> The Remuneration Committee is committed to aligning Executive Directors' pay to the Group's business strategy and demonstrable success and the interests of our shareholders.

Dear shareholders,

I am pleased to introduce my first Directors' Remuneration Report as Chair of the Remuneration Committee ("the Committee"), for the 2018 financial year. I would like to thank Clare Thompson for her stewardship of the Committee over the last few years.

At Direct Line Group we believe that Directors should be paid fairly for the job they do and the results that they generate. I see the Committee's objectives as:

- Rewarding Directors for results that are generated within the risk appetite set by the Board.
- Setting an appropriate framework for remuneration for the Board with sufficient flexibility so that the Group can attract and retain the best people for the organisation.
- Having oversight of remuneration policies throughout the Group and ensuring all our employees are paid fairly.

In this letter I introduce the items that I think are important or new in the Directors' Remuneration Report. The report is set out in the following sections:

The Remuneration Policy which covers the 2018 report was approved, by a substantial vote in favour of the policy at the AGM in May 2017. Consistent with the regulations, the Directors' Remuneration Policy is next due to be submitted to the Company's AGM for approval in 2020.

Pay outcomes for 2018

All-employee pay in 2018

We could not be successful without the hard work and dedication of our talented people, at all levels of the organisation. It is important to us that we ensure all our people are rewarded fairly and have an interest in the success of the Group.

In 2018 we focused our pay budget specifically on those in lower paid roles, ensuring that all employees with satisfactory performance received a pay increase of at least £650. We also increased minimum salaries across the Group to £17,000 or £18,000 (depending on contracted hours), which were adopted for all roles except apprenticeship schemes. This meant that the average pay increase for employees below Senior Leadership was around 3.2%, but was around 5% for our lowest paid frontline roles. Our minimum salaries were positioned approximately 6% above the Living Wage Foundation rate for non-London roles, and approximately 18% higher than the Government's National Wage at the time.

We want our employees to have ownership of the Group and its success, and in 2018 we issued our fourth all-employee free share award since our IPO. Outside our Senior Leadership, 86% of our people own shares in the Company, thus ensuring alignment at all levels between the work they do and the success in which we share.

Annual Incentive Plan

The Group's diversified product and channel portfolio, disciplined underwriting and our engaged employees have helped us to achieve a commendable profit before tax result of £583 million. For the purpose of the financial element of the Annual Incentive Plan, the profit before tax target excluded the budgeted reserve release related to the expected Ogden discount rate change. The actual profit before tax consequently differed from the statutory IFRS basis by excluding the actual Ogden discount rate related releases made in 2018. The out-turn was slightly ahead of the target leading to a pay-out of 64% of maximum for this element.

Performance across the People measures was particularly strong for the year and the Committee awarded a maximum out-turn for this element. The Customer measures were assessed as being on target. The Committee is pleased to report this year that management have made significant progress on the technology transformation agenda on which the Personal objective was measured, and awarded an out-turn of 70% for this element. Full details on the outcomes for the year are included on pages 96 – 99.

We therefore awarded bonuses of 68% of the maximum to the Executive Directors. In line with the Remuneration Policy, 40% of any AIP award is automatically deferred into a Deferred Annual Incentive Plan award.

Review of the impact of the Ogden discount rate change on the 2016 AIP out-turn

You may recall that, at the time of the approval of the 2016 AIP out-turn, the Government had just announced a change in the Ogden discount rate which materially impacted the financial results for 2016. To align the 2016 AIP out-turn with shareholders, the Committee significantly reduced the AIP out-turn from an anticipated maximum pay-out for the financial element (based on the indicative range used by the Committee for its assessment) to 10% out of the 55% of total bonus opportunity attributable, an approach more conservative than many of the Group's competitors. The government, at the same time, announced that a review of the rate setting mechanism would be undertaken. Given these exceptional circumstances, the Committee agreed to keep its assessment of the 2016 AIP outcome under review to enable the Committee to recalculate the out-turn for the 2016 financial year if the Ogden discount rate was raised or the mechanism for setting it was changed.

On 20 December 2018 the Civil Liability Act passed into law which confirmed the new process for the setting of the Ogden discount rate. Following the introduction of the new rate setting process, the Group considered the Ogden discount rate it uses to calculate its liabilities which led to an increase from minus 0.75% to 0% (pending the Government publishing the final rate which will be set by the middle of 2019 at the latest).

The application of this new discount rate led to a reserve release of £55 million which, together with an earlier associated release in 2017 of £49 million, totalled £104 million of the £217 million originally charged in 2016 as a result of the Ogden rate change.

Following the commitment made by the Committee (and disclosed in the 2016 Remuneration Report), the Committee considered the impact of the Ogden-related reserve releases made since February 2017 in terms of the impact on the 2016 AIP out-turn. Had they been attributed to the 2016 financial year, this would have resulted in a maximum pay-out for the financial element of the AIP and a potential increase to 2016 bonuses of up to 45% of maximum. The Committee reviewed this result in the context of balancing the desire to ensure the outcome was fair to participants while being appropriately aligned with the shareholder experience. In striking this balance it concluded that it was appropriate to make an overall increase of 20% to the bonus payment for 2016 (below the 45% formulaic calculation).

This led to additional payments in March 2019 for Paul Geddes, Mike Holliday-Williams and John Reizenstein for the 2016 AIP. All payments have been made in accordance with the normal policy with 40% deferred into the Group's shares which will vest on the third anniversary of award (March 2022).

Finally, the Committee noted that the Ogden rate change in February 2017 was exceptional in that there had not been a change for over 10 years. Now that the new rate setting mechanism has been implemented, the Committee considers that the impact of future Ogden discount rate changes to be part of the normal management of reserves and so it is unlikely in the normal course of events that special allowance will be made in the AIP out-turn for a change in Ogden discount rate.

Long Term Incentive Plan

The LTIP has two performance measures: RoTE (60% of the total award) and relative TSR (40% of the total award). Awards under the LTIP granted in March and August 2015 vested during 2018.

The Group achieved an average RoTE of 18.1% over 2015, 2016 and 2017 resulting in 100% of the maximum potential vesting of the RoTE element for both awards (60% of the total awards).

The TSR performance periods run from the date of award to the third anniversary of award (as opposed to across the three financial years commencing with the year in which the award was granted as for the RoTE measure). For the March 2015 award the TSR performance was positioned between the median and the upper quintile against its comparator group which resulted in 62% of the maximum potential vesting for this element (24.8% of the total award). Accordingly, this gave a total vesting outcome of 84.8%. For the August 2015 award, the TSR performance was below the threshold requirement of median and therefore no shares vested under this measure. Subsequently the overall vesting outcome for this award was 60%.

Awards under the LTIP granted in March and August 2016 are due to vest during 2019, subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period. The RoTE performance period for these awards ended on 31 December 2018. The three-year average RoTE performance for 2016, 2017 and 2018 was 18.5% against a maximum target of 17.5%. Awards under the RoTE element are, therefore, due to vest at 100% of the maximum potential.

In calculating the RoTE achievement, the reported RoTE for 2018 was adjusted downwards to exclude the favourable impact of the capital management exercises executed in the 2017 financial year on the outcome for these awards. The ongoing enhancement to earnings expected in future years has been explicitly recognised by the Committee in setting higher targets than would otherwise be the case.

Consistent with the regulations, due to the different timings of the performance periods for RoTE and TSR, the TSR element of the 2016 awards due to vest during 2019 will be reported separately next year. Accordingly, we have included an estimated value of the RoTE vesting outcomes for 2016's awards plus the TSR vestings from the 2015 awards in the single figure remuneration table for 2018 for the Executive Directors.

UK Corporate Governance Code 2018 and the new CEO pay ratio disclosure

There have been several changes to the UK Corporate Governance Code which affect the remit of this Committee: communication with employees about Directors' remuneration (in addition to the workforce consultation requirements); policy on post-employment shareholding requirements; and the alignment of pension contributions for Directors to those of the workforce. The Committee worked hard to be in compliance with these requirements for when they came into effect on 1 January 2019 and the Committee will report details on how we have met these requirements in our 2020 report. We have also chosen to adopt early the new disclosure requirements on the CEO's pay relative to the wider workforce as part of our efforts to strengthen the transparency in our approach to the alignment of Directors' pay with that of the wider workforce.

Approval of the Directors' Remuneration Report for 2017 at the AGM in May 2018

At the Direct Line Group plc AGM held in May 2018 the resolution approving the Directors' Remuneration Report was passed by 76.6% of the votes cast in favour of the resolution. The resolution, which only required a simple majority to be approved and is advisory in nature, was therefore convincingly approved by shareholders. However, this was significantly lower than the percentage of votes in favour of resolutions that the Company has historically received and as a result the Group have been included on the Investment Association's register of companies that have more than 20% of votes cast against a resolution at a general meeting. All of the remuneration arrangements described within the 2017 report were in line with the Remuneration Policy approved by shareholders at the AGM in 2017. The main issue raised by some of the proxy voting agencies on the Remuneration Report was the increase in remuneration for the new Chief Financial Officer compared with that of her predecessor. Consequently, the proxy voting agencies recommended an automatic vote against the Remuneration Report in 2017.

The Board carried out a thorough recruitment process and identified Penny James as the ideal candidate for the role: after considering the needs of the Group, the role and her experience, the Committee agreed to match the remuneration from her previous employer to secure her services. The Board was satisfied that Penny was the right person for the job and this was considered the only way to bring Penny into the organisation. The Committee Chair and the Board Chair engaged with shareholders to understand any concerns. Shareholders were supportive of the decisions that the Board and Committee had made and understood the reasons for them. Engagement with investors in relation to remuneration will continue with regards to new appointments to the Board.

Approach to pay in 2019

No change to the overall approach to pay is anticipated for 2019. The updated Remuneration Policy will be put to shareholders in 2020.

The MD Personal Lines will be awarded a salary increase of 2.25% from 1 April 2019 in line with the average rate for staff generally. The Committee is satisfied that the increase is warranted based on his performance and the role he performs.

No increase will be awarded to the CEO in view of the fact that he will be leaving the Group during 2019.

The CEO-designate will not receive a salary increase before her appointment as CEO on 9 May 2019 (see below).

No change will be made to either the weightings or the approach to assessment of the metrics under the AIP.

We are not proposing any changes to the performance conditions for the 2019 awards under the LTIP. Likewise the target RoTE scale of 17.5% to 20.5% will remain at the same level as in 2018 and reflects an appropriate performance range in the context of the Group's planned underlying RoTE performance.

Chief Executive Officer

On 26 February 2019, Penny James, the current CFO, was appointed to succeed Paul Geddes as Chief Executive Officer and will become the CEO from the conclusion of the AGM on 9 May 2019. Paul will step down from the Board following the AGM on 9 May 2019 and will leave the Group at the end of July 2019.

In setting Penny's remuneration, we benchmarked her salary against the FTSE 51-100 and positioned her salary below the current CEO's salary level. There will be no change to her participation in the Company's AIP up to a maximum of 175% of salary and the LTIP up to 200% of salary. We have however taken the opportunity to set Penny's pension contribution at 9% of salary (reduced from the existing pension contribution rate of 25% of salary), in line with that of the wider workforce which will be our policy for all new Executive appointments. The Committee will be considering the reduction of pension contribution for all Executive Directors as part of the remuneration policy review during 2019. The details of Penny's remuneration, which will take effect from 9 May 2019, are set out on page 112.

Any payments relating to Paul Geddes' departure will be in accordance with the Remuneration Policy approved by shareholders at the Company's 2017 AGM and will be disclosed in the Directors' Remuneration Report to be contained in the Company's Annual Report and Accounts for the year ending 31 December 2019.

Advisers to the Committee

During the year, the Committee appointed PwC as its independent adviser from 1 January 2019. FIT Remuneration Consultants LLP have been advisers to the Remuneration Committee since the time of the IPO in 2012 and therefore the Committee felt it was appropriate to seek a change of adviser at this time. On behalf of myself and the Committee I wish to extend our thanks to FIT, and John Lee in particular, for their support and counsel over the past years.

Your AGM vote

I hope that having read the information in this report, and considering the performance of the Group during 2018, 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 my team will respond to you.

Yours sincerely

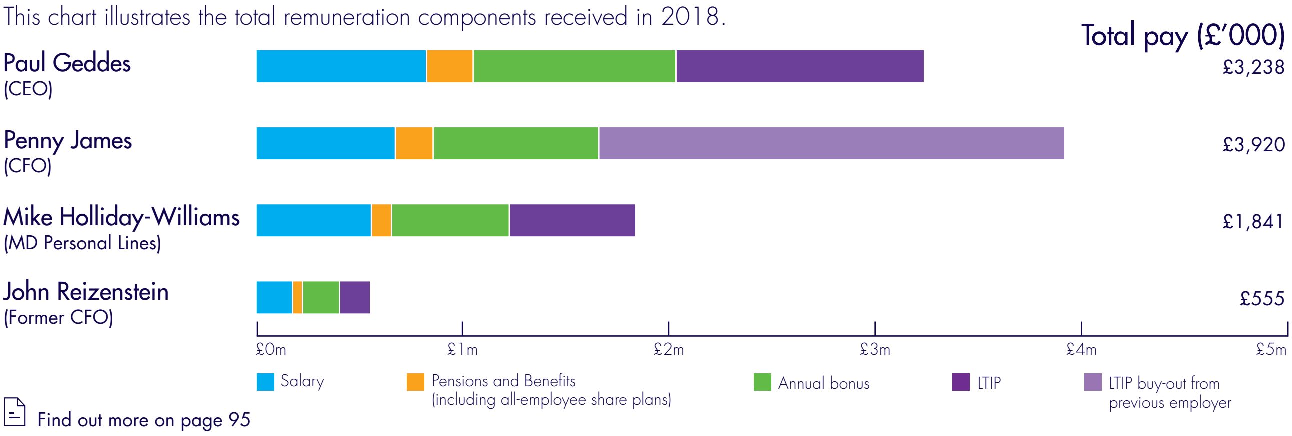
DANUTA GRAY
CHAIR OF THE REMUNERATION COMMITTEE

Remuneration at a glance

Remuneration outcomes for 2018

Executive Directors' total pay

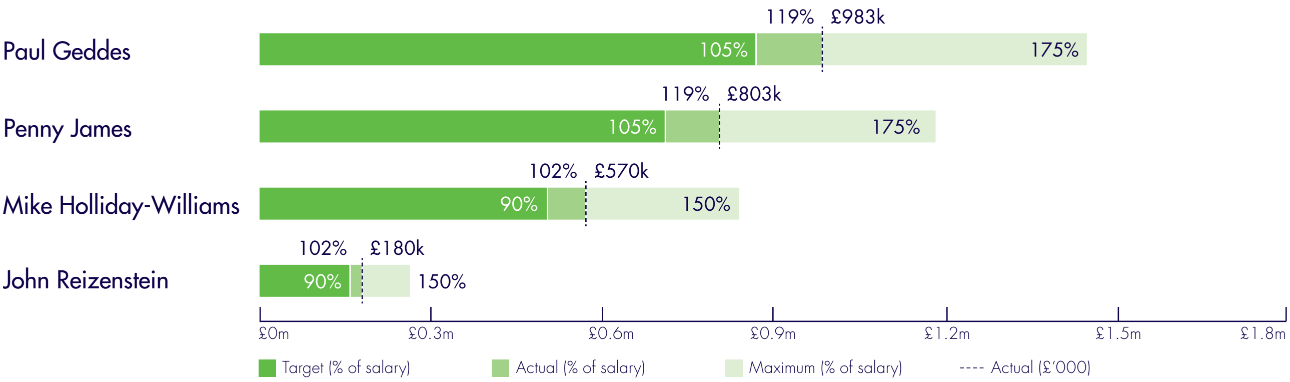
This chart illustrates the total remuneration components received in 2018.



Find out more on page 95

AIP achievement

This chart illustrates the actual amounts earned from the AIP and reflecting performance in 2018. 60% of the amount is payable in March 2019 and 40% will be deferred into shares for three years.

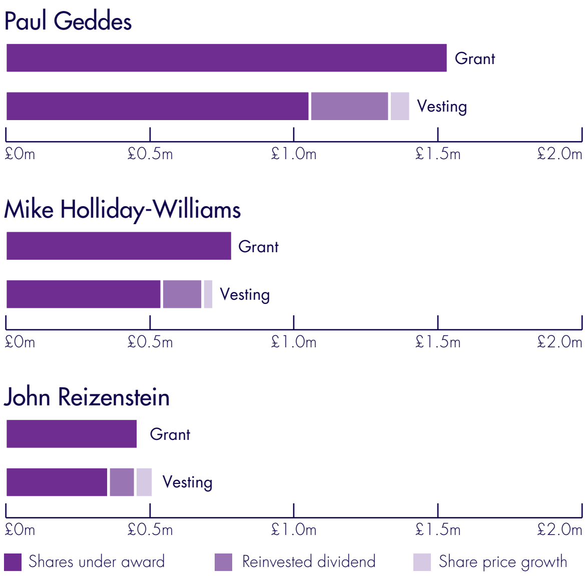


Find out more on pages 96 – 99

LTIP

Release of value

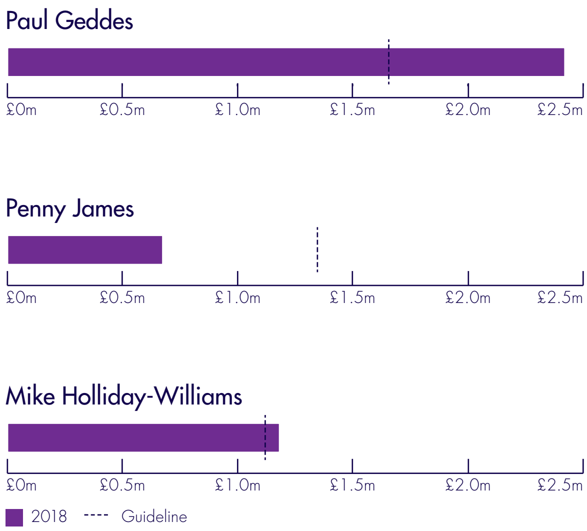
This chart illustrates the total value of the 2015 LTIP awards that vested in 2018.



Find out more on pages 100 – 101 and 105

Shareholding at year end

This chart illustrates the number of shares held at the end of 2018 by the Executive Directors against the share ownership guidelines of 200% of salary.



Implementing the policy in 2019

Key feature	Implementation in 2019
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	– No salary increase for the outgoing CEO – CEO-designate salary to increase to £800,000 (effective from appointment on 9 May 2019) – No salary increase for the CEO-designate at 1 April – New CFO to be appointed – 2.25% salary increase for the MD Personal Lines to £575,242
Pensions	
– CEO and CFO contribution rate of 25% of salary – MD Personal Lines contribution rate of 15% of salary	– CEO-designate pension contribution to be reduced to 9% of salary (effective from appointment on 9 May 2019) – New CFO to be appointed – The pension contribution rate will be in line with that of the wider workforce for all new Executive Director appointments – The reduction of pension contribution for all Executive Directors in line with that of the wider workforce will be considered as part of the policy review during 2019
Annual Incentive Plan	
– Maximum opportunity of 175% of salary for the CEO and the CFO, and 150% for the MD Personal Lines; 40% of the award is deferred into shares, typically vesting after three years and subject to continued employment – At least 50% of bonus is based on financial measures. The Committee considers various non-financial and strategic performance measures. It bases its judgement on the payment outcome at the end of the performance period on its assessment of the level of stretch inherent in targets – Any payment is subject to an additional gateway assessment, including assessing risk factors – Malus and clawback conditions apply	– No change to the maximum opportunity – No change to the weightings or measures used for 2019 – The targets are commercially sensitive and will be disclosed in next year's report.
Long-Term Incentive Plan	
– Awards typically granted as nil-cost options – Awards typically granted every March and August at half the annual level – The Plan allows for awards with a maximum value of 200% of base salary per financial year – Performance is measured over three years and determined by RoTE and relative TSR measures – Awards vest subject to financial underpin and payment gateway – Malus and clawback conditions apply – Awards are subject to an additional two-year holding period following the end of the three-year performance period	– No change to the maximum annual award levels – Nil-cost options will continue to be used for the grants – The current 60% RoTE and 40% TSR mix will continue to apply – A RoTE target range of 17.5% to 20.5% is required for the 2019 awards to vest

Find out more on page 114

Statutory remuneration report

Introduction

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

Annual remuneration report

Remuneration Committee members and governance

The following list details members of the Remuneration Committee during 2018. You can find information about each member's attendance at meetings on page 67. You can find their biographies on pages 62 to 64.

Committee Chair
Danuta Gray[1]
Non-Executive Directors
Mike Biggs
Sebastian James
Andrew Palmer[2]
Clare Thompson

Notes:
1. Danuta Gray was appointed as Chair of the Remuneration Committee with effect from 10 May 2018.
2. Andrew Palmer stepped down from the Board with effect from 10 May 2018.

Advisers to the Committee

The Committee consults with the Chief Executive Officer, the Group Human Resources Director, and senior representatives of the HR, Risk and Finance functions on matters relating to the appropriateness of all remuneration elements for Executive Directors and Executive Committee members. The Chairman, Chief Executive Officer and the Group Human Resources Director are not present when their remuneration is discussed. The Committee works closely with the Chairs of the Board Risk Committee and the Audit Committee, including receiving input from those Chairs regarding target-setting and pay-outs under incentive plans, and whether it is appropriate to operate malus and clawback. The Chair of the Board Risk Committee attended Remuneration Committee meetings on two occasions. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee retained FIT Remuneration Consultants LLP ("**FIT**") as its independent adviser until the end of 2018. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct. The Committee appointed FIT when preparing for the IPO.

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

FIT's total fees for remuneration-related advice in 2018 were £110,349 exclusive of VAT. FIT charged its fees based on its standard hourly rates for providing advice.

Following a competitive tender process, the Committee appointed PwC as its independent adviser from 1 January 2019. PwC is a member of the Remuneration Consultants Group and, as such, operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice received is objective and independent. PwC also provides other advice to the Group covering accounting, tax and immigration services. The total fees (charged on an hourly basis) for the provision of remuneration advice to the Committee in relation to the 2018 financial year were £8,000 exclusive of VAT.

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

Implementing policy and pay outcomes relating to 2018 performance

Single figure table (Audited)

	Salary[1]		Benefits[2]		Annual bonus[3,6]		Long-term incentives[4,7,8]		All-employee share plans[5]		Pension		Total	
£'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Paul Geddes	826	807	19	18	983	1,242	1,204	1,770	–	–	206	202	3,238	4,039
Penny James[9]	675	113	14	2	803	1,014	2,259	532	–	–	169	28	3,920	1,689
Mike Holliday-Williams[10]	559	501	14	13	570	721	614	851	–	–	84	75	1,841	2,161
John Reizenstein[11]	177	488	4	9	180	644	150	1,071	0.3	1	44	122	555	2,335

Notes:
1. Salary – the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
2. Benefits – includes a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance. The value of benefits in the table above includes all taxable benefits received.
3. Annual bonus – includes amounts earned for performance during the year, but deferred for three years under the DAIP. For more information, see page 106. These deferred awards are not subject to any conditions, except continuous employment. However, awards remain subject to malus and clawback.
4. 2015 LTIP awards RoTE – the expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2015 and reported in 2017 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £3.75300 and £3.34400 on 25 March 2018 and 26 August 2018 respectively, compared to the three-month average share price of £3.65557 used in reporting this figure in the 2017 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 decrease of approximately £292,700 for Paul Geddes, £177,160 for John Reizenstein, and £149,439 for Mike Holliday-Williams with a corresponding decrease of the single figure for 2017 reflected in the table above. Further information on LTIP awards can be found on pages 107 to 108.
5. SIP – includes the value of matching shares under the SIP.
6. The 2017 annual bonus figure for Penny James includes a payment of £840,841 made in lieu of the bonus forfeited at her previous employer and is pro rated for the period 1 January to 31 October 2017 (before Penny joined the Group). This is in line with the estimated payment shown in last year's report and therefore this figure has not been updated.
7. The 2017 estimated long-term incentive figure for Penny James in respect of the first tranche of her buy-out awards, which vested in May 2018 and which was reported in 2017, has been updated. This value is based on an actual level of vesting of 95.835% and the share price on 2 May 2018 of £3.658. Details of this award are disclosed on page 109.
8. The 2018 long-term incentive figure for Penny James relates to an estimated amount in respect of the second and final tranche of her buy-out awards, disclosed on page 109, which vests in April 2019. The award is subject to the achievement of performance targets, ending in the 2018 performance year, that relate partly to the performance of the Company and partly to the performance of her previous employer. The value of this award is based on an expected level of vesting of 97.335% and a three-month average share price to 31 December 2018 of £3.20042. The actual vesting outcome will be confirmed in next year's report once actual performance and the vesting date share price are known. Further details are set out on page 101.
9. Penny James was appointed to the Board on 1 November 2017 and also became employed on that date.
10. Mike Holliday-Williams was appointed to the Board on 1 February 2017. His salary, benefits and pension for 2017 have been pro rated accordingly.
11. John Reizenstein stepped down from the Board at the AGM on 10 May 2018. His remuneration for the purposes of this table has been pro rated accordingly, with LTIPs vesting by reference to performance conditions met while he was on the Board in 2018. Details of John's salary, pension and benefits paid following his cessation as an Executive Director on 10 May 2018 until the date of his retirement on 7 September can be found on page 112.

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

2016 single figure table restated (Audited)

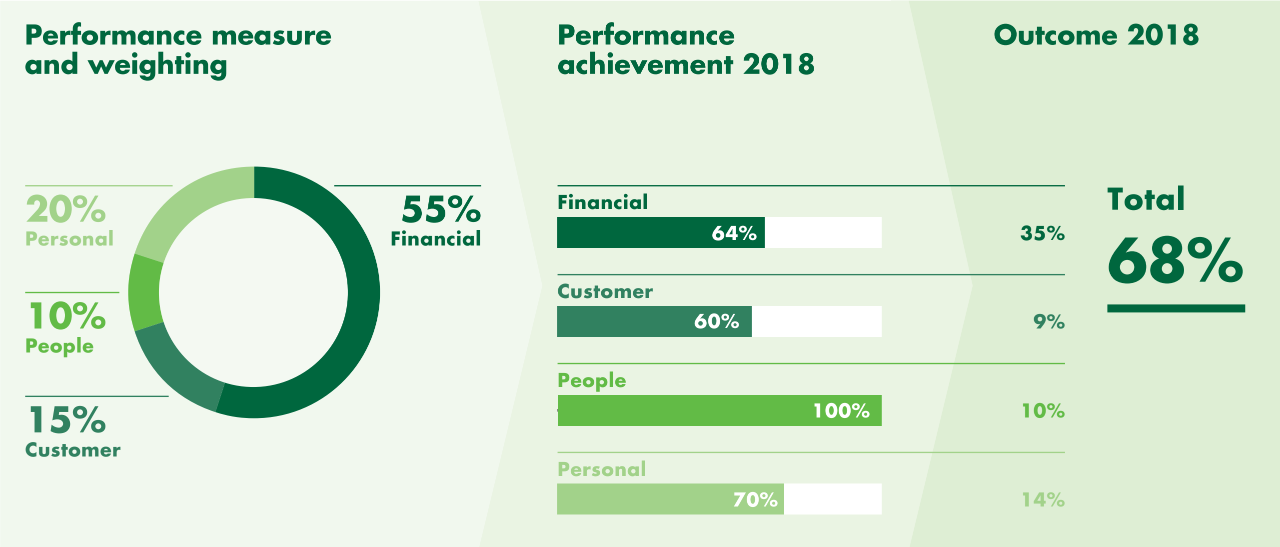
As set out in the Chair's letter, the Committee concluded that an adjustment to the 2016 profit out-turn as a result of the impact of reserve releases that are due to the Ogden rate changes is appropriate. This led to additional payments in March 2019, in relation to the 2016 AIP, representing 20% of maximum opportunity of the original awards. The 2016 single figure table is therefore restated below to reflect this. All additional payments in relation to the 2016 AIP have been made in accordance with the normal policy with 40% deferred into the Group's shares which will vest on the third anniversary of award (March 2022).

	Salary		Benefits		Annual bonus		Long-term incentives		All-employee share plans		Pension		Total	
£'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Paul Geddes[1]	790	771	19	18	871	1,120	2,471	2,693	–	–	197	193	4,348	4,795
John Reizenstein[2]	478	467	10	15	452	602	1,495	1,630	1	1	119	117	2,555	2,832
Mike Holliday-Williams[3]	–	–	–	–	546	–	–	–	–	–	–	–	–	–

Notes:
1. The revised 2016 annual bonus figure for Paul Geddes relates to an adjustment of 20% of maximum opportunity of the original award of £594,287, resulting in an increase of £276,413.
2. The revised 2016 annual bonus figure for John Reizenstein relates to an adjustment of 20% of maximum opportunity of the original award of £308,294, resulting in an increase of £143,393.
3. Although Mike Holliday-Williams was not an Executive Director during 2016, his restated annual bonus has been included above for completeness. This represents an adjustment of 20% of maximum opportunity of the original award of £385,074, resulting in an increase of £160,448.
4. The original out-turn and explanation of the 2016 AIP can be found on page 88 of the 2016 Annual Report and Accounts.
5. The 2016 figures are as disclosed on page 79 of the 2017 Annual Report other than in relation to the restated bonus.

Annual Incentive Plan outcomes for 2018 (Audited)

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



Executive Director	Achievement under the 2018 AIP	2018 AIP payment
Paul Geddes	68% of maximum	£982,569
Penny James	68% of maximum	£803,250
Mike Holliday-Williams	68% of maximum	£570,337
John Reizenstein	68% of maximum	£180,226

Note: The annual incentive award made to John Reizenstein represents a pro rated amount for the period to the AGM on 10 May 2018.

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

Financial element (55% weighting)

The financial performance measure is profit before tax. The Committee established a target performance level at the start of the year. The only adjustment from the reported accounting position, as explained in the letter from the Committee Chair, was to exclude the assumed benefit as a result of the Ogden discount rate change. In the table below, we have disclosed the target set for profit before tax performance. The actual profit before tax performance includes the adjustment to reported profit before tax as described above.

The approach taken to assessing financial performance against this measure was based on a straight-line outcome between 10% for threshold performance and 60% for on target performance, and a straight-line outcome between on target performance and 100% for achievement of maximum performance.

The formulaic outcome from 2018 performance against the financial measure was 64%, giving a total of 35% out of 55% attributable to this element. A summary of the assessment is provided in the following table.

Measure	Threshold 10%	Target 60%	Maximum 100%	2018 Actual	2018 Achievement
Profit before tax	£469.6m	£521.8m	£574.0m	£527.6m	64%

Customer element (15% weighting)

Customers are at the heart of the Group's strategy and success. As part of our customer strategy, and to ensure that the business strives to achieve a sustained and competitive level of overall service to our customers, the Board sets challenging customer-centric KPIs. These key customer metrics focus on continuous improvement of the customer experience. The Committee considered that overall the Group had continued to improve on an already strong performance against stretching targets. The Group's brands perform well (mainly top quartile) across the majority of insurance customer experience benchmarking studies.

Having considered performance against targets and an assessment of the quality of performance achieved, the Committee judged the Customer measures to be on target and agreed an out-turn of 60%, giving a total of 9% out of 15% attributable to this element. A detailed assessment of the Customer measures is set out below.

Measure	Assessment
Net Promoter Score (NPS) Improvement of customer advocacy across Direct Line Group	– Direct Line NPS was ahead of the target and continued to show strong year on year performance. Market leading propositions were successfully launched during the year and are performing well with consumers. – Churchill NPS was relatively flat over the year, and was below the target set for 2018; we launched campaigns focused on meeting key customer needs for target segments. – An improved perception of 'price' and 'value for money' supported the significantly increased Renewal NPS for the year during which several of our best ever months were recorded. – Rescue NPS performance ended the year below the target set as the result of a challenging H1 due to extreme weather events, with improved performance across H2.
Complaints Reduction in complaints volume and process improvements	– The volume of complaints in Personal Lines and Commercial reduced significantly in 2018, exceeding the stretch targets for both areas. – We introduced and rolled out a specialist bereavement team to assist the families of deceased customers. – Claims complaints were adverse to target due to higher than forecast volumes caused by extremes in weather in the first half of 2018, with performance stabilising throughout the second half of 2018.

Claims Ease
Increase ease on claims and strategic improvements
	– We were unable to meet the ambitious targets set in this area in a year when the 'Beast from the East' and increased volume challenged capacity across claims and networks.
	– However several programmes contributed to improvements for customers, including:
	  – earlier identification of total loss vehicles in Motor which resulted in faster payments, a key driver of improved Ease for customers.
	  – Travel 'Return to Green' plan (all KPIs at target levels) successfully delivered against a challenging landscape.

MyCustomer Transaction customer experience performance measuring our people/calls	– Over 1.5 million responses from customers across the Group have provided feedback on the experience delivered by our people and 84% rated our people as 9 or 10 out of 10. A new platform was launched in Q4 to further improve insight capabilities. – In Personal Lines MyCustomer consultant performance was significantly ahead of target. – MyCustomer for Claims stabilised in H2 after a challenging start to the year due to the high volumes of claims, however ended the year short of the ambitious target set.

Measure	2018 Achievement
Customer element	60%

People element (10% weighting)

For the People element of the AIP, the Board set a range of people measures specifically around succession strength, diversity and employee engagement, reflecting the importance of this agenda to the success of the Group. The Committee considered that performance across these measures was very strong and had exceeded expectations against a background of high employee engagement. The Committee therefore agreed an out-turn of 100% for the People measures, giving a total of 10% out of 10% attributable to this element. A detailed assessment of the People measures is set out below.

Measure	Assessment
Succession	– We continue to develop our senior leaders, collectively and as individuals, to ensure we continue to strengthen our succession depth. – After a comprehensive programme in 2017 to map our talent, with a particular focus on gender balance, we developed an emerging leader programme which has been attended by 20 high potential managers in 2018. – 52 (87%) of our senior leaders have completed personal assessments and profiles carried out to enable individual development planning in 2018 and development of the senior leadership team as a whole, and have attended mental health awareness training. – We have successfully recruited for our new graduate and apprenticeship schemes with a further 26 graduates and 114 apprentices joining us during 2018.
Diversity	– Since becoming a signatory to the Women in Finance Charter, we have actively recruited and promoted more women into senior roles; women now account for 28% of our senior management (2017: 22%) and we are on track to meet our 2019 target. – We continue to focus on building an inclusive organisation, valuing diversity and uniqueness. 93% of our people responded positively that they feel they can 'bring all of themselves to work' in our 2018 survey. – All senior leaders have Diversity and Inclusion action plans in place. – We launched Wellbeing, CSR and My Life family policies to respond to the variety of life needs our people may have. – Mental health was a particular focus this year and we trained over 135 Mental Health First Aiders with at least one available on every floor across all our locations, and all people managers attended mental health awareness training. It is our aspiration to enable conversations and support to be at the same level as they are for physical health.
Engagement	– We achieved record participation levels (90%) in our employee survey, DiaLoGue, and increased our already high overall engagement levels from 78% in 2017 to 81%, which places us in the upper quintile of high performing companies. – We achieved a strong 2* accreditation in the Sunday Times 'Best Big Companies to Work For' survey and are extremely proud to have been ranked in third place overall in our first year of entry. – In 2018 our focus on fair pay for all employees resulted in 'Fair Deal' being one of the most positively valued aspects by our people in the 'Best Companies to Work For' survey. – About 250 of our people managers completed Engage training focused on helping them develop more authentic relationships with their people. – Through Idea Lab, our employee suggestions scheme established in 2015, we have adopted c.90 ideas to improve customer service, the way we work or save cost. Cost saving ideas have delivered over £3.2 million in savings so far and employees have received over £130 thousand in recognition rewards.

Measure	2018 Achievement
People	100%

Personal element (20% weighting)

This element relates to an objective that is shared across the Executive Committee and set by the Remuneration Committee. The shared objective for 2018 focused on the Company's key technology transformation and the changes it is making to its IT infrastructure, as well as other areas of the general change agenda. There has been significant progress on the stability and performance of the broader technology landscape and with the management of overall change across the organisation. Taking performance against each Executive Director's individual performance objectives and the above challenges into account, and the material progress seen over the past two years, the Committee determined that the Executive Directors should each receive awards of 70% of the maximum available, giving a total of 14% out of 20% attributable to this element. Further details of the assessment of the Personal element is set out below.

- We have remained focused on improving our digital offering, customer experience and operational efficiency, recognising the challenges experienced in previous years. The Committee is pleased to report that strong progress has been made in the development and delivery of the Group's ambitious technology transformation programme to build capability for the future. The implementation of the new core Personal Lines systems is on track to start to roll out for Motor and Travel during 2019, and within the budget as agreed with the Board. The programme includes a new pricing engine and a digital Travel platform, both of which went into testing in 2018.
- Following the launch of our bespoke Direct Line for Business insurance products, Hair & Beauty and Bed & Breakfast, Direct Line for Business launched Office, Professional and Retail. Although a few weeks later than scheduled, this release is the largest of our bespoke offerings to date, and supported by a national Small and Medium-sized Enterprises marketing campaign, has shown month on month improvements in gross written premiums in H2.
- Significant improvements in the stability and performance of the technology transformation programme, supporting our people perform their roles more efficiently, resulted in increased internal customer satisfaction, with savings for the programme on track.
- The Company saw satisfactory progress in implementing and embedding Change controls across the business.
- The EU General Data Protection Regulation programme was implemented successfully and notably delivered our compliance strategy ahead of time against tight deadlines.

Measure	2018 Achievement
Personal element	70%

LTIP outcomes for 2018 (Audited)

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

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

2015 LTIP awards (vested in 2018)

Awards under the LTIP granted in March and August 2015 vested during 2018. They were subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2015, 2016 and 2017.

Consistent with the regulations, the expected RoTE vesting outcomes for the year ended 31 December 2017 (together with the TSR elements from the 2014 awards), were included in the 2017 single remuneration figure in the 2017 report. The 2017 single remuneration figure has been updated in the 2018 report to reflect the known share price at the actual vesting date for the RoTE portion of the awards. You can find details of this on page 95. The performance outcomes of these elements are included in the table below.

The 2018 single remuneration figure includes the value of the 2015 TSR elements (which vested in March and August 2018). 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	Maximum	Actual performance	Achievement	Outcome
March 2015	Relative TSR (2018 single figure)	40%	Median	Upper quintile	Between median and upper quintile	62%	24.8%
	RoTE (2017 single figure)	60%	14.5%	17.5%	18.1%	100%	60%
	Total						84.8%
August 2015	Relative TSR (2018 single figure)	40%	Median	Upper quintile	Below median	0%	0%
	RoTE (2017 single figure)	60%	14.5%	17.5%	18.1%	100%	60%
	Total						60%

2016 LTIP awards (vesting in 2019)

Awards under the LTIP granted in March and August 2016 will vest during 2019. They are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2016, 2017 and 2018. The RoTE performance period for these awards ended on 31 December 2018 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 2019 and August 2019 respectively and will be disclosed in the 2019 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 (together with the TSR elements from the 2015 awards) are included in the 2018 single remuneration figures for the Executive Directors based on the three-month average share price to 31 December 2018. You can find details of this on page 95.

Award	Performance measure	Weighting	Threshold	Maximum	Actual performance	Achievement	Outcome
March 2016	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	60%
August 2016	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	100%

Summary of the 2018 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 2016 LTIP – RoTE[1]	Paul Geddes	149,080	100%	149,080	£477
	Mike Holliday-Williams	75,723	100%	75,723	£242
	John Reizenstein	90,233	100%	73,504	£235[2]
August 2016 LTIP – RoTE[1]	Paul Geddes	149,743	100%	149,743	£479
	Mike Holliday-Williams	76,054	100%	76,054	£243
	John Reizenstein	90,626	100%	61,079	£195[2]
March 2015 LTIP – TSR	Paul Geddes	106,371	62%	65,929	£247
	Mike Holliday-Williams	55,110	62%	34,157	£128
	John Reizenstein	64,383	62%	39,904	£150
August 2015 LTIP – TSR	Paul Geddes	111,350	0%	0	£0
	Mike Holliday-Williams	56,558	0%	0	£0
	John Reizenstein	67,396	0%	0	£0
Total single figure LTIP	Paul Geddes				£1,204
	Mike Holliday-Williams				£614
	John Reizenstein				£150[2]

Notes:
1. 2016 RoTE elements are based on the three-month average share price to 31 December 2018 of £3.20042.
2. John Reizenstein stepped down from the Board on 10 May 2018. His 2016 LTIP awards are pro rated accordingly and will be disclosed as a payment to past directors in the 2019 annual report on remuneration. John Reizenstein's 2018 single figure disclosure will therefore only include the amount vesting in relation to the March 2015 TSR component of the LTIP.

Buy-out award

The second tranche of Penny James' buy-out award is due to vest on 1 April 2019, based on the achievement of performance targets that relate partly to the performance of the Company and partly to the performance of her previous employer. The performance conditions for this award are relative TSR (50%) and IFRS profit over 2016, 2017 and 2018 (50%). Relative TSR performance is measured against a peer group based on the prior employer's TSR performance from 1 January 2016 to 31 October 2017 and Direct Line Group's TSR performance from 1 November 2017 to 31 December 2018 with a threshold vesting of median (25% vests) and a maximum vesting of upper quartile (100% vests). The peer group is consistent with that used by the prior employer.

Relative TSR performance over the period was just below the upper quartile of the comparator group. As such, 94.7% of this element will vest. The prior employer does not disclose the IFRS profit targets in advance of vesting. The outcome for this element is estimated to be 100% based on the prior employer's previous year's LTIP out-turn and the 2018 mid-year results. The overall estimated vesting outcome is therefore 97% of maximum. The final vesting outcome will be disclosed in the 2019 Directors' Remuneration Report once the prior employer's targets and actual performance have been published. The number of shares expected to vest is 705,871, calculated as 97% of 725,199. The estimated value is £2,259,087 based on a three-month average share price to 31 December 2018 of £3.20042.

Using shares (Audited)

In receiving an award under the LTIP or DAIP, Executive Directors commit not to hedge their exposure to outstanding awards under these plans or in respect of shares they are reporting to the Company within their ownership for the purposes of any share ownership guidelines. They also agree not to pledge as collateral their participation under any of the plans or any shares which they are required to hold in the Company for any purposes, including for share ownership guidelines.

	At 31 December 2018			
	Share plan awards subject to performance conditions	Share plan awards subject to continued service	Share plan interests vested but unexercised	Shares held outright
Paul Geddes	1,081,288	320,239	1,154	759,844
Penny James	1,413,501	106,242	–	213,075
Mike Holliday-Williams	829,306	193,524	–	372,026

Note:
There have been no changes to the above share interests since 31 December 2018.

	Share plan interests exercised during the year to 31 December 2018	
	Number of options exercised	Share price on date of exercise
Paul Geddes	365,467	3.7280
	167,025	3.3200
Penny James	145,500	3.3520
Mike Holliday-Williams	200,807	3.7280
	84,837	3.3200

Note:
The above relates to nil cost options.

	At end of employment 7 September 2018			
	Share plan awards subject to performance conditions	Share plan awards not subject to performance conditions	Share plan interests vested but unexercised	Shares held outright
John Reizenstein	659,353	169,104	1,052,440	511,489

	Share plan interests exercised during the year to end of employment 7 September 2018	
	Number of options exercised	Share price on date of exercise
John Reizenstein	208,988	3.7280
	971,146	3.3710
	101,094	3.3200

Note:
The above relates to nil cost options.

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

Director	Shares held at 31 December 2018	Shares held at 31 December 2017
Michael Biggs	–	–
Danuta Gray	10,000	10,000
Mark Gregory[3]	–	n/a
Jane Hanson	11,083	26,190
Sebastian James	5,000	5,000
Fiona McBain[4]	–	n/a
Andrew Palmer[5]	10,475	10,475
Gregor Stewart[6]	–	n/a
Clare Thompson	44,065	40,128
Richard Ward	–	–

Notes:
1. There were no changes to the number of shares held by Non-Executive Directors between the year end and the date of this report.
2. Includes holdings of connected person, as defined in section 96B(2) of the Financial Services and Markets Act 2000.
3. Mark Gregory was appointed to the Board with effect from 1 March 2018.
4. Fiona McBain was appointed the Board with effect from 1 September 2018.
5. Andrew Palmer stepped down from the Board at the AGM on 10 May 2018 and this represents his holding at that date.
6. Gregor Stewart was appointed to the Board with effect from 1 March 2018.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2017 and 2018. 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]	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Michael Biggs	400	400	6	6	406	406
Danuta Gray[3]	103	74	4	–	107	74
Mark Gregory[4]	75	–	–	–	75	–
Jane Hanson	120	115	10	12	130	127
Sebastian James	95	90	–	–	95	90
Fiona McBain[5]	25	–	2	–	27	–
Andrew Palmer[6]	51	125	–	–	51	125
Gregor Stewart[7]	88	–	4	–	92	–
Clare Thompson	102	110	–	–	102	110
Richard Ward	120	115	0.4	–	120.4	115

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. Danuta Gray was appointed as Chair of the Remuneration Committee with effect from the AGM on 10 May 2018.
4. Mark Gregory was appointed to the Board with effect from 1 March 2018. He was appointed as Chair of the Investment Committee and as a member of the Audit Committee with effect from the AGM on 10 May 2018.
5. Fiona McBain was appointed to the Board with effect from 1 September 2018.
6. Andrew Palmer stepped down from the Board at the AGM on 10 May 2018.
7. Gregor Stewart was appointed to the Board with effect from 1 March 2018. He was appointed as Chair of the Audit Committee and as a member of the Board Risk Committee with effect from the AGM on 10 May 2018.

CEO pay ratio

The Committee has chosen to adopt early the CEO pay ratio disclosure requirements which would otherwise come into effect from next year's Directors' Remuneration Report. Over the coming year, the Committee will determine the appropriate methodology (Option A, B or C) to be used in future years, considering the robustness of the calculation methodology, the consistency of the method going forward as well as operational time constraints. For the purposes of this year's disclosure, the April 2018 gender pay gap data has been used to identify the three appropriate employees for comparison with the CEO (Option B). Further detail on this methodology is set out below.

The table below compares the 2018 single total figure of remuneration for the CEO with that of the Group employees who are paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its employee population.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option B	127:1	116:1	81:1

The remuneration figures for the employee at each quartile were determined with reference to 31 December 2018.

Under Option B, the latest available gender pay gap data is used to identify the best equivalent for three Group employees whose hourly rates of pay are at the 25th, 50th and 75th percentiles for the Group and their total pay and benefits figure for 2018 is then calculated. A sample of employees with hourly pay rates either side of the initially identified individuals are also reviewed to ensure that the appropriate representative employees are selected. The table below sets out the salary and total pay and benefits for the three identified quartile point employees:

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£20,072	£24,810	£34,452
Total pay and benefits	£25,072	£27,538	£39,555

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

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. For reference, the CEO base salary median pay ratio is 33:1. 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 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 Group's employees are fundamental to the Group's strategy and to ensuring a high level of service to our customers. We are proud that the high number of consultants in our customer service centres are employed by the Group (rather than being outsourced), and note that the impact of these lower paid roles is reflected in the ratios above. Further details on our approach to fairly paying and motivating our employees are set out on page 58.

Percentage change in Chief Executive Officer's pay for 2017 to 2018

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

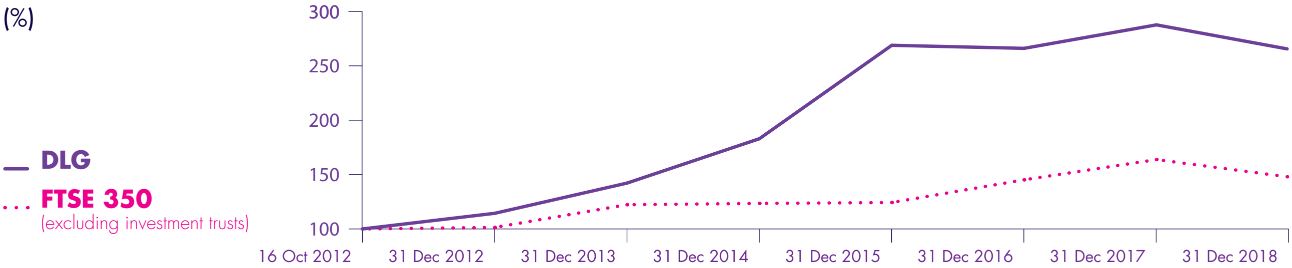
	Salary[1]	Benefits[2]	Bonus (including deferred amount)[3]
Chief Executive Officer	2.5%	7.1%	(20.9%)
All employees (average)	4.46%	16.9%	(12.1%)

Notes:
1. Based on the change in average pay for employees employed in the year ended 31 December 2018 and the year ended 31 December 2017.
2. There were no changes in benefits provision between 2017 and 2018. There has been a change in the assumptions used to calculate the all-employee average benefits figure, making the year on year change appear high to last year. If the treatment was the same as previous years, this would result in a 5% benefits increase from 2017 for all employees.
3. For employees other than the Chief Executive Officer, this includes average amounts earned under the AIP, and other variable incentive schemes, including monthly and quarterly incentive schemes operated in certain parts of the Group.

Chief Executive Officer's pay between 2012 and 2018 and historical performance of TSR

The table below shows historical levels of the Chief Executive Officer's pay between 2012 and 2018. 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



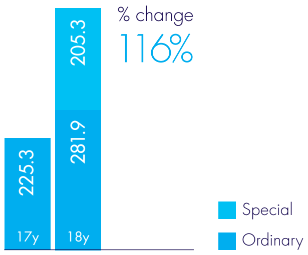
	2012	2013	2014	2015	2016[2]	2017[3]	2018[4]
CEO single figure of remuneration (£'000s)	1,908	2,536	5,356	4,795	4,348	4,039	3,238
Annual bonus payment (% of maximum)	65%	63%	75%	83%	63%	88%	68%
LTIP vesting (% of maximum)[1]	30%	55%	88%	96%	86%	99%	71%

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 have been updated to reflect an adjustment to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
3. The 2017 single figure has been revised to reflect the actual vesting of the 2015 awards under the LTIP, an increase of £292,700.
4. The 2018 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2016. Any shares under the LTIP granted in 2015 will not be delivered until the end of the applicable vesting periods in March and August 2019. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed.

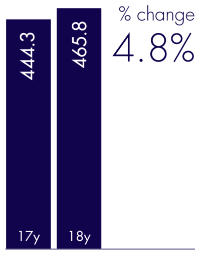
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2017 and 2018.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
1. During 2018 the Company paid special dividends of £205m in addition to the regular dividends. Under the dividend policy the Board considers whether to make additional distributions each year alongside the full-year results. During 2017, no special dividend was paid for the 2016 financial year as following the implementation of the new Ogden discount rate the Board did not consider the Group had surplus capital.
2. There have been no share buy-backs since the IPO. 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 shows the percentage of shareholders voting for or against, and the percentage of votes withheld, relating to the resolutions to approve the 2017 Directors' Remuneration Report which was put to shareholders at the 2018 AGM on 10 May 2018.

The resolution approving the Directors' Remuneration Report was passed by 76.58% of the votes cast in favour of the resolution. The reasons for this outcome and subsequent actions taken are discussed by the Chair in her letter on page 90.

	For		Against		Number of votes withheld (abstentions)	Percentage of votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' Remuneration Report (2018 AGM)	766,710,834	76.58%	234,492,835	23.42%	7,284,313	0.72%
Approval of Directors' Remuneration Policy (2017 AGM)	881,046,703	98.29%	15,349,348	1.71%	32,669,059	3.52%

Shareholdings (Audited)

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

Name	Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2018 (% of salary)
Paul Geddes	Chief Executive Officer	200%	292%
Penny James	Chief Financial Officer	200%	101%
Mike Holliday-Williams	MD Personal Lines	200%	211%

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 200% of base salary.
2. For these purposes, holdings of Ordinary Shares will be treated as including all vested but unexercised awards, or awards unvested but after the performance period in the holding period, valued on a basis that is net of applicable personal taxes payable on acquiring such Ordinary Shares.

Direct Line Group share awards

Direct Line Group Deferred Annual Incentive Plan awards (Audited)

This table details the Directors' interests under the Direct Line Group DAIP.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options as at 1 January 2018	No. of share options granted during the year[1]	No. of share options vested during the year	No. of dividend shares acquired at vesting[2]	No. of dividend shares added post vesting	No. of share options exercised[1,3,4,5]	No. of share options held at 31 December 2018[6]	Vesting date
Paul Geddes										
28-Mar-13	2.0157	380,004	1,044	–	–	–	110	–	1,154	28-Mar-16
25-Mar-15	3.3007	400,000	111,087	–	111,087	28,874	–	139,961	–	25-Mar-18
29-Mar-16	3.752	447,996	119,402	–	–	–	–	–	119,402	29-Mar-19
27-Mar-17	3.36	237,715	70,713	–	–	–	–	–	70,713	27-Mar-20
26-Mar-18	3.818	496,816	–	130,124	–	–	–	–	130,124	26-Mar-21
			302,246	**130,124**	**111,087**	**28,874**	**110**	**139,961**	**321,393**	
Penny James										
26-Mar-18	3.818	405,636	–	106,242	–	–	–	–	106,242	26-Mar-21
			–	**106,242**	**–**	**–**	**–**	**–**	**106,242**	
Mike Holliday-Williams										
25-Mar-15	3.3007	239,997	66,651	–	66,651	17,324	–	83,975	–	25-Mar-18
29-Mar-16	3.752	270,797	72,174	–	–	–	–	–	72,174	29-Mar-19
27-Mar-17	3.36	154,030	45,819	–	–	–	–	–	45,819	27-Mar-20
26-Mar-18	3.818	288,378	–	75,531	–	–	–	–	75,531	26-Mar-21
			184,644	**75,531**	**66,651**	**17,324**	**–**	**83,975**	**193,524**	
John Reizenstein										
28-Mar-13	2.0157	137,999	94,009	–	–	–	9,911	–	103,920	28-Mar-16
25-Mar-15	3.3007	207,200	57,542	–	57,542	14,957	–	72,499	–	25-Mar-18
29-Mar-16	3.752	240,800	64,179	–	–	–	–	–	64,179	29-Mar-19
27-Mar-17	3.36	123,318	36,683	–	–	–	–	–	36,683	27-Mar-20
26-Mar-18	3.818	257,724	–	67,502	–	–	–	–	67,502	26-Mar-21
			252,413	**67,502**	**57,542**	**14,957**	**9,911**	**72,499**	**272,284**	

Notes:
1. These awards take the form of nil-cost options over the Company's shares. Awards granted before 2014 accrue dividend entitlements until the date of transfer of shares. Awards granted from 2014 accrue dividend entitlement from the grant date to the date on which an award vests.
2. Dividends added post-vesting are shown to 31 December 2018, although these are not realised until exercise.
3. Paul Geddes exercised 139,961 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £521,775.
4. Mike Holliday-Williams exercised 83,975 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £313,059.
5. John Reizenstein exercised 72,499 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £270,276.
6. John Reizenstein stepped down from the Board at the AGM on 10 May 2018 and his share interests are as that date. However, the movements in his DAIP interests across the entire year are disclosed above. Further information on what happened to his share scheme interests on leaving employment (on 7 September 2018) can be found on page 108.
7. The dates of the three-day averaging period used to determine the number of shares granted on 26 March 2018 were 21, 22 and 23 March, being the three days preceding the grant.

Direct Line Group Long-Term Incentive Plan awards (Audited)

This table details the Directors' interests in the Company's LTIP. For all LTIP awards, 20% of the awards granted would vest if the minimum performance was achieved.

Grant date	Three- day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2018[1]	No. of share options granted during the year[2]	No. of share options vested during the year[3]	No. of share options lapsed for performance [4]	No. of share options lapsed on leaving employment	No. of dividend shares acquired at vesting [5]	No. of dividend shares added post vesting	No. of share options exercised [6]	No. of share options held at 31 December 2018	Vesting date
Paul Geddes												
25-Mar-15	3.3007	760,000	211,066	–	178,984	32,082	–	46,522	–	225,506	–	25-Mar-18
26-Aug-15	3.517	775,200	220,415	–	132,249	88,166	–	34,776	–	167,025	–	26-Aug-18
29-Mar-16	3.752	775,197	206,609	–	–	–	–	–	–	–	206,609	29-Mar-19
30-Aug-16	3.6833	794,598	215,730	–	–	–	–	–	–	–	215,730	30-Aug-19
27-Mar-17	3.361667	794,597	236,370	–	–	–	–	–	–	–	236,370	27-Mar-20
29-Aug-17	3.854	810,488	210,298	–	–	–	–	–	–	–	210,298	29-Aug-20
26-Mar-18	3.818	810,492	–	212,281	–	–	–	–	–	–	212,281	26-Mar-21
			1,300,488	212,281	311,233	120,248	–	81,298	–	392,531	1,081,288	
Penny James												
28-Nov-17	3.5673	1,349,984	378,433	-	-	-	-	-	-	-	378,433	28-Nov-20
26-Mar-18	3.818	675,000	-	176,794	-	-	-	-	-	-	176,794	26-Mar-21
28-Aug-18	3.3377	675,000	-	202,237	-	-	-	-	-	-	202,237	28-Aug-21
			378,433	379,031	–	–	–	–	–	–	757,464	

Notes:

The Company's share price on 31 December 2018 was £3.187, and the range of prices in the year was £3.049 to £3.932.

1. These awards take the form of nil-cost options over the Company's shares and are subject to performance conditions to be assessed by the Committee. Awards granted before 2014 accrue dividend entitlements until the date of transfer of shares. Awards granted from 2014 accrue dividend entitlement from the grant date to the date on which an award vests.
2. The RoTE targets for awards granted in 2018, applying to 60% of the award, were 17.5% for 20% vesting,18.5% for 40% vesting and 20.5% for full vesting. A straight-line interpolation occurs from threshold to target, and then from target to maximum performance. The remaining 40% of each award is based on TSR performance conditions, which are the same as noted on page 111.
3. The closing market price on the dates of the vesting of the awards was £3.728 on 26 March 2018 and £3.371 on 28 August 2018.
4. Awards under the LTIP vested at 84.8% of the maximum potential on 26 March 2018 and 60.0% of the maximum potential on 28 August 2018.
5. Dividends added post-vesting are shown to 31 December 2018, although these are not realised until exercise.
6. Paul Geddes exercised 225,506 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £840,686, and on 29 August 2018 167,025 options when the share price was £3.32 resulting in a notional gain of £554,523.
7. The dates of the three-day averaging period used to determine the number of shares granted on 26 March 2018 were 21, 22 and 23 March, being the three days preceding the grant. The dates of the three-day averaging period used to determine the number of shares granted on 28 August were 22, 23 and 24 August.
8. The performance period for the awards granted on 26 March 2018 will end on 31 December 2020 for the RoTE element and 25 March 2021 for the TSR element. The performance period for the awards granted on 28 August 2018 will end on 31 December 2020 for the RoTE element and 27 August 2021 for the TSR element.

All awards made from August 2017 include an additional two-year holding period before awards may be released. The Company's normal policy is to grant awards twice a year, after the Group announces its full and half-year results. The value of each grant of awards is set at 50% of the annual policy level. This means the total combined face value of awards per year to each of the Executive Directors equates to 200% of base salary.

Direct Line Group Long-Term Incentive Plan awards (Audited) continued

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2018[1]	No. of share options granted during the year[2]	No. of share options vested during the year[3]	No. of share options lapsed for performance [4]	No. of share options lapsed on leaving employment	No. of dividend shares acquired at vesting [5]	No. of dividend shares added post vesting	No. of share options exercised [6,7]	No. of share options held at 31 December 2018[8]	Vesting date
Mike Holliday-Williams												
25-Mar-15	3.3007	393,747	109,351	–	92,729	16,622	–	24,103	–	116,832	–	25-Mar-18
26-Aug-15	3.5170	393,749	111,956	–	67,173	44,783	–	17,664	–	84,837	–	26-Aug-18
29-Mar-16	3.7520	393,750	104,944	–	–	–	–	–	–	–	104,944	29-Mar-19
30-Aug-16	3.6833	403,572	109,568	–	–	–	–	–	–	–	109,568	30-Aug-19
27-Mar-17	3.361667	538,099	160,069	–	–	–	–	–	–	–	160,069	27-Mar-20
29-Aug-17	3.854	548,860	142,413	–	–	–	–	–	–	–	142,413	29-Aug-20
26-Mar-18	3.818	548,862	–	143,756	–	–	–	–	–	–	143,756	26-Mar-21
28-Aug-18	3.3377	562,584	–	168,556	–	–	–	–	–	–	168,556	28-Aug-21
			738,301	312,312	159,902	61,405	–	41,767	–	201,669	829,306	
John Reizenstein												
7-Nov-12	1.96	460,000	299,271	–	–	–	–	–	31,551	330,822	–	9-Nov-15
28-Mar-13	2.0157	459,999	302,089	–	–	–	–	–	31,848	333,937	–	28-Mar-16
28-Aug-13	2.1564	459,999	277,167	–	–	–	–	–	29,220	306,387	–	28-Aug-16
25-Mar-15	3.3007	460,000	127,750	–	108,332	19,418	–	28,157	–	136,489	–	25-Mar-18
26-Aug-15	3.5170	469,200	133,409	–	80,045	53,364	–	21,049	–	101,094	–	26-Aug-18
29-Mar-16	3.7520	469,199	125,053	–	–	–	23,184	–	–	–	101,869	29-Mar-19
30-Aug-16	3.6833	480,899	130,562	–	–	–	42,567	–	–	–	87,995	30-Aug-19
27-Mar-17	3.361667	480,900	143,054	–	–	–	74,006	–	–	–	69,048	27-Mar-20
29-Aug-17	3.854	490,518	127,275	–	–	–	83,844	–	–	–	43,431	29-Aug-20
			1,665,630	–	188,377	72,782	223,601	49,206	92,619	1,208,729	302,343	

Notes:
The Company's share price on 31 December 2018 was £3.187, and the range of prices in the year was £3.049 to £3.932.

1. These awards take the form of nil-cost options over the Company's shares and are subject to performance conditions to be assessed by the Committee. Awards granted before 2014 accrue dividend entitlements until the date of transfer of shares. Awards granted from 2014 accrue dividend entitlement from the grant date to the date on which an award vests.
2. The RoTE targets for awards granted in 2018, applying to 60% of the award, were 17.5% for 20% vesting, 18.5% for 40% vesting and 20.5% for full vesting. A straight-line interpolation occurs from threshold to target, and then from target to maximum performance. The remaining 40% of each award is based on TSR performance conditions, which are the same as noted on page 111.
3. The closing market price on the dates of the vesting of the awards was £3.728 on 26 March 2018 and £3.371 on 28 August 2018.
4. Awards under the LTIP vested at 84.8% of the maximum potential on 26 March 2018 and 60.0% of the maximum potential on 28 August 2018.
5. Dividends added post-vesting are shown to 31 December 2018, although these are not realised until exercise.
6. Mike Holliday-Williams exercised 116,832 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £435,550 and 84,837 options on 29 August 2018 when the share price was £3.32 resulting in a notional gain of £273,175.
7. John Reizenstein exercised 136,489 options on 26 March 2018 when the share price was £3.728 resulting in a notional gain of £508,831, 971,146 options on 28 August 2018 when the share price was £3.371 resulting in a notional gain of £3,273,733 and 101,094 options on 29 August 2018 when the share price was £3.32 resulting in a notional gain of £335,632.
8. John Reizenstein stepped down from the Board at the AGM on 10 May 2018 and his share interests are as at that date. However, the movements in his LTIP interests across the entire year are disclosed above. Further information on what happened to his share scheme interests on leaving employment (on 7 September 2018) can be found on page 106.
9. The dates of the three-day averaging period used to determine the number of shares granted on 26 March 2018 were 21, 22 and 23 March, being the three days preceding the grant. The dates of the three-day averaging period used to determine the number of shares granted on 28 August were 22, 23 and 24 August.
10. The performance period for the awards granted on 26 March 2018 will end on 31 December 2020 for the RoTE element and 25 March 2021 for the TSR element. The performance period for the awards granted on 28 August 2018 will end on 31 December 2020 for the RoTE element and 27 August 2021 for the TSR element.

All awards made from August 2017 include an additional two-year holding period before awards may be released. The Company's normal policy is to grant awards twice a year, after the Group announces its full and half-year results. The value of each grant of awards is set at 50% of the annual policy level. This means the total combined face value of awards to each of the Executive Directors equates to 200% of base salary.

Buy-out awards (Audited)

The table below details buy-out awards made to Penny James. These awards were made to the CFO in November 2017 as compensation for the forfeiture of legacy awards granted by her previous employer. The awards were made in the form of restricted stock options (pursuant to Listing Rule 9.4.2) and subject to performance conditions that, as far as possible, mirrored those of the original awards.

The first tranche of these buy-out awards, which vested in April 2018, was subject to the performance conditions and comparator groups identical to those of the original award, ending in the 2017 performance year. For the second tranche, which will vest in April 2019, the performance conditions differ from the above in that the Group's TSR performance replaces that of the former employer for the period from 1 November to 31 December 2018 (post-joining).

The awards accrue dividend equivalent shares until vesting, as per the terms of the legacy awards.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2018	No. of share options vested during the year	No. of share options lapsed for performance	No. of dividend shares acquired at vesting	No. of share options exercised	No. of share options held at 31-Dec-18	Vesting date
Penny James									
28-Nov-17	3.5673	500,492	140,298	134,454	5,844	11,046	145,500	–	3-Apr-18
Penny James									
28-Nov-17	3.5673	2,340,304	656,037	–	–	–	–	656,037	1-Apr-19

Notes:
1. Penny James exercised 145,500 options on 2 August 2018 when the share price was £3.352 resulting in a notional gain of £487,716.
2. The first tranche of the above buy-out awards vested on 2 May 2018, deferred from the original vesting date of 3 April 2018 due to the Company being in a closed period from 29 March to 1 May 2018.

Direct Line Group 2012 Share Incentive Plan (Audited)

During 2018, all employees, including Executive Directors, were eligible to invest from £10 to £150 a month from their pre-tax pay into the scheme, and receive one matching share for every two shares they purchased. This table details the number of shares held by John Reizenstein under the SIP. Paul Geddes, Mike Holliday-Williams and Penny James do not participate in the plan.

Director	Matching shares as at 31 December 2017	Matching shares granted during the period	Matching shares cancelled during the period	Matching shares vested during the period	Value of matching shares granted[1] £	Balance of matching shares at 10 May 2018
John Reizenstein	742	80	–	82	303	740

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. John Reizenstein stepped down from the Board on 10 May 2018 and his interests are shown as at that date. On leaving employment on 7 September 2018, his SIP shares were transferred to him in accordance with the rules of the scheme.

Dilution

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

Statement of policy implementation in 2019

Executive Directors' salaries in 2019

The salary increase awarded to the Executive Directors, effective 1 April 2019, reflects the average increase awarded to staff generally.

Director	Position	2019 base salary £'000	2018 base salary £'000	Annual change in base salary
Paul Geddes	Chief Executive Officer to 9 May 2019	831	831	–
Penny James	Chief Financial Officer to 9 May 2019	675	675	–
	CEO-designate from 9 May 2019	800	–	–
Mike Holliday-Williams	MD Personal Lines	575	563	2.25%

AIP 2019

Director	Position	Maximum annual incentive award for 2019 (% base salary)	Deferred under the DAIP (% bonus)
Paul Geddes	Chief Executive Officer	175%	40%
Penny James	CEO-designate	175%	40%
Mike Holliday-Williams	MD Personal Lines	150%	40%

The AIP measures remain unchanged:

	Measures	Weighting for 2019	Weighting for 2018
Financial	Profit before tax	55%	55%
Customer	A range of customer metrics including Net Promoter Score and complaints	15%	15%
People	A range of people measures including succession, diversity and engagement	10%	10%
Personal	Objectives for each Executive Director, including shared objectives across the Executive Committee	20%	20%

As in previous years, all AIP outcomes will be determined after the Committee establishes a payment gateway. To do this, the Committee must be satisfied that it is appropriate to permit a bonus award at all, or at a given level. The gateway involves some subjectivity about performance. This may result in positive or negative moderation of each AIP performance measure or the overall bonus outcome. The targets are commercially sensitive and will be disclosed in next year's report.

The list on the following page sets out the gateway criteria for the AIP for 2019.

Gateway criteria for the AIP for 2019 – outcomes for Executive Directors

- Year on year changes in profit before tax
- Quality and sustainability of earnings, referring to reserving, gross written premium, costs and loss ratio, and relevant lead indicators
- Additional customer context, for example, conduct, experience, brand and franchise health
- Capital strength and affordability
- Risk management within risk appetite
- The Group's relative performance to that of its peers
- The wider economic environment
- Exceptional events, such as abnormal weather
- Any regulatory breaches and/or reputational damage to the Group
- Committee satisfaction that paying the bonus does not cause major reputational concerns

The Committee may also use its discretion to account for additional factors. These include the quality of financial results, the 'direction of travel' of all measures, and, more widely, reputation, risk and audit.

In considering such factors, and whether to adjust the overall pay-outs and/or operate malus and clawback, the Committee receives appropriate input from the Audit Committee and the Board Risk Committee.

LTIP 2019

Director	Position	Annual LTIP award for 2019
Paul Geddes	Chief Executive Officer	–
Penny James	CEO-designate	200%
Mike Holliday-Williams	MD Personal Lines	200%

Performance conditions for LTIP awards

LTIP awards to be granted in 2019 will continue to be subject to performance against these performance conditions:

- 60% based on RoTE over a three-year performance period (2019, 2020 and 2021)
- 40% based on relative TSR performance against the constituents of the FTSE 350 (excluding investment trusts) over a three-year performance period, starting on the date of grant. The starting and closing TSR will be averaged over a three-month period.

For these purposes, we use the Group's standard definition for RoTE, subject to such other adjustments as the Committee may consider appropriate. To find out more about how we calculate RoTE, see page 192.

The Committee reviewed the performance targets and decided to maintain the RoTE target range at the same level as in 2018 as follows:

Performance measure	Vesting for threshold performance	Performance required for threshold vesting			Performance required for maximum vesting		
		Awards in 2019	Awards in 2018	Awards in 2017	Awards in 2019	Awards in 2018	Awards in 2017
RoTE	20% of this element of the award	Average annual RoTE performance of 17.5%	Average annual RoTE performance of 17.5%	Average annual RoTE performance of 15.0%	Average annual RoTE performance of 20.5%	Average annual RoTE performance of 20.5%	Average annual RoTE performance of 18.0%
Relative TSR	20% of this element of the award		Median			Upper quintile	

For the TSR element, there is a straight-line interpolation between threshold and maximum performance on a ranked basis.

For the RoTE element, 20% of the award will vest for threshold RoTE and 40% for a RoTE of 18.5% for awards to be made in 2019. Otherwise, vesting is similar to TSR: a straight-line interpolation occurs from threshold to target, then from target to maximum performance.

The LTIP awards will also vest only to the extent that the Committee is satisfied that the outcome of the TSR and RoTE performance conditions reflects the Group's underlying financial performance from the date of grant until vesting. When considering these matters, the Committee will also consider whether there have been any material risk failings.

The LTIP will continue to be subject to the application of malus and clawback and an additional two-year holding period post vesting which facilitates post-employment shareholding requirements. The Committee will be considering the application of a post-employment shareholding requirement in more detail as part of the Remuneration Policy review during 2019.

Pension and benefits

A pension contribution of 25% of base salary will be paid to the CEO in 2019 (until date of leaving). The pension contribution for the CEO-designate will be reduced from the current level of 25% of salary to 9% of salary (from date of appointment) in line with the wider workforce. A pension contribution of 15% of salary will be paid to the MD Personal Lines in 2019; this level of contribution remained unchanged following his promotion to the Board in 2017. Pension contribution rates will be in line with those of the wider workforce for all new Executive appointments. The reduction in pension contributions for the current Executive Directors, in line with those of the wider workforce, will be considered as part of the policy review during 2019. No Directors participate in any defined benefit pension arrangements operated by the Company.

Appointment of new Chief Executive Officer

On 26 February 2019, Penny James, the current CFO, was appointed CEO-designate to succeed Paul Geddes. Penny will become CEO from the conclusion of the AGM on 9 May 2019. Penny's annual salary will be £800,000. This salary is in line with the FTSE 51-100 CEO benchmark and below the current CEO's salary level.

At the same time, Penny's pension contribution will be reduced from her current contribution rate of 25% of salary to 9% of salary, in line with that of the wider workforce. There will be no change to her participation in the Company's AIP up to a maximum of 175% of salary and the LTIP up to 200% of salary.

Retirement of Executive Director (Audited)

John Reizenstein, the former CFO, retired on 7 September 2018 having stepped down from the Board as an Executive Director at the end of the AGM on 10 May 2018. Following his cessation as a Director of the Company, John's salary, pension and benefits were paid in monthly instalments until the end of his employment as follows:

Pay component	Salary (£'000)	Pension (£'000)	Benefits (£'000)	Total (£'000)
Payments since cessation as a Director of the Company	160	40	3	203

John's planned retirement was announced in September 2017 and the Committee confirmed his 'good leaver' status, without the exercise of any discretion, at that time. He has, therefore, retained share awards granted to him up to that date (for details of all awards see pages 106 and 108). LTIP awards made in 2016 and 2017 have been time pro rated to reflect the period from their date of grant to the end of his period of employment. No LTIP awards were made to him in 2018. John has also been made an award under the AIP for the period to the AGM on 10 May 2018, details of which can be found on page 96.

Payments to former Directors (Audited)

There have been no payments made to a former Director during the year, with the exception of the payments made to John Reizenstein since his cessation as a Director of the Company.

Non-Executive Directors' fees

Position	Fees for 2019 £'000
Board Chairman fee	400
Basic Non-Executive Director fee	75
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Board Risk and Remuneration Committees	30
Chair of CSR and Investment Committees	10
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (CSR or Nomination)	5

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

External directorships

Paul Geddes is a Non-Executive Director for Channel 4 for which he receives and retains an annual fee of £22,177. Otherwise, the Executive Directors do not currently hold any further external directorships.

Service contracts

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

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Paul Geddes	1 September 2012	12 months	Base salary only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.
Mike Holliday-Williams	30 January 2014		
Penny James	1 November 2017		

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

The Chairman and Non-Executive Directors have notice periods of three months from either party which do not apply in the case of a Director not being re-elected by shareholders or retiring from office under the Articles of Association. Other than fees for this notice period, the Chairman and Non-Executive Directors are not entitled to any compensation on exit.

The Board reviewed and approved this report on 4 March 2019.

DANUTA GRAY
CHAIR OF THE REMUNERATION COMMITTEE

STRATEGIC REPORT
GOVERNANCE
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Policy report

The following is a copy of the main table from the policy approved by shareholders at the 2017 AGM. The full policy is available in the Directors' Remuneration Report of the 2016 Annual Report and Accounts.

Policy table

Element	Purpose and link to strategy	Operation

Base salary	– This is the core element of pay that reflects the individual's role and position within the Group. It is payable for doing the expected day-to-day job
	– Staying competitive in the market allows us to attract, retain and motivate high-calibre executives with the skills to achieve our key aims while managing costs
		– Base salaries are typically reviewed annually and set in April of each year, although the Committee may undertake an out-of-cycle review if it determines this to be appropriate
		– When reviewing base salaries, the Committee typically takes the following into account:
		  – level of skill, experience and scope of responsibilities, individual and business performance, economic climate, and market conditions;
		  – the median market pay in the context of companies of a similar size, particularly FTSE 31-100 companies, as they are considered to reflect the size and complexity of the Group;
		  – the practice of insurance peers such as Admiral Group, Aviva, esure Group, Hastings Group, Legal & General, Old Mutual, Phoenix Group, Prudential, RSA Insurance Group, Standard Life and companies of a similar size to DLG as appropriate; and
		  – general base salary movements across the Group
		– The Committee does not follow market data strictly. However, it uses it as a reference point in considering, in its judgement, the appropriate salary level, while regarding other relevant factors, including corporate and individual performance, and any changes in an individual's role and responsibilities
		– The principles for setting base salary are similar to those applied to other employees in the Group. However, the specific benchmarking groups used to review external market relativities may differ across employee groups
		– Base salary is typically paid monthly

Pension	– To remain competitive within the market place – To encourage retirement planning and retain flexibility for individuals	– Pension contributions are paid only in respect of base salary – Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension
Benefits	– A comprehensive and flexible benefits package is offered, emphasising individuals being able to choose the combination of cash and benefits that suits them	– Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity, particularly FTSE 31-100 companies. Benefits currently provided include a company car or car allowance, private medical insurance, life insurance, health screening and income protection – The Committee may periodically amend the benefits available to some or all employees. The Executive Directors are eligible to receive such additional benefits as the Committee considers appropriate having regard to market norms – In line with our approach to all employees, certain Group products are offered to Executive Directors at a discount – Executive Directors are eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant) and on the same basis as other eligible employees. Currently, this includes the Share Incentive Plan ("SIP"), which has been used to provide an award of free shares to all employees (including Executive Directors), and permit employees to purchase shares with a corresponding matching award – Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation benefits. The level of such benefits would be determined based on the circumstances of the individual and typical market practice

Maximum opportunity	Performance measures
– When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'. In any event, no increase will be made if it would take an Executive Director's salary above £850,000 (the current median level of salaries for CEOs in the FTSE 100), as further increased by UK RPI from the date of approving this policy	– Not applicable
– The maximum pension contribution is set at 25% of base salary per annum	– Not performance-related
– The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged. An annual limit of 10% of base salary per Executive Director has been set for the duration of this policy (plus an additional amount of up to 100% of salary in respect of relocation expenses). The Committee will monitor the costs in practice and ensure the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances – Additionally, the limit for any employee share plans in which the Executive Directors participate will be in line with the caps permitted by HMRC from time to time – The Executive Directors may be entitled to retain fees received for any directorships held outside the Group – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided	– Not performance-related

Element	Purpose and link to strategy	Operation
AIP	– To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategic aims	– For Executive Directors, at least 40% of the award is deferred into shares under the Deferred Annual Incentive Plan (the "DAIP"). This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year end – The Committee will keep the percentage deferred and terms of deferral under review. This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall – Malus and clawback provisions apply to the cash and deferred elements. These are explained in the notes to the policy table
LTIP	– Aligning executives' interests with those of shareholders to motivate and incentivise delivering sustained business performance over the long term – To aid retaining key executive talent long-term	– Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares – Vested options will remain exercisable up to the 10th anniversary of grant – Malus and clawback provisions apply to the LTIP. These are explained in the notes to the policy table – Awards under the LTIP may be made at various times during the financial year. While the Committee reserves the right to do otherwise, the Committee's practice has been to make awards twice in each financial year, following the announcement of the Group's annual and half-year results – For awards made after adopting the new policy at the 2017 AGM, Executive Directors will be subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released. During the additional holding period the awards will continue to accrue dividends. Following the holding period awards will cease to accrue dividends if not exercised
Share ownership guidelines	– To align the interests of Executive Directors with those of shareholders	– Executive Directors are expected to retain all the Ordinary Shares vesting under any of the Company's share incentive plans, after any disposals for paying applicable taxes, until they have achieved the required shareholding level unless such earlier sale, in exceptional circumstances, is permitted by the Chairman

Maximum opportunity	Performance measures
– Maximum and target bonus levels for Executive Directors are set by taking into account annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators – The maximum bonus opportunity under the AIP is 175% of base salary per annum. The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of policy	– Performance over the financial year is assessed against performance measures which the Committee considers to be appropriate – These may be financial, non-financial (Group, divisional or business line) and individual. Each year, at least 50% of the bonus is based on financial measures. The remainder of the bonus may be based on a combination of strategic, shared and individual performance measures – The Committee sets targets at the beginning of each financial year – No more than 10% of the bonus is paid for threshold performance (30% of the bonus for the individual performance element). No more than 60% of the maximum opportunity pays out for target performance. However, the Committee retains flexibility to amend the 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 – Before any payment can be made, the Committee will perform an additional gateway assessment (including in respect of any risk concerns). This will determine whether the amount of any bonus is appropriate in view of facts or circumstances which the Committee considers relevant. This assessment may result in moderating (positively or negatively) each AIP performance measure, subject to the individual maximum bonus levels – The AIP remains a discretionary arrangement. The Committee reserves discretion to adjust the out-turn (from zero to the cap), should it consider it appropriate
– The maximum LTIP award in normal circumstances is 200% of salary – Awards of up to 300% of base salary are permitted in exceptional circumstances, relating to recruiting or retaining an employee, as determined by the Committee	– The Committee will determine the performance conditions for each award made under the LTIP, measuring performance over a period of at least three years with no provision to retest – Performance is measured against targets set at the beginning of the performance period, which may be set by referring to the time of grant or financial year – Awards vest based on performance against financial and/or such other (including share return) measures, as set by the Committee, to be aligned with the Group's long-term strategic objectives – For awards to be granted in 2017, vesting will continue to be determined based on two measures: RoTE and relative TSR performance against the FTSE 350 (excluding investment trusts). The Committee may apply different performance measures and targets for future awards, provided not less than 50% of the award shall be subject to one or more financial measures, and not less than 25% shall be subject to a relative TSR measure – Awards will be subject to a payment gateway, such that the Committee must be satisfied that there are no material risk failings, reputational concerns or regulatory issues – Additionally, there is a financial underpin relating to the Committee's view of the Group's underlying financial performance for the TSR and RoTE (and any other) elements; 20% of the award vests for threshold performance, with 100% vesting for maximum performance. The Committee reserves the right in respect of future awards to lengthen (but not reduce) any performance period and/or amend the terms of any holding period; however, there is no intention to reduce the length of the holding period
– 200% of salary for all Executive Directors – The Committee reserves the discretion to amend these levels in future years	– Not applicable