	**18.9%**	(5.7%)	**193.3%**	n/a	**n/a**
All employees (average)	3.5%	**2.7%**	(1.4%)	**(18.6%)**	3.9%	**8.8%**

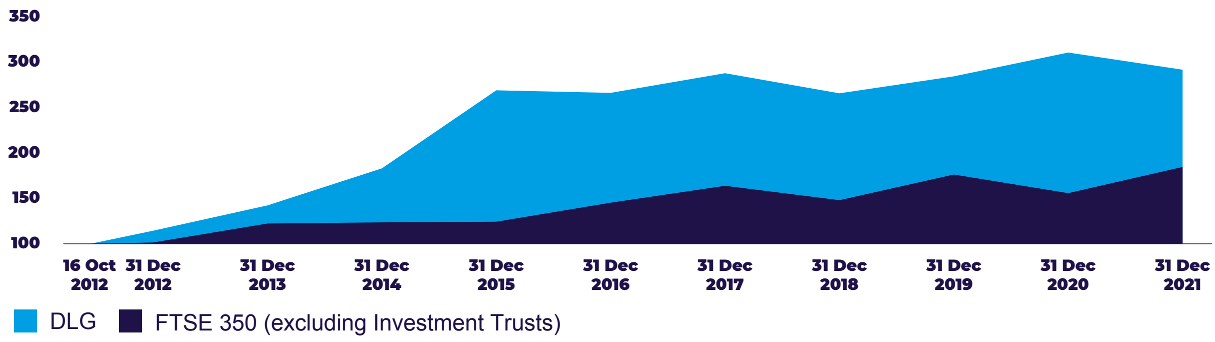
Notes:

1. Based on the change in average pay for employees employed in the year ended 31 December 2021 and the year ended 31 December 2020. The increase to the CEO salary in 2019 reflected her being CFO for part of the year before promotion to CEO. 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. Non-Executive Director fee levels were unchanged between 2020 and 2021, any changes above relate to individual changes in committee membership through the year.
2. For the CEO, the decreased value of benefits from 2019 to 2020 relate to the car service used by the CEO, for which usage was reduced due to the Covid-19 pandemic. The increase in 2021 reflects increased usage of the car service, of which the Group also pays for any associated tax liability that arises on this benefit. For all employees, there were no changes in benefits provision between 2020 and 2021. 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 2021 figure for Tim Harris is based on an annualised amount as he stepped down as an Executive Director on 13 May 2021.
5. The decreased value of benefits in 2020 related to a decrease in travel expenses due to the Covid-19 pandemic. Jane Hanson stepped down from the Board on 13 May 2021, the 2021 figure in the table is based on an annualised amount to compare to the prior year.
6. Adrian Joseph, Neil Manser and Tracy Corrigan have no figures shown in the table above as they joined the Board during 2021.

Chief Executive Officer's pay between 2012 and 2021 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2012 and 2021. 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]	2020[4]	2021[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	3,286	3,235
Annual bonus payment (% of maximum)	65%	63%	75%	83%	43%	88%	68%	76%	76%	82%	84%
LTIP vesting (% of maximum)[1]	30%	55%	88%	96%	86%	99%	71%	0%	100%	80%	74%

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 2020 single figure has been revised to reflect the actual vesting of the 2018 awards under the LTIP.
5. The 2021 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2019. Any shares under the LTIP granted in 2019 will not be delivered until the end of the applicable vesting periods in March and August 2022. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed.

Payment for loss of office (Audited)

Tim Harris

Tim Harris retired as Chief Financial Officer and stepped down from the Board on 13 May 2021 for reasons explained in the RNS announcement published on 13 May 2021. During 2021 Tim worked as an Executive Director to 10 January 2021 only and took paid compassionate leave from 11 January to 31 March 2021 during which he continued to receive salary, pension, and benefits. This was followed by a period of unpaid leave from 1 April 2021 to 12 May 2021, during which time he continued to be eligible for benefits only (in line with the Group's employee policies). Following his cessation as a Director of the Company with effect from the conclusion of the 2021 AGM on 13 May 2021, Tim's contractual salary, pension and benefits will be paid in monthly instalments until the end of his 12-month notice period on 12 May 2022.

The Remuneration Committee determined that Tim will be treated as a good leaver in relation to outstanding awards under the Company's Share Schemes and the AIP by reason of his retirement, in accordance with the plan rules and the Directors' Remuneration Policy.

Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
340	9	31	380

AIP

The 2021 AIP was subject to the satisfaction of the gateway criteria and relevant performance criteria. The award was also pro-rated to reflect the period worked until he commenced compassionate leave (10 January 2021). 40% of the award will be deferred into shares. Further detail is set out on pages 141-144.

DAIP

The 2019, 2020 and 2021 DAIP awards will continue to vest on their third anniversaries of award and remain subject to all scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

Awards made under the Restricted Share Plan pursuant to Listing Rule 9.4.2 ("RSP"), to compensate Tim for remuneration arrangements forfeited on leaving his former employer, will continue to vest on the normal vesting dates and will be time pro-rated to reflect the period from their date of grant to the end of employment and remain subject to all scheme rules, including malus and clawback provisions.

The October 2019, March 2020 and August 2020 LTIP awards will be time pro-rated to reflect the period from their date of grant to the end of his employment. The awards will vest on the third anniversary of their grant, subject to their original performance conditions and to all scheme rules, including malus and clawback provisions. Furthermore, if Tim secures a new role which the Committee considers is comparable with his role with the Group, and which it considers should reasonably compensate him for the loss of any unvested awards, then such unvested awards will be forfeited.

Both Tim's LTIP and RSP awards will continue to be subject to a further two-year holding period after vesting (and then there will be a 12-month exercise period).

Furthermore, any LTIP or RSP awards which are unvested or still in the holding period will be forfeited if Tim takes up employment with another organisation which compensates him, and or which the Committee considers should reasonably compensate him for the loss of any unvested awards.

No LTIP awards have been made to Tim since August 2020.

SIP

In accordance with the Rules of the Share Incentive Plan ("SIP"), as a good leaver, all Tim's Plan shares will be released to him, which follows legislation and HMRC guidance for tax advantaged plans in the UK.

Share Ownership Guideline

Tim is to comply with the Company's post-cessation shareholding requirements; maintaining his current shareholding for a period of two years after he has left the Company. Tim's current shareholding includes shares owned outright, as well as his unvested DAIP and RSP awards (on a net of tax basis). Tim will be permitted to sell sufficient shares to cover any tax liability on exercise of these awards.

Payments to Past Directors (Audited)

March and August 2018 LTIP

The table below sets out the awards which vested during the year to Paul Geddes (former CEO) and Mike Holliday-Williams (former MD, Personal Lines), who exited the Group on 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[1]	Total value of share options (including dividends) vested (£)
March 2018[2]	Paul Geddes	260,887	35.4%	92,289	295,602
	Mike Holliday-Williams	179,580	39.0%	70,103	224,540
August 2018[3]	Mike Holliday-Williams	188,657	24.9%	46,960	145,106

Notes:

1. 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.
2. Based on closing share price of £3.20 on the vesting date (26 March 2021).
3. Based on closing share price of £3.09 on the vesting date (31 August 2021).

The March 2018 LTIP award vested overall at 74.8%, with the RoTE element (60% weighting) achieving 100%, and relative TSR (40% weighting) at 36.9%. The August 2018 LTIP award vested at 68.0%, with the RoTE element (60% weighting) achieving 100% and relative TSR (40% weighting) at 20.7% . 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.

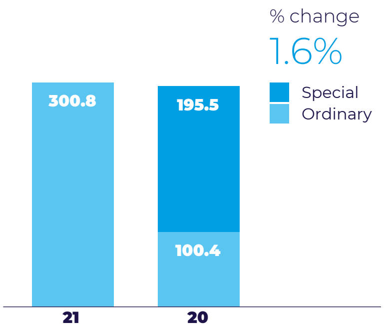
New Executive Director

On 13 May 2021, following the conclusion of the AGM Neil Manser, the then current Chief Strategy Officer, joined the Board as an Executive Director and was appointed CFO. Neil's annual salary is £515,000. This salary is in line with the FTSE 51-150 CFO benchmark and below the previous CFO's salary level. Neil's pension allowance will continue to be 9% of salary, in line with that of the wider workforce. He also participates in the Group's Annual Incentive Plan up to a maximum of 175% of salary and the Long-Term Incentive Plan of up to 200% of salary.

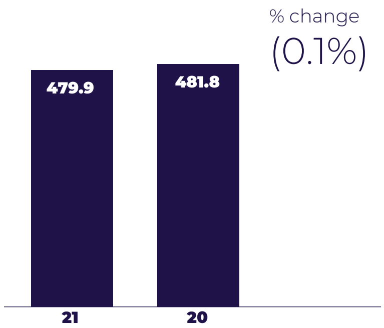
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2020 and 2021.

Dividend (£m)



Overall expenditure on pay (£m)



Note:

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 2020 Directors' Remuneration Report which was put to shareholders at the 2021 AGM.

The resolution approving the Directors' Remuneration Report was passed by 97.69% of the votes cast in favour of the resolutions.

	For		Against		Number of votes withheld (abstentions)
	Number	Percentage	Number	Percentage	
Approval of Directors' Remuneration Policy (2020 AGM)	1,051,904,620	97.55%	26,440,027	2.45%	60,251
Approval of Directors' Remuneration Report (2021 AGM)	1,038,647,888	97.69%	24,537,644	2.31%	117,721

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.

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.
Neil Manser	13-May-21	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 2022

Key feature	Implementation in 2022
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 £515,000
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 used for 2021 – There will be a straight-line vesting between AIP threshold and maximum performance – Financial measures (55%): Profit before tax – Non-financial measures (45%): The assessment will be against a set of Group Objectives and Key Results relating to delivering profitable growth and great customer experience (20%), realising cost savings (15%), alongside supporting great people (10%) – The performance targets will be set following the usual process, considering internal and consensus forecasts and the key strategic priorities for the Group in 2022 – 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

Key feature	Implementation in 2022
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 – A new emissions metric will be applied for 2022 onwards; 50% will be based on RoTE; 40% on TSR and 10% on emissions – A RoTE target range of 17.5% (threshold) to 20.5% (maximum) is required for the 2022 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 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 – The Group is currently in the process of seeking certification for our long-term emissions targets from the SBTi. The emissions targets for the 2022 LTIP awards will be set based on the SBTi certified targets once this process is completed later in the year. The emissions performance targets will be disclosed in next year's Directors' Remuneration Report.

Non-Executive Directors' fees

The fees for the Chair and Non-Executive Directors for 2022 are set out below.

Position	Fees for 2022 £'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	15
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (Sustainability, Investment or Nomination)	5

The Board determined that a small increase to the fee for the Chair of Sustainability and Investment Committees, as well as introducing a fee for member of the Investment Committee would apply following a review of market practice and to reflect the additional duties that the Committee is undertaking.

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 2022 on pages 154-155.

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 what 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

Directors' Remuneration Report *continued*

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 2021 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 256.

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 95 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	37, 43, 44
Important events since the financial year end	18 to 27
Likely future developments in the business	27
Employee engagement	31, 65, 108, 109, 111, 143
Engagement with suppliers, customers and other business relationships	58 to 59, 110
Research and development	2, 6, 19, 26
Greenhouse gas emissions, energy consumption and energy-efficient action	70 to 75
Branches outside the UK	242

Disclosure of information required by Disclosure Guidance and Transparency Rule 7.2

The FCA's Disclosure Guidance and Transparency Rule 7.2 requires 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 into the Directors' report by reference.

Disclosure of information under Listing Rule 9.8.4C

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

Subject	Page
Interest capitalised by the Group	Not applicable
Unaudited financial information	Note 3.5
Details of long-term incentive schemes	145 to 147
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)	Not applicable
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	161
Controlling shareholder agreements	Not applicable

Dividends

The Board recommends a final dividend of 15.1 pence per share to shareholders. Subject to shareholder approval at the Company's 2022 AGM, this will become payable on 17 May 2022 to all holders of Ordinary Shares on the Register of members at close of business on 8 April 2022.

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 2022.

The Board also recommends a new share buyback programme of up to £100 million split into two tranches of £50 million in H1 2022 and H2 2022.

You can find information on dividend and capital management, including the share buyback programme, in the Finance review, on pages 32 to 45.

Directors

The names of all current Directors and their biographies are set out on pages 98 to 101. All Directors will retire and those wishing to continue to serve will be submitted for election or re-election at the 2022 AGM. 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 98 to 101 were the Directors of the Company throughout the year under review, except:

- Adrian Joseph was appointed as an independent Non-Executive Director with effect from 1 January 2021.
- Tim Harris retired from the Board with effect from 13 May 2021.
- Neil Manser was appointed as CFO with effect from 13 May 2021.
- Jane Hanson stepped down from the Board with effect from 13 May 2021.
- Tracy Corrigan was appointed as an independent Non-Executive Director with effect from 1 November 2021.

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 134 to 159.

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 and can be contacted at the Company's Registered Office, details of which are on page 257.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 31 December 2021, the Company's share capital comprised 1,330,713,012 fully paid Ordinary Shares of 10 $\frac{10}{11}$ pence each.

At the Company's 2021 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 £49,536,818, and to allot further shares up to an aggregate nominal amount of £49,536,818 for the purpose of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £7,430,523 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 £7,430,523 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 136,226,250 shares in the Company, representing 10% of the Company's issued share capital at the time (this authority, which expires at the conclusion of the AGM being held on 10 May 2022, was used to purchase 22,515,414 shares (the Company used the similar authority granted at the Company's 2020 AGM to purchase 11,323,179 shares between 9 March 2021 and 13 May 2021). Further information can be found below); 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 2021, with the exception of the authority to make market purchases of shares, as described below. At the 2022 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 2021 in notes 31 and 37 of the consolidated financial statements.

On 9 March 2021, the Company announced the launch of a share buyback programme of up to £100 million, which was undertaken during 2021 in two tranches of up to £50 million (a previous share buyback programme, launched on 3 March 2020, was terminated on 19 March 2020 as a result of the volatile conditions arising from the Covid-19 pandemic). In line with the Group's capital management approach of growing the regular dividend in line with business growth and distributing surplus capital, the share buyback programme was 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. During 2021, a total number of 33,838,593 ordinary shares of 10 $\frac{10}{11}$ pence each were repurchased under the share buyback programme representing 3% of the called up share capital of the Company as at 31 December 2021. The aggregate consideration paid across the two tranches was £99,910,742.39. The effect of the share buyback has been to: reduce the weighted average number of Ordinary Shares in issue during 2021, which is used to calculate earnings per share, from 1,356.5 million in 2020 to 1,335.8 million in 2021 (see note 15 to the consolidated financial statements for more details); and reduce the closing number of Ordinary Shares at 31 December 2021 to 1,317.3 million from 1,351.8 million at 31 December 2020 (see note 16 to the consolidated financial statements for more details).

Further information on the Company's share buyback programme can be found in the Finance Review on pages 32 to 45.

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 which 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 37 on page 232. The Company is not aware of any other dividend waivers or voting restrictions in place.

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.

Directors' Report *continued*

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 (which may exclude non-working days) 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.

Use of financial instruments

Information regarding the Company's use of financial instruments, financial risk management objectives and policies can be found in the Risk Management section of the Strategic Report on page 89 and note 3 of the Consolidated Financial Statements.

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 holdings of the major shareholders in the Company's ordinary issued share capital, as at 31 December 2021 and as at 7 March 2022, 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 2021	7 March 2022
BlackRock, Inc.	9.92%	9.92%
Artemis Investment Management LLP	5.07%	5.07%
Majedie Asset Management Limited	4.99%	4.99%
T.Rowe Price Associates, Inc	4.94%	4.94%
Norges Bank	4.91%	4.91%
abrdn plc	4.57%	4.57%
APG Asset Management N.V	2.99%	2.99%

Political donations

The Group made no political donations during the year (2021: nil).

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 61 to 65.

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 believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Finance Review describes the Group's capital management strategy, including the capital actions taken in the last twelve months 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 starts on page 192 and sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk; and the Group's approach to monitoring, managing and mitigating exposure to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle. The assessment included the impact of the Covid-19 pandemic on the underwriting cycle, including motor claims frequency, travel disruption and supply chain disruption, and the possible impacts of the FCA's Pricing Practices Review ("**PPR**"). The key judgements and assumptions applied were in relation to the likely time period of continued Covid-19 related effects and the impact on the general insurance market, the economic recovery and the impact of the PPR on customer behaviour. The 2021 Strategic Plan (the "**Plan**") indicates that the Group will continue to maintain levels of solvency in line with its risk appetite across the planning cycle (to 31 December 2025).

In addition, the Group's Risk function has carried out an assessment of the risks to the Strategic Plan and the dependencies for the success of the 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 our partial internal economic capital model. In both scenarios, it was concluded that the Group's solvency capital requirement would not be breached following the implementation of management actions.

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 U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The purpose of this reverse stress test was to assess the coverage and scope of the internal economic capital model and there were no findings that invalidate the internal model.

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 7 March 2022 (the date of approval of the consolidated 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 and 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 pages 121 to 122.

Conflicts of interest

Each Director has a duty to avoid conflicts of interest and must declare any conflict of interest that could interfere with their ability to act in the Group's best interests. In accordance with the Companies Act 2006, 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. As a matter of course, the Board authorises certain potential conflicts of interest in this way including Directors' external directorships and their interests in securities of other financial service institutions. The Company Secretary maintains a register of potential conflicts which the Board reviews at each scheduled Board meeting.

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 98 to 101, 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 95) and Directors' report (on pages 160 to 163) include a fair review of: (i) the business's development and performance; and (ii) the position of the Company 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, performance, business model and strategy.

This report was approved by the Board on 7 March 2022 and signed on its behalf by:

Roger C. Clifton
Company Secretary

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

Registered number: 02280426